# 新疆天業節水灌溉股份有限公司
# Xinjiang Tianye Water Saving Irrigation System Company Limited *

Stock Code: 840

## Annual Report 2010

* for identification purposes only

# Contents



# Corporate Information

## DIRECTORS

### Executive Directors

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

### Independent non-executive Directors

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

## SUPERVISORS

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

## QUALIFIED ACCOUNTANT

Ms. Chow Yuk Lan

## COMPANY SECRETARY

Ms. Chow Yuk Lan

## COMPLIANCE OFFICER

Mr. Shi Xiang Shen

## AUDIT COMMITTEE

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

## COMPLIANCE COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## AUDITORS

Pan-China (H.K.) CPA Limited
20/F., Hong Kong Trade Centre,
161–167 Des Voeux Road Central,
Hong Kong

## HONG KONG LEGAL ADVISER

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

## REGISTERED OFFICE

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2209, 22/F
Wu Chung House
213 Queen's Road East
Wanchai
Hong Kong

## HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

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

## PRINCIPAL BANKERS

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

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

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

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

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

## STOCK CODE

0840

## WEBSITE

http://www.tianyejieshui.com.cn

# Chairman's Statement

*Dear Shareholders,*

*On behalf of the board of Directors (the "Board"), I hereby announce the report of Xinjiang Tianye Water Saving Irrigation System Company Limited together with its subsidiaries (the "Group") for the year ended 31st December, 2010.*

## BUSINESS REVIEW

- Turnover for the year ended 31st December, 2010 was approximately RMB588,491,000, an increase of approximately 3.1% from 2009;
- Profit for the year ended 31st December, 2010 was approximately RMB16,209,000, an increase of approximately 2.4 times from 2009, the profit attributable to owners of the Company was approximately RMB17,151,000, an increase of approximately 1.6 times from 2009;
- Basic and diluted earnings per share for the year was approximately RMB3.3 cents (2009: approximately RMB1.2 cents).

## PROSPECTS

In recent years, severe floods and droughts occurred frequently in China have caused a significant loss of life and property, exposing a serious weak in the water conservancy and other infrastructure. The Chinese government fully recognizes the importance and urgency of vigorously strengthening the water conservancy construction. The Chinese government promulgated "Decision on Expediting the Reform and Development of Water Conservancy" in early 2011, which charts the path for expediting the water conservancy development in China. In the opinion of the Directors, the Company will accomplish a big success in the areas of greatly developing the irrigation and water conservancy construction, improving drought-resistance and emergency response capacity, promoting the construction of rural safe drinking water, etc. with our industry-leading technologies and scale of agricultural water-saving.

## APPRECIATION

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

Yours sincerely,
**Hou Guo Jun**
*Chairman of the Board*
Xinjiang, PRC
18th March, 2011

# Management Discussion and Analysis

## OVERVIEW

As a pioneer in providing one-stop solutions for water saving irrigation system in the PRC, the Group is principally engaged in the design, manufacturing and sales of drip films, PVC/PE pipelines and drip assemblies used in water saving irrigation system. The Group is also engaged in the provision of installation services of water saving irrigation system for its customers. Drip irrigation system plays a significant role in water conservation. It is a slow water delivery system in which every drop of water can be applied to the soil surface near the root of plant. The burden of deciding the timing of irrigation and the required amount of water can be relieved from the properly designed automatic drip irrigation system. The potential and importance of water saving irrigation system have been recognised by both the PRC government and producers of agricultural products in the PRC.

The drip films sold by the Group can be categorised into three types, including (i) single-sided labyrinth-style drip films; (ii) embedded-style drip films; and (iii) heavy flow compensatory style drip films.

Along with the opportunities and challenges, the Group may face certain risks involved in its business. Fluctuation in raw materials prices will lead to an increase in the costs of the Group's products, thus lowering their competitiveness. In the short term, the Group relies on its key management and personnel. The Group also relies on the stable business relationships with certain major customers. In view of these, the Group will continue to maintain good relationships with its staff and will continue to provide training to its staff. Moreover, the Group will continue to place great emphasis on its after-sales services to its customers and will widen its customer bases by expanding its sales and distribution network.

## RESULTS OF OPERATIONS

### Turnover

For the year ended 31st December, 2010, the turnover of the Group was approximately RMB588,491,000, an increase of approximately 3.1% from approximately RMB571,028,000 for the year ended 31st December, 2009.

The following table summarises the breakdown of the total turnover of the Group for each of the two years ended 31st December, 2010 by products:

| Category | For the year ended 31st December, 2010 Turnover RMB'000 | For the year ended 31st December, 2010 % to total turnover % | For the year ended 31st December, 2009 Turnover RMB'000 | For the year ended 31st December, 2009 % to total turnover % | Year-on-year percentage change % |
|---|---|---|---|---|---|
| Drip films and drip assemblies | 365,569 | 62.11 | 368,541 | 64.54 | (0.80) |
| PVC/PE pipelines | 222,922 | 37.89 | 202,487 | 35.46 | 10.09 |
| Total | 588,491 | 100 | 571,028 | 100.00 | |

The change in turnover for the year ended 31st December, 2010 was mainly attributable to the effect of an expansion of farmland fitted with the water saving irrigation products of the Group. For the year ended 31st December, 2010, sales of drip films and drip assemblies decreased by approximately 0.80% to approximately RMB365,569,000, while sales of PVC/PE pipelines increase by approximately 10.09% to approximately RMB222,922,000. At the same time, the sales volume of drip films and drip assemblies decreased from approximately 29,113 tonnes for the year ended 31st December, 2009 to approximately 28,564 tonnes for the year ended 31st December, 2010, while the sales volume of PVC pipelines increased from approximately 34,222 tonnes for the year ended 31st December, 2009 to approximately 35,445 tonnes for the year ended 31st December, 2010. The increase in the sales volume of the Group's products was mainly attributable to the growth in demand for water saving irrigation system in the PRC.

### Cost of sales

For the year ended 31st December, 2010, cost of sales of the Group was approximately RMB520,877,000, an increase of approximately 0.27% from approximately RMB519,431,000 for the year ended 31st December, 2009. Costs of sales for the year ended 31st December, 2010 comprised direct materials costs of approximately RMB426,984,000, direct labour costs of approximately RMB18,301,000 and production overhead of approximately RMB75,592,000, which accounted for approximately 81.98%, 3.51% and 14.51%, respectively, of the total costs of sales for the year under review. Costs of sales for the year ended 31st December, 2009 comprised direct materials costs of approximately RMB441,003,000, direct labour costs of approximately RMB16,869,000 and production overhead of approximately RMB61,559,000, which accounted for approximately 84.90%, 3.25% and 11.85%, respectively, of the total costs of sales for 2009.

### Gross profit

The Group realised a gross profit of approximately RMB67,614,000 for the year ended 31st December, 2010, an increase of approximately RMB16,017,000 from approximately RMB51,597,000 for the year ended 31st December, 2009. The Group's gross profit margin increased from approximately 9.04% for the year ended 31st December, 2009 to approximately 11.48% for the year ended 31st December, 2010. The increase in gross profit margin was mainly due to the increase in selling price of PVC pipelines by approximately 6.43% during the year when compared with those last year which increased the overall gross profit margin for 2010.

### Other operating income

Other operating income consists primarily of government grants and gain from futures contracts transactions. Such income had slightly decreased from approximately RMB5,353,000 for the year ended 31st December, 2009 to approximately RMB5,093,000 for the year ended 31st December, 2010.

### Distribution costs

Distribution costs were approximately RMB25,640,000 for the year ended 31st December, 2010, an increase of approximately 6.09%. The amount accounted for approximately 4.35% of the total turnover for the year ended 31st December, 2010, slightly higher than its share of total turnover of approximately 4.23% in the previous year. Distribution costs mainly comprised transportation costs, salaries expenses, sales commission, entertainment fees and bidding expenses, etc. For the year ended 31st December, 2010, sales-related transportation costs increased by approximately 23.39% to approximately RMB6,323,000, and salaries expenses and sales commission increased by approximately 25.65% and 16.50% to approximately RMB6,215,000 and RMB2,746,000, respectively, while entertainment fees decreased by approximately 35.70% to approximately RMB652,000. Bidding expenses decreased by approximately 40.84% to approximately RMB885,000.

### Administrative expenses

Administrative expenses increased by approximately 33.88% to approximately RMB21,846,000 for the year ended 31st December, 2010. The amount accounted for approximately 3.71% of total turnover for the year ended 31st December, 2010, higher than its share of total turnover of approximately 2.85% in the previous year. For the year ended 31st December, 2010, salary costs increased by 21.78% to approximately RMB6,887,000 and impairment for trade receivables decreased by approximately 94.75% to approximately RMB12,000. Other expenses decreased by approximately 27.81% to approximately RMB1,212,000.

### Profit from operations

As a result of the factors discussed above, the Group's profit from operations for the year ended 31st December, 2010 was approximately RMB24,009,000, representing a increase of approximately 62.43% from approximately RMB14,781,000 for the corresponding period in the previous year. The Group's gross operating margin (expressed as a percentage of profit from operations over the Group's turnover) was approximately 2.59% and 4.07%, respectively, for the years ended 31st December, 2009 and 2010.

### Finance costs

Finance costs for the year ended 31st December, 2010 amounted to approximately RMB3,156,000, representing a decrease of 58.47% as compared to the corresponding period in the previous year. Lower finance costs were mainly resulted from the slightly decrease in loans amount and lending rate.

### Profit attributable to owners of the Company

As a result of the factors discussed above, the profit attributable to owners of the Company increased by approximately 1.65 times, from approximately RMB6,479,000 for the year ended 31st December, 2009 to approximately RMB17,151,000 for the year ended 31st December, 2010. For the two years ended 31st December, 2009 and 2010, the Group's net profit margins were approximately 1.13% and 2.91%, respectively.

## INDEBTEDNESS

### Borrowings

As at 31st December, 2010, the Group had outstanding bank loans of RMB80,000,000 (2009: RMB117,000,000), which will be due within a year at floating interest rates by reference to rate of the People's Bank of China minus 10% per annum.

For the outstanding bank loans of RMB80,000,000 as at 31st December, 2010, Xinjiang Tianye (Group) Limited ("**Tianye Holdings**") and its subsidiary had granted guarantees to banks for securing the loan. The guarantees for the loans will be released on or before 13th December, 2011.

### Commitments

As at 31st December, 2010, the Group does not have any capital commitments (2009: RMB793,000).

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

### Liquidity ratios

The current ratio and quick ratio of the Group as at 31st December, 2010 were approximately 2.46 and 1.01, respectively, representing a decrease of 0.03 and an increase of 0.08 respectively when compared to 31st December, 2009. This is primarily due to increase in bank balances and cash during the year under review.

### Financial resources

The Group currently finances its operations mainly by internal generated funds, bank loans and cash on hand. The Directors are of the view that, in the long run, the Group will generate its liquidity from business operations and will consider making use of further equity finances, when necessary.

### Capital expenditures

For the year ended 31st December, 2010, capital expenditures of the Group in respect of acquisition of property, plant and equipment, deposit paid for acquisition of property, plant and equipment and prepaid lease payment amounted to approximately RMB19,105,000 (2009: approximately RMB61,197,000), which were in line with the expansion plans of the Group.

### Capital structure

For the year ended 31st December, 2010, the gearing ratio (which is defined as total borrowings over total equity) of the Group was approximately 11.42% (2009: approximately 17.10%). This is primarily due to the decrease in bank loans and increase in equity as a result of increase in profit during the year. The Directors confirm that the Group financed its operations principally from cash generated from its business operations and banking facilities and had not experienced any liquidity problem for the year ended 31st December, 2010.

# Management Discussion and Analysis

### Funding and treasury policies

The Directors confirm that the Group's funding and treasury policies are mainly based on its cash flow forecast and budgetary system to monitor and control the sources and applications of funds.

The objectives of the Group's funding and treasury policies are to prevent the unreasonable utilisation of funding, enhance the effectiveness on the utilisation of working capital, ensure the punctual repayment of the Group's liabilities upon the relevant maturity date and ensure liquidity of the working capital, so as to optimise the Group's net cash flow position.

### Contingent liabilities

As at 31st December, 2010, the Group had no contingent liabilities (2009: Nil).

### Exposure to fluctuations in exchange rates and related hedges

The Group's present operations are mainly carried out in the PRC and all of the Group's monetary assets, loans and transactions are principally denominated in Renminbi ("**RMB**"). During the year, there was no significant fluctuation in the exchange rate of RMB and the Group is not exposed to any significant foreign currency exchange risk in its operations. The Group did not engage in any derivative activities and did not commit to any financial instruments to hedge its statement of financial position exposure in both 2009 and 2010.

## EMPLOYEE AND SALARY POLICIES

The Directors considered the quality of employees as the most critical factor in maintaining the Group's business growth and enhancing our profitability. The Group offers salary packages with reference to the performance and working experience of individual employees, and the prevailing market rates. As at 31st December, 2010, the Group had 1,356 employees (2009: 1,342).

## RETIREMENT BENEFIT SCHEME AND OTHER BENEFITS

The Group provides employee benefits covering old-aged insurance scheme, medical insurance scheme, unemployment insurance scheme, labour injury insurance scheme and maternity insurance scheme (collectively under the social insurance scheme) for its staffs, whereby the Group is required to make monthly contributions to these schemes. The Group has no obligation for the payment of retirement and other post-retirement benefits for employees save for the monthly contributions described above. Expenses incurred by the Group in connection with these retirement benefit plans were approximately RMB3,150,000 for the year ended 31st December, 2010.

The Group provides its staff in Hong Kong with a provident fund scheme in compliance with the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong). The Group is responsible for contributing 5% of the salary of the employees (up to a maximum of HK$1,000 in respect of each employee) on a monthly basis to the fund.

## HOUSING PENSION SCHEME

According to the relevant requirement under "The Decision Regarding the Reinforcement of Reform on Housing Systems in Cities and Towns by the State Council" (《國務院關於深化城鎮住房制度改革的決定》), "The Notice Regarding the Further Reinforcement of Reform on Housing Systems and Acceleration of Housing Facilities in Cities and Towns by the State Council" (《國務院關於進一步深化城鎮住房制度改革加快住房建設的通知》) and "Housing Pension Administrative Rules" (《住房公積金管理條例》), all administrative and business units and their staffs shall make contribution to a housing pension for establishment of a housing pension scheme. Both the housing pensions contributed by each staff and by their respective units are vested to the staffs. The percentage of the housing pension contributed by the staffs and their units shall not be less than 5% of the average monthly wages of such staffs of the previous financial year. Such contribution may be varied with those cities with better conditions. The housing pension scheme is mandatory.

## MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

For the year ended 31st December, 2010, the Group had neither material acquisitions nor disposals of subsidiaries and associated companies.

For the year ended 31st December, 2009, the Group had following material acquisitions of subsidiaries:

(i) 石河子市天誠節水器材有限公司 ("Shihezi Tianchen") was established under the laws of the PRC with limited liability on 6th March, 2009 with an operating period of 20 years. The registered capital of Shihezi Tianchen is RMB15,000,000 and is owned as to 60% by the Company and 40% by 石河子下野地農場. Pursuant to the capital verification report issued by 新疆公信天辰有限責任會計師事務所 dated 28th February, 2009, the total registered capital has been fully paid up as to RMB9,000,000 by the Company and RMB6,000,000 by 石河子下野地農場 respectively.

(ii) During the year 2009, the amount of the registered capital of 甘肅天業節水器材有限公司 ("Gansu Tianye") was increased from RMB11,050,000 to RMB30,000,000.

On 3rd November, 2009, the Company and minority shareholders of Gansu Tianye entered into a sale and purchase agreement. Pursuant to the said agreement, all minority shareholders of Gansu Tianye agreed to sell all their equity interests in Gansu Tianye and the Company agreed to purchase their respective equity interests in Gansu Tianye for a total consideration of RMB1,204,450. Upon the completion of the transaction, Gansu Tianye becomes a wholly-owned subsidiary of the Company.

Pursuant to the capital verification report issued by 張掖市堂正會計師事務所 dated 4th November, 2009, the said increased amount of the registered capital of Gansu Tianye has been fully paid by the Company as of 4th November, 2009 and Gansu Tianye is a wholly-owned subsidiary of the Company since then.

## MATERIAL INVESTMENTS

For the year ended 31st December, 2010, the Group had no material investments (2009: Nil).

## DIVIDEND

The Directors do not recommend the payment of any final dividend for the year ended 31st December, 2010 (2009: Nil).

## CLOSURE OF REGISTER OF MEMBERS

The register of the members of the Company will be closed from Friday, 22nd April, 2011 to Thursday, 12th May, 2011 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for entitlement to attend and vote at the forthcoming annual general meeting and the class meetings of the Company, all instrument of transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's H Share registrar in Hong Kong, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable and in any event not later than 4 p.m. on Thursday, 21st April, 2011.

# Corporate Governance Report

The board of directors (the "**Board**") of Xinjiang Tianye Water Saving Irrigation System Company Limited (the "**Company**"), together with its subsidiaries (referred as the "**Group**") is pleased to present the Corporate Governance Report of the Company for the year ended 31st December, 2010.

## CORPORATE GOVERNANCE PRACTICES

The Group believes that the application of rigorous corporate governance practices can lead to the improvement in its accountability and transparency of the Group and, thus, further instill confidence of its shareholders and the public. Throughout the financial year ended 31st December, 2010, the Group has complied with the provisions in the "Code on Corporate Governance Practices" (the "**Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

## THE BOARD

### Composition

The Board comprises eleven directors (the "**Director(s)**"), including six executive Directors and five independent non-executive Directors, as at 31st December, 2010. The Board members have no financial, business, family or other material/relevant relationships with each other. Members of the Board are composed of experts with various expertise and professional background in different industries, who have worked for the government agencies in the PRC, public listed companies or other entities. All Directors give sufficient time and attention to the affairs of the Group. The particulars of each Director are set out in the section of Directors, Supervisors and Senior Management on pages 22 to 25 of this annual report.

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

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

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

# Corporate Governance Report

## Board Meetings

The Board is principally responsible for formulating and reviewing the overall strategies and the fundamental systems of the Group, and approving major transactions and other material operational and financial matters, as well as annual budget and interim and annual results. The Board shall meet, at least, twice a year and an extraordinary meeting may be held as required. The full Board met in person and met six times for the financial year ended 31st December, 2010. At least 14 days' notices of all meetings of the Board ("**Board Meetings**") were given to all Directors, who were all given an opportunity to include matters in the agenda for discussion at the Board Meetings. The company secretary (the "**Company Secretary**") assisted the Chairman in preparing the agenda for the Board Meetings, and ensured that the Board procedures and all applicable rules and regulations were observed. The finalised agenda and accompanying board papers were then sent to all Directors at least three days prior to each proposed Board Meeting.

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

| Attendants | Number of Board Meetings Attended/Total | Percentage |
|---|---|---|
| **Executive Directors** | | |
| Hou Guo Jun *(chairman of the Board, hereinafter referred to as the "**Chairman**")* (appointed on 18th August, 2010) | 2/2 | 100% |
| Shi Xiang Shen | 6/6 | 100% |
| Li Shuang Quan *(hereinafter referred to as the "**Chief Executive Officer**")* | 6/6 | 100% |
| Zhu Jia Ji | 6/6 | 100% |
| Yin Xiu Fa (appointed on 18th August, 2010) | 2/2 | 100% |
| Chen Lin (appointed on 18th August, 2010) | 2/2 | 100% |
| Guo Qing Ren (resigned on 18th August, 2010) | 4/4 | 100% |
| **Independent Non-executive Directors** | | |
| He Lin Wang | 6/6 | 100% |
| Xia Jun Min | 6/6 | 100% |
| Gu Lie Feng | 6/6 | 100% |
| Mak King Sau | 6/6 | 100% |
| Wang Yun (appointed on 18th August, 2010) | 2/2 | 100% |

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

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

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

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

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

## Chairman and Chief Executive Officer of the Group

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

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

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

### Training and Support for Directors

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

### Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules, as the code of conduct for securities transactions by the Directors. Following specific enquiry made by the Company, all Directors have confirmed that they have complied with the required standards under the Model Code for the year ended 31st December, 2010.

## REMUNERATION COMMITTEE

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

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

For the year ended 31st December, 2010, the Remuneration Committee held one meeting. The individual attendance records of each member are as follows:

| Attendants | Number of Meetings Attended/Total | Percentage |
|---|---|---|
| Shi Xiang Shen *(Chairman)* | 1/1 | 100% |
| He Lin Wang | 1/1 | 100% |
| Xia Jun Min | 1/1 | 100% |
| Gu Lie Feng | 1/1 | 100% |

For the year ended 31st December, 2010, the Remuneration Committee reviewed matters relating to remuneration for the Directors and senior management, and discussed the remuneration policy of the Group.

## NOMINATION COMMITTEE AND APPOINTMENT OF DIRECTORS

### Nomination Committee

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

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

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

For the year ended 31st December, 2010, the Nomination Committee held one meeting. The individual attendance records of each member are as follows:

| Attendants | Number of Meetings Attended/Total | Percentage |
|---|---|---|
| He Lin Wang *(Chairman)* | 1/1 | 100% |
| Hou Guo Jun | 1/1 | 100% |
| Shi Xiang Shen | 1/1 | 100% |
| Xia Jun Min | 1/1 | 100% |
| Gu Lie Feng | 1/1 | 100% |

For the year ended 31st December, 2010, the Nomination Committee discussed and reviewed the Board composition as well as other related matters.

### Terms of Appointment and Re-election

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

## AUDIT COMMITTEE AND ACCOUNTABILITY

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

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

There is no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of external auditors. The Audit Committee's primary duties include ensuring the Group's financial statements, annual and interim reports and the auditors' report present a true and fair assessment of the Group's financial position; reviewing the Group's financial control, internal control and risk management systems; and reviewing the Group's financial and accounting policies and practices. The Audit Committee is provided with sufficient resources enabling it to discharge its duties. The Company Secretary keeps the minutes of all Audit Committee meetings. In line with the practices of the Board Meetings and other Committee meetings, draft and finalised minutes of Audit Committee meetings are circulated to all members of the Audit Committee as soon as practicable after each meeting. For the year ended 31st December, 2010, the Audit Committee held four meetings. The individual attendance records of each member are as follows:

| **Attendants** | **Number of Meetings Attended/Total** | **Percentage** |
|---|---|---|
| He Lin Wang *(Chairman)* | 4/4 | 100% |
| Xia Jun Min | 4/4 | 100% |
| Gu Lie Feng | 4/4 | 100% |

During the year ended 31st December, 2010, the Audit Committee reviewed the final, quarterly and interim results of the Group, and discussed and approved financial and other reports for the year. The Audit Committee also reviewed and discussed the Group's internal audit plans and arrangements for the upcoming year.

The fee in respect of the audit services provided by the external auditors of the Company for the year ended 31st December, 2010 is as follows:

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Audit Service | | |
| — Pan-China (H.K.) CPA Limited | 650 | — |
| — SHINEWING (HK) CPA Limited<br>(resigned with effect on 6 December 2010) | — | 650 |

## COMPLIANCE COMMITTEE

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

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

For the year ended 31st December, 2010, the Compliance Committee held one meeting. The individual attendance records of each member are as follows:

| **Attendants** | **Number of Meetings Attended/Total** | **Percentage** |
|---|---|---|
| Shi Xiang Shen *(Chairman)* | 1/1 | 100% |
| He Lin Wang | 1/1 | 100% |
| Gu Lie Feng | 1/1 | 100% |
| Xia Jun Min | 1/1 | 100% |

For the year ended 31st December, 2010, the Compliance Committee discussed and reviewed the Company's disclosure policies as well as other related matters.

## INTERNAL CONTROL

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

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

For the year ended 31st December, 2010, the Board has, through the Audit Committee with the assistance of the internal audit manager ("**Internal Audit Manager**"), conducted a review on the Group's internal control systems, including without limitation to financial control, operational control, compliance control and risk management functions. The Board is of the view that the internal control systems of the Group are effective and there is no non-compliance, impropriety, fraud or other deficiencies that suggest material deficiency in the effectiveness of internal control systems of the Group.

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

## DELEGATION BY THE BOARD

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

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

## RELATIONS WITH SHAREHOLDERS

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

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

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

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

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

## INVESTOR RELATIONSHIPS

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

# Directors, Supervisors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. Hou Guo Jun**, aged 43, is the Chairman of the Board and executive Director. Mr. Hou obtained a senior engineer qualifications certificate from the personnel affairs office of Xinjiang Uygur Autonomous Region in November 2000 and graduated from Nanyang Technological University of Singapore in July 2009 with a MBA degree. He has 15 years' experience in enterprise management. Mr. Hou is currently the chairman of Xinjiang Tianye Company Limited ("**Tianye Company**") and Shihezi Tai An Construction Works Company Limited. Mr. Hou has been an executive Director and Chairman since he joined the Group in August 2010.

**Mr. Shi Xiang Shen**, aged 67, is an executive Director. Mr. Shi graduated from Beijing Economic Correspondence University with a major in Economic Management in 1989. He obtained a senior accountant qualification certificate issued by Ministry of Agriculture of the PRC in 1991. He had worked as the chief accountant in No. 141 Unit of No. 8 Division of Agricultural Construction of Xinjiang Production and Construction Regiment for more than 10 years until 1995. Mr. Shi had been employed as the chief accountant of Xinjiang Tianye (Group) Limited ("**Tianye Holdings**") and was a director of Tianye Company from 1997 to August 2005. He has become a Director since he joined the Group in 2000 and is responsible for the Group's financial management and capital operation, and assisting the Chairman in overall strategic planning and management and business development of the Group.

**Mr. Li Shuang Quan**, aged 47, is an executive Director and Chief Executive Officer of the Group. Mr. Li graduated from Nanjing Glass Fiber Research and Design Vocational University with a major in Silicate Technology in 1988. He obtained a senior engineer qualification certificate issued by Ministry of Agriculture of the PRC in 2001. In 1998, he was recognized as the "Sixth Session Outstanding Calibre of the Agricultural No. 8 Division". Mr. Li was also recognized as the "Tenth Session Outstanding Calibre of the Agricultural No. 8 Division" in 2003. He had worked as a manager of technology and research and development department and was later promoted to a factory director in Shihezi Plastic Factory for more than 10 years until 1996. He was a director of Tianye Company from April 2001 to June 2007 and was granted the special subsidies by the State Council of the PRC in 2004. He joined the Group in 1999 and has been a Director since 2002, a deputy general manager of the Company since 2003 and the Chief Executive Officer of the Group since May 2007. Mr. Li is responsible for the management of technology and research and development of the Group. He has extensive experience in the development, manufacture and sales of the products of the Group and the management of the Group.

**Mr. Yin Xiu Fa**, aged 64, is an executive Director. Mr. Yin has over 20 years' experience in technology research and management in the plastics industry, having been the workshop director, deputy general manager and general manager of the general plastics factory of Tianye Company. He has become a Director since he joined the Group in August 2010.

**Mr. Chen Lin**, aged 35, is an executive Director. Mr. Chen graduated from Shihezi University with undergraduate qualifications and obtained a senior agricultural specialist qualifications certificate awarded by the PRC Ministry of Agriculture in October 2009. He has been engaged in agricultural water conservation research in the past 12 years and has been in charge of and participated in numerous projects on water-saving agricultural irrigation technologies. Mr. Chen is currently deputy general manager of Tianye Company. Since he joined the Group in August 2010, he has been an executive Director.

**Mr. Zhu Jia Ji**, aged 47, is an executive Director and deputy general manager of the Group. Mr. Zhu graduated from Agricultural and Machinery School of Shihezi, Xinjiang. He obtained an engineer qualification certificate issued by Ministry of Agriculture of the PRC in 2002. He has been a deputy sales manager of the Company since he joined the Group in December 1999. He is also the Chairman of Kuitun Tiantun and Hami Tianye, both are subsidiaries of the Company. Mr. Zhu was appointed as an executive Director on 10th May, 2007 and was appointed as a director of Tianye Company on 30th June, 2007.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. He Lin Wang**, aged 69, is an independent non-executive Director. Mr. He obtained a senior engineer qualification certificate issued by Ministry of Agriculture of the PRC. He had held the position of the chief engineer of Shihezi Water Conservation Bureau (石河子市水利局) and a director of the Xinjiang Agricultural Engineering Society. Mr. He has more than 10 years of experience in agricultural engineering industry. He has been an independent non-executive Director since he joined the Group in April 2005.

**Mr. Xia Jun Min**, aged 40, is an independent non-executive Director. He graduated from Xinjiang Finance and Economic College majoring in Accounting in 1995 and obtained a bachelor's degree from the Central Communist Party Institution with a major in Politics and Law in 1998. He has obtained qualifications as a registered accountant and a registered assets valuer in the PRC. He is presently a deputy president of Xinjiang Fangxia Assets Valuation Company Limited, the president and the chief accountant of Xinjiang Fangxia Certified Public Accountants Company Limited. Mr. Xia has extensive experience in auditing, accounting and financial management. He has been an independent non-executive Director since he joined the Group in April 2005.

**Mr. Gu Lie Feng**, aged 71, is an independent non-executive Director. Mr. Gu attained university level and graduated from Water Conservancy Engineering Department of Tsinghua University in 1965. Mr. Gu obtained a senior engineer qualification certificate issued by Ministry of Agriculture of the PRC in 1991. He had been appointed as the chief commander of XPCR Water Conservation Bureau since August 1995 and was retired in August 2000. Mr. Gu has more than 20 years experience in agriculture industry. Since he joined the Group in April 2005, he has been an independent non-executive Director.

## Directors, Supervisors and Senior Management

**Mr. Mak King Sau**, aged 36, is an independent non-executive Director. Mr. Mak has more than 10 years of experience in corporate finance and private equity fund investment industry. He was an associate director of an investment bank in Hong Kong. He had served as the chief investment officer in a Hong Kong listed company. Mr. Mak also worked for a private equity fund. He is a member of American Institute Certified Public Accountant, and graduated from Boston University with a bachelor degree in business administration in 1995 and from the University of London with a master degree in financial and management in 1997. He has been an independent non-executive Director of the Group since October 2007.

**Mr. Wang Yun**, aged 40, is an independent non-executive Director. Mr. Wang graduated from National Huaqiao University majoring in law. He was awarded the title of senior economist by the PRC Ministry of Labour and Social Security in 2006. He has over 10 years' experience in securities investment, having served in the investment banking departments of Southern Securities, Shanxi Securities Exchange Centre and Beijing Securities. He is currently council chairman of the Chinese-Filipino Commerce and Trade Association. Mr. Wang has been an independently non-executive Director of the Group since August 2010.

### SUPERVISORS

**Ms. Ni Mei Lan**, aged 51, is a supervisor and the Chairman of Supervisory Committee of the Company. Ms. Ni graduated from Urumqi Vocational University with a major in Economic Management in 1995. Ms. Ni obtained an assistant economist qualification certificate issued by Ministry of Agriculture of the PRC in 2000. She joined the Group in 2001 and has been a deputy general manager of the Company since 2003 and until 10th May, 2007. Ms. Ni was appointed as a supervisor on 10th May, 2007.

**Mr. He Jie**, aged 65, is a supervisor of the Company. Mr. He graduated from Tianjin Light Industry College in 1968 with a major in Plastic Modeling and Processing. He obtained a senior engineer qualification as approved by the Office of Professional Technical Staff of Xinjiang Uygur Autonomous Region in 1992. He has been a supervisor since he joined the Group in April 2005.

**Mr. Huang Jun Lin**, aged 71, is a supervisor of the Company. Mr. Huang graduated from Xinjiang University in 1990 with a major in political theory. He is a senior administrator, and an outstanding caliber in Shihezi. He has been a supervisor since he joined the Group in April 2005.

**Mr. Zhou Qian**, aged 39, is a supervisor of the Company. Mr. Zhou graduated from the Xinjiang Institute of Finance (新疆財經學院) majoring in financial professional, has more than eighteen years' experience in financial management, having served as the head of audit department in Tianye Company and financial controller of Hami Tianye Hongxing Water Saving Irrigation System Limited (哈密天業紅星節水灌溉有限公司). Mr. Zhou has been a supervisor since he jointed the Group on 18 August 2010.

## QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

**Ms. Chow Yuk Lan**, aged 36, is the financial controller, company secretary, qualified accountant and one of the authorised representatives of the Company. She is responsible for the financial reporting procedures and internal control of the Group and secretarial affairs of the Company. Ms. Chow has obtained her bachelor degree in accountancy from the Hong Kong Polytechnic University. She is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Ms. Chow worked for an international accounting firm for six years and she has over ten years of experience in the fields of professional accounting services, taxation, company secretarial and financial management. She joined the Company in November 2008.

## COMPLIANCE OFFICER

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

## SENIOR MANAGEMENT

**Mr. Chen Jun**, aged 47, graduated from the Central Communist Party Institution with a major in Economic Management. Mr. Chen was awarded a Qualification Certificate for Engineering by the Ministry of Agriculture of the PRC in September 2005. He joined the Group in 2001 and has been a deputy general manager of the Company since October 2008.

**Mr. Wang Zhenhai**, aged 42, graduated from Shihezi Workers' University (石河子職工大學) with a major in Economic Management in 2003. He joined the Group in 2004 and has been a deputy general manager of the Company since 2007.

**Mr. Xiong Xin Yi**, aged 39, graduated from Xinjiang Finance and Economic College with a major in Economic Management and had passed the legal examinations of Xinjiang University. Mr. Xiong obtained an industrial economist qualification certificate issued by the Ministry of Personnel of the PRC in November 1997. He joined the Group in January 2003 and has been the secretary to the Board since 2005.

**Mr. Shao Mao Xu**, aged 52, graduated from Xinjiang Production and Construction Regiment Party Institution with a major in Economic Management. Mr. Shao was awarded a Qualification Certificate for Engineering by the Ministry of Agriculture of the PRC in September 2006. He joined the Group in March 2002 and has been a deputy general manager of the Company since June 2009.

**Mr. Li He**, aged 34, graduated from Ningxia University with double degree in Landscape Architecture and Administrative Management. Mr. Li was awarded a Qualification Certificate for Engineering by the Ministry of Agriculture of the PRC in September 2008. He joined the Group in March 2005 and has been a deputy general manager of the Company since October 2009.

# Report of the Directors

The directors of the Company (the "**Directors**") present their annual report and the audited consolidated financial statements for the year ended 31st December, 2010.

## PRINCIPAL ACTIVITIES

The Group is engaged in the design, manufacturing and sales of drip films, PVC/PE pipelines and drip assemblies used in agricultural water saving irrigation system, and is also engaged in the provision of installation services of water saving irrigation system for its customers. Details of the principal activities of its subsidiaries are set out in note 18 to the consolidated financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December, 2010 are set out in the consolidated statement of comprehensive income on page 39 of this annual report.

The Directors do not recommend the payment of any final dividend for the year ended 31st December, 2010.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately RMB19,084,000 on acquiring new plants and machines. Details of the above and of other movements in the property, plant and equipment of the Group for the year are set out in note 14 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the issued share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to Shareholders is the lower of its retained profits as stated in the statutory financial statements in the PRC and the financial statements prepared under Hong Kong Financial Reporting Standards (the "**HKFRSs**"). As at 31st December, 2010, the Company's reserves available for distribution to shareholders represent its retained profits of approximately RMB124,994,000 prepared in accordance with HKFRSs (2009: retained profits of approximately RMB109,778,000 prepared in accordance with HKFRSs).

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2010, sales to the largest customer and the five largest customers of the Group accounted for approximately 13% and 38% (2009: 15% and 35%) of the total turnover of the Group, respectively. Purchases from the Group's largest supplier and five largest suppliers accounted for approximately 37% and 57% (2009: 51% and 74%) respectively of the total purchase of the Group. Save as disclosed under the paragraph headed "CONNECTED AND RELATED PARTY TRANSACTIONS", at no time during the year did a Director, a supervisor, their associates or any shareholders of the Company ("**Shareholders**") (which to the knowledge of the Directors owned more than 5% of the issued share capital of the Company ("**Shares**")) have an interest in any of the five largest customers or suppliers of the Group.

## DIRECTORS AND SUPERVISORS

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

**Executive Directors:**

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

**Independent non-executive Directors:**

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

**Supervisors**

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

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

## DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

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

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

## APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

As at 31st December, 2010, the interests of the Directors, Supervisors (as if the requirements applicable to the Directors under the Securities and Futures Ordinance (the "**SFO**") had applied to the Supervisors) or chief executives of the Company, including their respective associates, in the Shares and/or underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") of the Listing Rules, were as follows:

| **Name of Directors/ Supervisors** | **Name of companies/ associated corporations** | **Capacity** | **Number and class of securities** (Note 1) | **Approximate percentage of shareholding** |
|---|---|---|---|---|
| Shi Xiang Shen *(Director)* | Xinjiang Tianye Company Limited ("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% |

Note:

1. The letter "L" represents the Directors' and Supervisors' long positions in such securities.

2. Tianye Company is a company established in the PRC with limited liability on 9th June, 1997, and 438,592,000 A shares of which are listed in the Shanghai Stock Exchange.

Other than as disclosed above, none of the Directors, Supervisors and chief executives of the Company nor their respective associates had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporation as at 31st December, 2010.

## ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

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

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

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

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

### (A) Substantial Shareholders

As at 31st December, 2010, the register of substantial Shareholders maintained by the Company pursuant to Section 336 of Part XV of the SFO shows that the following persons or entities (other than 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** | **Type/ nature of interest** | **Capacity** | **Number of the domestic Shares of the Company held** (Note 1) | **Approximate percentage of the total issued share capital of the Company** (Note 2) |
|---|---|---|---|---|
| Tianye Company | Corporate | Beneficial owner | 202,164,995 (L) | 38.91% (Note 3) |
| Xinjiang Tianye (Group) Limited ("Tianye Holdings") (Note 4) | Corporate | Interest in controlled corporation | 202,164,995 (L) | 38.91% |
| Guo Shu Qing (Note 5) | Personal | Beneficial owner | 61,386,798 (L) | 11.82% |
| Wang Xiao Xian (Note 6) | Personal | Beneficial owner | 50,335,128 (L) | 9.69% |

Notes:

1. "L" denotes the person's/entity's long positions in the Shares.

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

3. The domestic Shares held by Tianye Company were equivalent to approximately 63.75% of the total domestic Shares in issue.

4. The domestic Shares were held by Tianye Company. By virtue of the SFO, Tianye Holdings, which is interested in approximately 43.27% of the registered capital of Tianye Company, is deemed to be interested in the 202,164,995 domestic Shares held by Tianye Company.

5. The domestic Shares held by Guo Shu Qing were equivalent to approximately 19.36% of the total domestic Shares in issue.

6. The domestic Shares were held by Wang Xiao Xian were equivalent to approximately 15.87% of the total domestic Shares in issue.

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

As at 31st December, 2010, save for the persons or entities disclosed in sub-section (A) above, the Company was not aware of any persons (other than the Directors, the Supervisors and chief executives of the Company) who had an interest or short position in the Shares or underlying Shares of the Company.

## CONNECTED AND RELATED PARTY TRANSACTIONS

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

Details of the connected transactions/continuing connected transactions during the year are included in note 37 to the consolidated financial statements. Save as the above, the Group also entered into following connected transactions agreements:

- master purchase agreement with Tianye Holdings (a substantial Shareholder) dated 16th March, 2009, pursuant to which the Group agreed to purchase spare parts and raw materials, including but not limited to diamond-shaped wheels, packaging films and PVC resins, from Tianye Holdings and/or its subsidiaries (including Tianye Company and/or its subsidiaries and/or its controlled corporations) from time to time for a term from 8th May, 2009 to 31st December, 2011, and the price for those spare parts and raw materials will be agreed from time to time between the parties concerned by reference to the prevailing market prices at the relevant time;

- master sale agreement with Tianye Holdings (a substantial Shareholder) on 16th March, 2009, pursuant to which Tianye Holdings and/or its subsidiaries (including Tianye Company and/or its subsidiaries and/or its controlled corporations) agreed to purchase products manufactured by the Group, including but not limited to drip films, PVC/PE pipelines and drip assemblies, from time to time for a term from 8th May, 2009 to 31st December, 2011, and the price for those products manufactured by the Group will be agreed from time to time between the parties concerned by reference to the prevailing market price at the relevant time;

- leases dated 25th April, 2008 in respect of the office premises located at 3rd Floor, No. 36 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北三東路36號第三層) and the factory premises located at No. 36 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北三東路36號) and No. 94-22 Bei Yi Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北一路94–22號) with Tianye Company (a substantial Shareholder), for a term from 1st July, 2008 to 30th June, 2011 at the rent of RMB1,455,820 per annum (including property management fee);

- lease dated 25th April, 2008 in respect of the office premises located at 1st Floor of No. 36 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北三東路36號第一層) with Tianye Company (a substantial Shareholder), for a term from 1st July, 2008 to 30th June, 2011 at the rent of RMB3,500 per annum (including property management fee); and
- lease dated 25th April, 2008 in respect of the office premises located at No. 94-2 Gong San Xiao Qu, Bei Yi Road, Shihezi, Xinjiang (新疆石河子北一路工三社區94–2號) with Tianye Company (a substantial Shareholder), for a term from 1st July, 2008 to 30th June, 2011 at the rent of RMB4,320 per annum (including property management fee).

The above-mentioned master purchase agreement and their proposed annual caps were approved by an ordinary resolution of a general meeting of the Company held on 8th May, 2009. The details of these transactions were disclosed in the introduction document dated 30th August, 2007 and the announcements dated 25th April, 2008, 16th March, 2009, 3rd November, 2009 and 23rd December, 2009, and the circular dated 20th March, 2009.

In respect of each of the related party transactions as listed in note 37, to the consolidated financial statements, which are also connected transactions, and the transaction contemplated under each of the above connected transactions agreements, the Company has complied with the relevant requirements under Chapter 14A of the Listing Rules.

Note: The term "controlled corporations" of Tianye Company mentioned above under the paragraph headed "CONNECTED AND RELATED PARTY TRANSACTIONS" of this report refers to those corporations owned by Tianye Company as to 30% or more but less than 50% of their equity interests.

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

For the year ended 31st December, 2010, the Directors are not aware of any business or interest of the Directors, the Supervisors, the management, Shareholders and their respective associates (as defined under the Listing Rules) that competes or may compete (directly or indirectly) with the business of the Group and any other conflicts of interests which any such persons has or may have with the Group.

## EMOLUMENT POLICY

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

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

# Report of the Directors

## CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 13 to 21 of this annual report.

## PRE-EMPTIVE RIGHTS

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

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2010.

## POST BALANCE SHEET EVENT

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

## AUDITORS

On 6th December, 2010, SHINEWING (HK) CPA Limited resigned as auditors of the Group and Pan-China (H.K.) CPA Limited were appointed as auditors of the Group. The consolidated financial statements for the year have been audited by Pan-China (H.K.) CPA Limited.

A resolution will be submitted in the forthcoming annual general meeting to re-appoint the auditors, Pan-China (H.K.) CPA Limited as the auditors of the Group.

By Order of the Board

**Mr. Hou Guo Jun**
*Chairman*

Xinjiang, PRC
18th March, 2011

# Report of the Supervisory Committee

To: All Shareholders

During the year ended 31st December, 2010 ("**Year 2010**"), the Supervisory Committee (the "**Supervisory Committee**" or the "**Supervisors**") of the Xinjiang Tianye Water Saving Irrigation System Company Limited (the "**Company**"), in compliance with the provisions of the Company Law of the People's Republic of China (the "**PRC**"), the relevant laws and regulations of Hong Kong and the articles of association of the Company (the "**Articles of Association**"), has conducted its work adhering to the fiduciary principle, and has taken up an active role to work faithfully and diligently to safeguard the interests of the shareholders (the "**Shareholders**") and the benefits of the staff of the Company.

In Year 2010, the Supervisors reviewed the operations of the Company and major issues, attended the meetings of the board (the "**Board**") of directors (the "**Directors**") of the Company, provided reasonable recommendation and advice to the Board and effectively monitored the members of the Board and senior management of the Company in performing their duties.

The Supervisory Committee is of the view that:

1. the Company's operation in the Year 2010 complied with the relevant laws and regulations of the state and local governments of the PRC and the provisions of the Articles of Association;

2. the Directors and managers of the Company performed their duties in strict compliance of the relevant rules and regulations for the development of the Company. They carried out their work diligently without violating any laws and regulations or the Articles of Association, and had not conducted any activities which were against the interests of the Company, and acted faithfully in exercising their authorities;

3. the connected transactions of the Company, which have fully complied with the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, were fair and reasonable. We have not discovered any act that prejudiced the interests of the Company;

4. The Supervisory Committee's role in monitoring the management of the Company was strengthened by attending Board meetings, participating in the decision-making process of the management and reviewing regularly the financial statements and accounts of the Company. The Supervisory Committee believes that the financial management of the Company was performed in strict compliance with the relevant accounting principles, that the financial statements and accounts were prepared timely and properly, and that no improper disclosures were identified; and

# Report of the Supervisory Committee

5. The Supervisory Committee has verified the financial information of the Group such as the financial statements and reports of results to be submitted to the forthcoming general meeting of Shareholders by the Board, and is satisfied with the Report of the Directors and the audited financial statements of the Group. The Supervisory Committee believes that the audited financial statements for Year 2010 have reflected truly and fairly the conditions of the operating results and the assets of the Company and of the Group.

The Supervisory Committee is of the view that along with the increasing awareness of China government for the construction of farmland water conservancy facility, the Supervisory Committee has great confidence about the development prospects of the Group and would like to extend its appreciation to all Shareholders, the Directors and members of staff of the Company for their strong support to the Supervisory Committee's work.

By order of the Supervisory Committee

**Ni Mei Lan**
*Chairman of the Supervisory Committee*

Xinjiang, the PRC
18th March, 2011

# Independent Auditor's report

**To the shareholders of Xinjiang Tianye Water Saving Irrigation System Company Limited**
*(A joint stock company with limited liability established in the People's Republic of China)*

We have audited the consolidated financial statements of 新疆天業節水灌溉股份有限公司 Xinjiang Tianye Water Saving Irrigation System Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 106, which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

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

# Independent Auditor's report

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Pan-China (H.K.) CPA Limited**
*Certified Public Accountants*
Hong Kong, 18 March 2011

**Yip Kai Yin**
*Practising Certificate Number P05131*

20/F., Hong Kong Trade Centre,
161-167 Des Voeux Road Central,
Hong Kong

# 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 |

# Consolidated Statement of Financial Position

As at 31 December 2010

| | Notes | 2010 RMB'000 | 2009 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 |

Approved by the board of directors on 18 March 2011 and signed on its behalf by:

**Mr. Hou Guo Jun**
*Director*

**Mr. Shi Xiang Shen**
*Director*

# 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 |

## Statement of Financial Position

As at 31 December 2010

| | Notes | 2010 RMB'000 | 2009 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 |

Approved by the board of directors on 18 March 2011 and signed on its behalf by:

**Mr. Hou Guo Jun**
*Director*

**Mr. Shi Xiang Shen**
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

| | Share capital RMB'000 | Share premium RMB'000 Note 30(i) | Statutory reserve fund RMB'000 Note 30(ii) | Other reserve RMB'000 Note 30(iii) | Retained profits RMB'000 | Attributable to owners of the Company RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|
| 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<br>RMB'000 | 2009<br>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 |
| **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) |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2010

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| **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.

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

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.

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

### 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.

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

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.

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

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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Basis of consolidation *(continued)*

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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.2 Basis of consolidation *(continued)*

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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.3 Business combination *(continued)*

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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.3 Business combination *(continued)*

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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.3 Business combination *(continued)*

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.8 Financial instruments *(continued)*

*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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.8 Financial instruments *(continued)*

*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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.8 Financial instruments *(continued)*

*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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.8 Financial instruments *(continued)*

*3.8.6 Impairment of financial assets (continued)*

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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.8 Financial instruments *(continued)*

**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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.8 Financial instruments *(continued)*

*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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 3.8 Financial instruments *(continued)*

*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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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.

# Notes to Consolidated Financial Statements

For the year ended 31 December 2010

## 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 RMB'000 | Group 2009 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 RMB'000 | 2009 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 RMB'000 | 2009 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** | 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 |

## 9. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES *(continued)*

### (a) Emolument of directors and supervisors *(continued)*

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

| | 2010<br>RMB'000 | 2009<br>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 |

## 9. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES *(continued)*

### (a) Emolument of directors and supervisors *(continued)*

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.

## 9. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES *(continued)*

### (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 RMB'000** | 2009 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.

# Notes to Consolidated Financial Statements

For the year ended 31 December 2010

## 10. TAXATION

| | 2010 RMB'000 | 2009 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% |

## 10. TAXATION *(continued)*

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 (甘區國税批字[2007]39號) 《國務院關於實施企業所得税過渡優惠政策通知》), 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 (開國税辦[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税的通知》), 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税務局), 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 (甘肅省國家税務局[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 (阿拉爾國税辦[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(哈國税辦[2007]572號《哈密地區國家税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税的批覆》issued by State Administration of Taxation of Hami Region (哈密地區國家税務局), Hami Tianye was granted a reduced EIT tax rate of 15% for the period from 1 January 2008 to 31 December 2010.

## 10. TAXATION *(continued)*

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

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **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.

# Notes to Consolidated Financial Statements

For the year ended 31 December 2010

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Construction in progress RMB'000 | Buildings RMB'000 | Plant and machinery RMB'000 | Motor vehicles RMB'000 | Furniture, fixtures and equipment RMB'000 | Total 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 |

## 14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

| | Company | | | | | |
|---|---|---|---|---|---|---|
| | Construction in progress RMB'000 | Buildings RMB'000 | Plant and machinery RMB'000 | Motor vehicles RMB'000 | Furniture, fixtures and equipment RMB'000 | Total 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 |

## 14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

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

The buildings of the Group are situated in the PRC 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.

## 18. INVESTMENT IN SUBSIDIARIES *(continued)*

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 |

## 20. TRADE AND BILL RECEIVABLES *(continued)*

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.

## Notes to Consolidated Financial Statements

For the year ended 31 December 2010

### 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.

# Notes to Consolidated Financial Statements

For the year ended 31 December 2010

## 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 RMB'000 | Share premium RMB'000 Note (i) | Statutory reserve fund RMB'000 Note (ii) | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| 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 |

## 30. RESERVES *(continued)*

### Company *(continued)*

(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**<br>**RMB'000** | 2009<br>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 |

## Notes to Consolidated Financial Statements

For the year ended 31 December 2010

### 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.

## 34. FINANCIAL INSTRUMENTS *(continued)*

### b) Financial risk management objectives and policies *(continued)*

**Market risk** *(continued)*

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

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.

## 34. FINANCIAL INSTRUMENTS *(continued)*

### b) Financial risk management objectives and policies *(continued)*

**Credit risk** *(continued)*

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.

## 34. FINANCIAL INSTRUMENTS *(continued)*

### c) Fair value *(continued)*

**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<br>RMB'000 | Tianrui<br>RMB'000 | Total<br>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:

| Nature of transactions/business | Notes | Group 2010 RMB'000 | Group 2009 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.

## 37. RELATED PARTY TRANSACTIONS *(continued)*

**(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.

# Five Years Financial Summary

The table below summarises the audited results, assets and liabilities of the Group for the year ended 31 December 2010, 2009, 2008, 2007 and 2006. Such information is compiled based on the Hong Kong Financial Reporting Standards.

## RESULTS

| | **2010 RMB'000** | 2009 RMB'000 | 2008 RMB'000 | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|---|---|
| Turnover | **588,491** | 571,028 | 664,248 | 616,172 | 461,809 |
| Profit for the year and total comprehensive income attributable to owners of the Company | **17,151** | 6,479 | 6,694 | 70,287 | 62,497 |

## ASSETS AND LIABILITIES

| | **2010 RMB'000** | 2009 RMB'000 | 2008 RMB'000 | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|---|---|
| Total Assets | **1,022,169** | 970,782 | 1,003,624 | 1,003,916 | 779,786 |
| Total Liabilities | **322,187** | 286,718 | 322,937 | 310,100 | 144,558 |
| Non-controlling Interests | **(17,299)** | (18,532) | (21,771) | (22,891) | (15,887) |
| Equity Attributable to owners of the Company | **682,683** | 665,532 | 658,916 | 670,925 | 619,341 |

# Property Interests Held by the Group in the PRC

| Location of Property | Lease term | Percentage of Interests attributable to the Group | Floor Area *(sq.m)* | Use |
|---|---|---|---|---|
| 1. A parcel of land and various Buildings erected thereon, West of Qing Song Nan Road and North of Sheng Li Boulevard , Alaer Shi, Xinjiang Uyger Autonomous Region, the PRC | Long | 51% | 3,207.54 | Commercial |
| 2. A parcel of land and various buildings and structures erected thereon, No. 1 Hong Guang Road, Hami Shi, Xinjiang Uygur Autonomous Region, the PRC | Long | 60% | 4,600.86 | Commercial |
| 3. A parcel of land and various buildings and Structures erected thereon, District No.81, Shihezi Economic and Technological Development Zone, Xinjiang Uygur Autonomous Region, the PRC | Long | 100% | 4,491.8 | Commercial |
| 4. Various buildings and structures located on 134 Tuan, Xiayedi Town Shihezi City, Xinjiang Uygur Autonomous Region, the PRC | Long | 60% | 4,255.3 | Commercial |