



新疆天业节水灌溉股份有限公司

XINJIANG TIANYE WATER SAVING IRRIGATION
SYSTEM COMPANY LIMITED*

Stock Code: 840

Annual 2012 Report



*for identification purposes only

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Corporate Information

DIRECTORS

Executive Directors

Mr. Yin Xiu Fa (*Chairman*)
Mr. Shi Xiang Shen
Mr. Li Shuang Quan
Mr. Zhu Jia Ji
Mr. Shao Mao Xu
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 (*Chairman*)
Mr. Xia Jun Min
Mr. Gu Lie Feng

COMPLIANCE COMMITTEE

Mr. Shi Xiang Shen (*Chairman*)
Mr. He Lin Wang
Mr. Gu Lie Feng
Mr. Xia Jun Min

REMUNERATION COMMITTEE

Mr. He Lin Wang (*Chairman*)
Mr. Shi Xiang Shen
Mr. Xia Jun Min
Mr. Gu Lie Feng

NOMINATION COMMITTEE

Mr. He Lin Wang (*Chairman*)
Mr. Yin Xiu Fa
Mr. Shi Xiang Shen
Mr. Xia Jun Min
Mr. Gu Lie Feng

AUDITOR

Pan-China Certified Public Accountants LLP
4/F-10/F, Xihu Commercial Tower
128 Xixi Road
Hangzhou
People's Republic of China ("PRC")



HONG KONG LEGAL ADVISER

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

Peter C. Wong, Chow & Chow
Suites 1604-06, 16/F
ICBC Tower
3 Garden Road
Central
Hong Kong

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

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, 2012.

BUSINESS REVIEW

- Turnover for the year ended 31st December, 2012 was approximately RMB762,837,000, an increase of approximately 10.49% from 2011;
- Profit attributable to owners of the Company was approximately RMB3,211,000, a decrease of approximately 84.88% from 2011;
- Basic and diluted earnings per share for the year was approximately RMB0.01 (2011: approximately RMB0.04).

PROSPECTS

During the year, the Chinese government continued to implement its encouragement policies for irrigation and water conservancy industry. Along with the progressive rollout of agricultural water-saving irrigation projects and the gradual increase of local involvement in agricultural water conservation activities in mainland China, the competition in the industry intensified, leading to the lower profit margin of the Group. Meanwhile, the Group is relatively far away from the interior provinces of China, whereby the accompanying higher cost of sales had crimped the profit of the Group in the market. In the opinion of the Directors, the agricultural water-saving irrigation market will maintain its rapid growth in the next five years. Hence, the Group is going to accelerate the construction progress of its production bases in the interior provinces, in order to reduce logistics cost and improve profitability by capitalising its technological advantages as an integrated agricultural water-saving provider.



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 staff members of the Group for their hard work and contribution to the Group.

Yours sincerely,

A handwritten signature in black ink, consisting of stylized Chinese characters, representing Yin Xiu Fa.

Yin Xiu Fa

Chairman of the Board

Xinjiang, the PRC
28th March, 2013

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.



CHANGE IN ACCOUNTING STANDARDS

The Company prepared its financial statements according to relevant requirements under both the Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by the Hong Kong Institute of Certified Public Accountants and the ASBE issued by the Ministry of Finance of the PRC for the year ended 31 December 2011 and previous years, and disclosed its financial statements prepared under the HKFRS on the Hong Kong Stock Exchange.

According to the “Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong” which was published by the Stock Exchange in December 2010, from 1 January 2012, the Company prepared its financial statements under the ASBE alone, rather than the HKFRS, and disclosed its financial statements prepared under the ASBE on the Hong Kong Stock Exchange. As the Company is incorporated in the Mainland, the Company believes the financial statements prepared under the ASBE comply with the Listing Rules and the disclosure requirements and are in the best interest of the Company.

For differences between the owners’ equity as at 31 December 2011 and net profit for the year of 2011 prepared under the ASBE and those prepared under the HKFRS, please refer to the section headed “XII. OTHER SUPPLEMENTAL INFORMATION” in the notes to the financial statements in this report.

RESULTS OF OPERATIONS

Turnover

For the year ended 31st December, 2012, turnover of the Group was approximately RMB762,837,000, an increase of approximately 10.49% from approximately RMB690,416,000 for the year ended 31st December, 2011.

The following table summarises the breakdown of the total turnover of the Group for each of the two years ended 31st December, 2012 by products:

Category	For the year ended 31st December, 2012		For the year ended 31st December, 2011		Year-on-year percentage change
	Turnover RMB’000	% to total turnover	Turnover RMB’000	% to total turnover	
		%		%	
Drip films and drip assemblies	477,943	62.65	395,297	57.25	20.91
PVC/PE pipelines	279,398	36.63	295,119	42.75	(5.33)
Provision of installation services	5,496	0.72	—	—	100.00
Total	762,837	100.00	690,416	100.00	

The change in turnover for the year ended 31st December, 2012 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, 2012, sales of drip films and drip assemblies increased by approximately 20.91% to approximately RMB477,943,000, while sales of PVC/PE pipelines decreased by approximately 5.33% to approximately RMB279,398,000. At the same time, the sales volume of drip films and drip assemblies increased from approximately 30,667 tonnes for the year ended 31st December, 2011 to approximately 36,307 tonnes for the year ended 31st December, 2012, while the sales volume of PVC/PE pipelines increased from approximately 40,483 tonnes for the year ended 31st December, 2011 to approximately 41,027 tonnes for the year ended 31st December, 2012. 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, 2012, cost of sales of the Group was approximately RMB680,333,000, an increase of approximately 12.36% from approximately RMB605,487,000 for the year ended 31st December, 2011. Costs of sales for the year ended 31st December, 2012 comprised direct materials costs of approximately RMB581,140,000, direct labour costs of approximately RMB49,936,000 and production overhead of approximately RMB49,257,000, which accounted for approximately 85.42%, 7.34% and 7.24%, respectively, of the total costs of sales for the year under review. Costs of sales for the year ended 31st December, 2011 comprised direct materials costs of approximately RMB492,076,000, direct labour costs of approximately RMB19,376,000 and production overhead of approximately RMB94,035,000, which accounted for approximately 81.27%, 3.20% and 15.53%, respectively, of the total costs of sales for 2011.

Non-operating income

For the year ended 31st December, 2012, non-operating income was approximately RMB2,321,000 and consisted primarily of trade payables written off and government grants; comparing to the amount of approximately RMB2,259,000 for the year ended 31st December, 2011, amount mainly represented government grants.

Distribution costs

Distribution costs were approximately RMB46,518,000 for the year ended 31st December, 2012, representing an increase of approximately 18.55% from the previous year. The amount accounted for approximately 6.10% of the total turnover for the year ended 31st December, 2012, which was higher than its share of total turnover of approximately 5.68% in the previous year. Distribution costs mainly comprised transportation costs, salaries expenses and trip expenses, etc. For the year ended 31st December, 2012, salaries expenses and trip expenses increased by approximately 34.71% and 610.89% to approximately RMB14,320,000 and RMB5,391,000, respectively, while sales-related transportation costs decreased by approximately 6.73% to approximately RMB10,503,000.



Administrative expenses

Administrative expenses decreased by approximately 1.54% to approximately RMB20,251,000 for the year ended 31st December, 2012. The amount accounted for approximately 2.65% of total turnover for the year ended 31st December, 2012, which was lower than its share of total turnover of approximately 2.98% in the previous year. For the year ended 31st December, 2012, administrative expenses mainly comprised salaries expenses and agency fee.

Operating profits

As a result of the factors discussed above, the Group's operating profits for the year ended 31st December, 2012 was approximately RMB6,087,000, representing a decrease of approximately 73.73% from approximately RMB23,173,000 for the corresponding period in the previous year. The Group's gross operating margin (expressed as a percentage of operating profits over the Group's turnover) was approximately 3.36% and 0.80% for the years ended 31st December, 2011 and 2012, respectively.

Finance costs

Finance costs for the year ended 31st December, 2012 amounted to approximately RMB5,310,000, representing an increase of 9.63% as compared to the corresponding period in the previous year. The increase in finance costs was mainly resulted from the increase in average loan amount during the year.

Profit attributable to owners of the Company

As a result of the factors discussed above, the profit attributable to owners of the Company decreased by approximately 84.88%, from approximately RMB21,238,000 for the year ended 31st December, 2011 to approximately RMB3,211,000 for the year ended 31st December, 2012. For the two years ended 31st December, 2011 and 2012, the Group's net profit margins were approximately 3.08% and 0.42%, respectively.

INDEBTEDNESS

Borrowings

As at 31st December, 2012, the Group had outstanding bank loans of RMB100,000,000 (2011: RMB120,000,000), which will due be for repayment within a year at fixed interest rates ranging from 5.768% to 6% per annum.

As at 31st December, 2012, the Group's borrowings amounted to RMB50,000,000 (2011: RMB80,000,000) and RMB50,000,000 (2011: RMB40,000,000) were secured by the corporate guarantees given by Xinjiang Tianye (Group) Limited ("**Tianye Holdings**") and Xinjiang Tianye Company Limited ("**Tianye Company**") respectively.

All guarantees as at 31st December, 2012 provided by Tianye Holdings will be released on or before 25th December, 2013.

Guarantees in respect of the Group's borrowings of RMB50,000,000 provided by Tianye Company will be released on or before 28th May, 2013.

Commitments

As at 31st December, 2012, the Group had contracted but not provided for capital commitments of RMB7,130,000 (2011: RMB12,600,000).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity ratios

The current ratio and quick ratio of the Group as at 31st December, 2012 were approximately 2.45 and 0.79, respectively, representing an increase of 0.06 and 0.09 respectively when compared to 31st December, 2011. This is primarily due to decrease in bank borrowings 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, 2012, 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 RMB6,091,000 (2011: approximately RMB26,024,000), which were in line with the expansion plans of the Group.

Capital structure

For the year ended 31st December, 2012, the gearing ratio (which is defined as total borrowings over total equity) of the Group was approximately 13.70% (2011: approximately 16.75%). This is primarily due to the decrease in bank loans and increase in equity 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, 2012.



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, 2012, the Group had no contingent liabilities (2011: Nil).

Exposure to fluctuations in exchange rates and related hedges

The Group's present operations are mainly carried on in the PRC and all of the Group's monetary assets, loans and transactions are principally denominated in Renminbi ("**RMB**"). During the year under review, 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 2011 and 2012.

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, 2012, the Group had 1,258 employees (2011: 1,253).

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 RMB13,188,000 for the year ended 31st December, 2012.

The Group provides its staff in Hong Kong with a provident fund scheme in compliance with the Mandatory Provident Fund Schemes 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\$1,250 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 staff members shall make contribution to a housing pension for establishment of a housing pension scheme. Both the housing pensions contributed by each staff member and by their respective units are vested to the staff members. The percentage of the housing pension contributed by the staff members and their units shall not be less than 5% of the average monthly wages of such staff member 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, 2012, the Group had neither material acquisitions nor disposals of subsidiaries and associated companies.

MATERIAL INVESTMENTS

For the year ended 31st December, 2012, the Group had no material investments (2011: Nil).

DIVIDEND

The Directors do not recommend the payment of any final dividend for the year ended 31st December, 2012 (2011: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of the members of the Company will be closed from Saturday, 11th May, 2013 to Friday, 31st May, 2013 (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 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 Friday, 10th May, 2013.

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, 2012.

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, 2012, the Group has complied with the code provisions in the “Corporate Governance Code and Corporate Governance Report” (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, 2012. 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 24 to 28 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.

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 quarterly, interim and annual results. The Board shall meet, at least, twice a year and extraordinary meetings may be held as required. The full Board met in person and met five times for the financial year ended 31st December, 2012. 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		
Yin Xiu Fa (<i>chairman of the Board, hereinafter referred to as the "Chairman"</i>)	5/5	100%
Shi Xiang Shen	5/5	100%
Li Shuang Quan	5/5	100%
Zhu Jia Ji	5/5	100%
Shao Mao Xu (appointed on 15th June, 2012)	4/5	80%
Chen Lin	5/5	100%
Hou Guo Jun (resigned on 15th June, 2012)	1/5	20%
Independent Non-executive Directors		
He Lin Wang	5/5	100%
Xia Jun Min	5/5	100%
Gu Lie Feng	5/5	100%
Mak King Sau	5/5	100%
Wang Yun	5/5	100%

During the Board Meetings, the Directors discussed and formulated the overall strategies of the Group, monitored financial performances and discussed the annual, quarterly 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. Yin Xiu Fa and the Chief Executive Officer of the Group is Mr. Zhang Qiang. 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 work 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

Directors must keep abreast of their collective responsibilities. Each newly appointed Director would receive an induction package covering the Group's businesses and the statutory and regulatory obligations of a director of a listed company. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills. The Group continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices. Circulars or guidance notes are issued to Directors and senior management where appropriate, to ensure awareness of best corporate governance practices.

The participation by individual directors in the continuous professional development programme with appropriate emphasis on the roles, functions and duties of a director of a listed company in 2012 is recorded in the table below.

	Reading materials/in house briefing	Attending seminars/ conferences/forums
Executive Directors		
Yin Xiu Fa	✓	✓
Shi Xiang Shen	✓	✓
Li Shuang Quan	✓	✓
Zhu Jia Ji	✓	✓
Shao Mao Xu (appointed on 15th June, 2012)	✓	✓
Chen Lin	✓	✓
Hou Guo Jun (resigned on 15th June, 2012)	✓	✓
Independent Non-executive Directors		
He Lin Wang	✓	✓
Gu Lie Feng	✓	✓
Xia Jun Min	✓	✓
Mak King Sau	✓	✓
Wang Yun	✓	✓

Directors' Insurance

The Company has arranged appropriate insurance cover in respect of the legal action against 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 and the Supervisors. Following specific enquiry made by the Company, all Directors and Supervisors have confirmed that they have complied with the required standards under the Model Code for the year ended 31st December, 2012.

REMUNERATION COMMITTEE

The chairman of the Remuneration Committee is Mr. He Lin Wang, an independent non-executive Director, Mr. Shi Xiang Shen, an executive Director and other two members include 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, 2012, the Remuneration Committee held one meeting. The individual attendance records of each member are as follows:

Attendants	Number of Meetings	
	Attended/Total	Percentage
He Lin Wang (<i>Chairman</i>)	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, 2012, 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. Yin Xiu Fa 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, 2012, the Nomination Committee held two meetings. The individual attendance records of each member are as follows:

Attendants	Number of Meetings	
	Attended/Total	Percentage
He Lin Wang (<i>Chairman</i>)	2/2	100%
Yin Xiu Fa	1/2	50%
Shi Xiang Shen	2/2	100%
Xia Jun Min	2/2	100%
Gu Lie Feng	2/2	100%
Hou Guo Jun (resigned on 15th June, 2012)	1/2	50%

For the year ended 31st December, 2012, 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 auditor. The Audit Committee's primary duties include ensuring the Group's financial statements, annual and interim reports and the auditor's 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, 2012, 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 (<i>Chairman</i>)	4/4	100%
Xia Jun Min	4/4	100%
Gu Lie Feng	4/4	100%

Corporate Governance Report

During the year ended 31st December, 2012, 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 work scope and responsibilities of the Company's external auditor are stated in the section entitled "Auditor's Report" in the annual report.

For the year ended 31st December, 2012, the external auditor of the Company was not engaged in any non-audit services and the fee in respect of the audit services provided by the external auditor of the Company is as follows:

	2012	2011
	RMB'000	RMB'000
Audit Service		
— Pan-China Certified Public Accountants LLP	650	—
— Pan-China (H.K.) CPA Limited (resigned with effect on 26th April, 2012)	—	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, 2012, 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 (<i>Chairman</i>)	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, 2012, 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, 2012, 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 auditor. 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, employs a policy of open and timely disclosure of quarterly 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, so 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, and other relevant information.

The Company also communicates with its shareholders through its annual, reports, quarterly results, announcement and interim reports. All such reports and announcements 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.



SHAREHOLDERS' RIGHTS

Pursuant to Article 8.04 of the Company's Articles of Association, one or more shareholders holding in aggregate 10% or more of the issued shares of the Company may request the Board to convene a shareholders' extraordinary general meeting, and upon receipt of such request, the Board shall convene the meeting within two months. Qualified shareholder(s) who wish(es) to request for convening a shareholders' extraordinary general meeting may send his/its/their written request(s) (together with full details of the matters to be decided at the meeting) to the Company.

Should shareholders have any enquiries or wish to put forward any proposals at any shareholders meeting, they are engaged to contact the Company by the following means:

	For holders of H Shares	For holders of Domestic Shares
Contact party:	The Company's H Share registrar and transfer office	The Company's registered office
Fax No.:	(852) 28611465	(86993) 2623183
Correspondence address:	26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong	36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC

AMENDMENTS TO ARTICLES OF ASSOCIATION

For the year ended 31st December, 2012, at the annual general meeting of the Company held on 15th June, 2012, the shareholders of the Company approved the amendments to article 2.02 (scope of business) of the Company's Articles of Association by replacing the reference to "drip film (滴灌膜)" with "drip tape (滴灌带)" for clarification purpose.

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. Yin Xiu Fa, aged 66, is the Chairman of the Board and 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 and Chairman of the Board since March 2012.

Mr. Shi Xiang Shen, aged 69, 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 49, is an executive Director. 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 from May 2007 to November 2012. 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. Zhu Jia Ji, aged 49, 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.



Mr. Shao Mao Xu, aged 54, is an executive Director and deputy general manager of the Group. Mr. Shao 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. Shao was appointed as an executive Director of the Group in June 2012.

Mr. Chen Lin, aged 37, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. He Lin Wang, aged 71, 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 42, 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 73, 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.

Mr. Mak King Sau, aged 38, 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. In 2010, Mr. Mak joined Sino-Life (Hong Kong) Limited (a wholly-owned subsidiary of Sino-Life Group Limited) (stock code: 8296) as general manager, a position which he currently still holds. Mr. Mak is also an independent non-executive director of Travel Expert (Asia) Enterprises Limited, a company listed on the Stock Exchange (stock code: 1235). He has been an independent non-executive Director since October 2007.

Mr. Wang Yun, aged 42, 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 independent non-executive Director since August 2010.

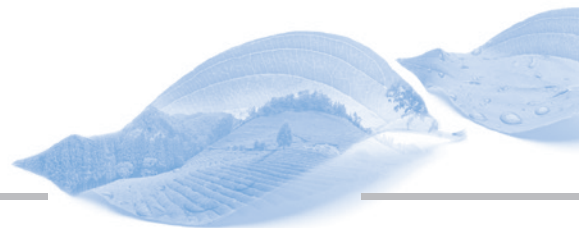
SUPERVISORS

Ms. Ni Mei Lan, aged 53, 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 of the Company on 10th May, 2007.

Mr. He Jie, aged 67, 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 of the Company since he joined the Group in April 2005.

Mr. Huang Jun Lin, aged 73, 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 41, 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 18 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 worker representative supervisor of the Company since he joined the Group on 18 August 2010.



QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Ms. Chow Yuk Lan, aged 38, 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. Zhang Qiang, aged 39, is the Chief Executive Officer of the Company. Mr. Zhang graduated from the Open University of China with a major in Computer Science and Technology in 2005. Mr. Zhang obtained a senior engineer qualification certificate in 2011. Mr. Zhang joined Tianye Holdings since July 1995 and worked as production coordinator, production manager and deputy manager of Tianye Zhongfa Company Limited. He was appointed as the deputy general manager of Tianye Company in January 2009 and Chief Executive Officer of the Company in November 2012.

Mr. Chen Jun, aged 49, 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 44, 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 41, 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.

Directors, Supervisors and Senior Management

Mr. Li He, aged 36, 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.

Mr. Yang Wan Sen, aged 39, graduated from Xinjiang Finance and Economic College with major in marketing professional. Mr. Yang was awarded economist qualification certificate by the personnel bureau of Xinjiang Production and Construction Regiment in June 2006. He joined the Group in September 2001 and has been a deputy general manager of the Company since October 2011.

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, 2012.

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 1 of part IV to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December, 2012 are set out in the consolidated statement of comprehensive income on page 47 of this annual report.

The Directors do not recommend the payment of any final dividend for the year ended 31st December, 2012.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately RMB7,817,000 on acquiring new plants and machines, and approximately RMB8,954,000 on construction in progress. Details of the above and of other movements in construction in progress and the property, plant and equipment of the Group for the year are set out in note 9 to note 10 of section 1 of part V 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 24 of section 1 of part V to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company’s reserves available for distribution to Shareholders is the retained profits as stated in the financial statements of the Company prepared in accordance with the “Enterprise Accounting Standards – Basic Standards” promulgated by the Ministry of Finance. As at 31st December, 2012, the Company’s reserves available for distribution to shareholders represent its retained profits of approximately RMB133,843,000 (2011: retained profits of approximately RMB132,549,000).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2012, sales to the largest customer and the five largest customers of the Group accounted for approximately 6% and 18% (2011: 10% and 23%) of the total turnover of the Group, respectively. Purchases from the Group's largest supplier and five largest suppliers accounted for approximately 33% and 64% (2011: 48% and 90%) 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. Yin Xiu Fa (*Chairman*)
Mr. Shi Xiang Shen
Mr. Li Shuang Quan
Mr. Zhu Jia Ji
Mr. Shao Mao Xu (appointed on 15th June, 2012)
Mr. Chen Lin
Mr. Hou Guo Jun (resigned on 15th June, 2012)

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).

CONFIRMATION OF INDEPENDENCE 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, 2012, the interests and short positions of the Directors, supervisors (the “**Supervisors**”) and chief executive of the Company in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the required standard of dealings by Directors pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) under Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

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

Notes:

1. The letter “L” represents long position in such securities.
2. Tianye Company is a company established in the PRC with limited liability on 9th June, 1997, the A shares of which are listed in the Shanghai Stock Exchange.

Other than as disclosed above, none of the Directors, Supervisors and chief executive 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, 2012.

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 executive 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) Domestic Shareholders

As at 31st December, 2012, the register of substantial Shareholders maintained by the Company pursuant to Section 336 of Part XV of the SFO shows that the following persons or entities (other than Directors, Supervisors or chief executive) had notified the Company of relevant interests and short positions in the Shares or underlying Shares of the Company:

Name	Capacity of interests held	Number of the domestic Shares of the Company held (Note 1)	Approximate percentage of the total issued domestic Shares of the Company	Approximate percentage of the total issued share capital of the Company (Note 2)
Tianye Company (Note 3)	Beneficial owner	202,164,995 (L)	63.75%	38.91%
Xinjiang Tianye (Group) Limited ("Tianye Holdings") (Note 4)	Beneficial owner Interest in controlled corporation	111,721,926 (L) 202,164,995 (L)	35.23% 63.75%	21.50% 38.91%

Notes:

- "L" denotes the person's/entity's long position in the Shares.
- The approximate percentage of shareholding is calculated with reference to the total issued Shares of 519,521,560 Shares (including domestic Shares and H Shares).
- The domestic Shares held by Tianye Company represents approximately 63.75% of the total domestic Shares in issue.
- 202,164,995 domestic Shares were held by Tianye Company. By virtue of the SFO, Tianye Holdings, which is interested in approximately 43.27% of the registered capital of Tianye Company, is deemed to be interested in the 202,164,995 domestic Shares held by Tianye Company.

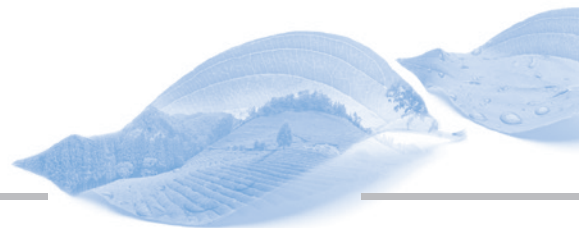
(B) H Shareholders

Name of shareholders	Capacity	Number of H Shares of the Company held (Note 1)	Approximate percentage of the total issued H Shares of the Company	Approximate percentage of the total issued share capital of the Company (Note 2)
Long Thrive Holdings (Notes 3)	Beneficial owner	15,967,000(L)	7.90%	3.07%
Tang Hongjian ("Mr. Tang") (Note 4)	Interest in controlled corporation	15,967,000(L)	7.90%	3.07%
Liu Zhonghui ("Ms. Liu") (Note 5)	Interest of spouse	15,967,000(L)	7.90%	3.07%

Notes:

1. The letter "L" denotes the person's/entity's long position in the Shares.
2. The approximate percentage of shareholding is calculated with reference to the total issued Shares of 519,521,560 Shares (including domestic Shares and H Shares).
3. The H Shares held by Long Thrive were equivalent to approximately 7.90% of the total H Shares in issue of the Company.
4. Long Thrive directly held 15,967,000 H Shares in the Company. Long Thrive is wholly-owned by Mr. Tang. By virtue of the SFO, Mr. Tang is deemed to be interested in the 15,967,000 H Shares held by Long Thrive.
5. Ms. Liu is the spouse of Mr. Tang. By virtue of SFO, Ms. Liu is deemed to be interested in the 15,967,000 H Shares held by Long Thrive.

Save as disclosed above, as at 31st December, 2012, the Directors, Supervisors and chief executive of the Company were not aware of any persons (other than the Directors, Supervisors and chief executive of the Company) who had an interest and short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.



CONNECTED AND RELATED PARTY TRANSACTIONS

Pursuant to Rule 14A.38 of the Listing Rule, the Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor has 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 auditor, 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 part VI – “Related Parties and Related Party Transactions” in the notes to financial statements. Save as disclosed under that part, the Group also entered into the following connected transactions/continuing connected transactions under the following arrangements:

- master purchase agreement with Tianye Holdings (a substantial Shareholder) dated 12th March, 2012, pursuant to which the Group agreed to purchase 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 15th June, 2012 to 31st December, 2014, and the price for those PVC resins will be agreed from time to time between the parties concerned by reference to the prevailing market price at the relevant time;
- master sale agreement with Tianye Holdings (a substantial Shareholder) dated 12th March, 2012, 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 drip films, PVC pipelines and drip assemblies, from time to time for a term from 12 March, 2012 to 31st December, 2014, 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 10th June, 2011 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 factory premises located at 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, 2011 to 30th June, 2014 at the rent of RMB1,455,820 per annum (including property management fee);

- lease dated 10th June, 2011 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, 2011 to 30th June, 2014 at the rent of RMB3,500 per annum (including property management fee); and
- lease dated 10th June, 2011 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, 2011 to 30th June, 2014 at the rent of RMB4,320 per annum (including property management fee).

The above-mentioned master purchase agreement and the annual caps for the three years ending 31 December 2014 were approved by an ordinary resolution of the annual general meeting of the Company held on 15th June, 2012. The details of these transactions were disclosed in the announcement of the Company dated 12th March, 2012, and the circular of the Company dated 28th March, 2012.

In respect of each of the related party transactions as listed in part VI — “Related Parties and Related Party Transactions” in the notes to 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, 2012, 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.



CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 13 to 23 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 ended 31st December, 2012.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2012.

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.

AUDITOR

The consolidated financial statements for the year have been audited by Pan-China Certified Public Accountants LLP ("Pan China"). On 27th January, 2011, the Shareholders approved the appointment of Pan-China (H.K.) CPA Limited ("Pan China (H.K.)") as the auditor of the Company and its subsidiaries to fill the vacancy following the resignation of SHINEWING (HK) CPA Limited and to hold office until the conclusion of the next annual general meeting of the Company. Pan China (H.K.) was reappointed as the auditor of the Company at the annual general meeting of the Company held on 19th May, 2011.

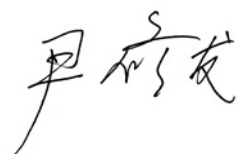
On 27th April, 2012, the Company announced the agreement with Pan-China and Pan-China (H.K.) to transfer the audit engagement of the Group for the financial year ending 31st December, 2012 from Pan-China (H.K.) to Pan-China. At annual general meeting of the Company held on 15th June, 2012, the Shareholders approved the appointment of Pan-China as the auditor of the Company following the resignation of Pan-China (H.K.) on 26th April, 2012.

Report of the Directors

Save as disclosed above, there was no change of auditors of the Company in any of the three preceding years.

A resolution will be submitted in the forthcoming annual general meeting to re-appoint Pan-China as the auditor of the Group.

By Order of the Board



Mr. Yin Xiu Fa

Chairman

Xinjiang, PRC
28th March, 2013

Report of the Supervisory Committee



To: All Shareholders

During the year ended 31st December, 2012 (“**Year 2012**”), 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 2012, 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 2012 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 2012 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
28th March, 2013

Auditor's Report



Pan-China Audit [2013] No. 3-150

To the shareholders of Xinjiang Tianye Water Saving Irrigation System Company Limited

We have audited the accompanying financial statements of Xinjiang Tianye Water Saving Irrigation System Company Limited (hereinafter referred to as "Tianye Water"), which comprise the consolidated balance sheet and the balance sheet of the Parent Company as at 31 December 2012, the consolidated income statement and the income statement of the Parent Company, the consolidated statement of cash flows and the statement of cash flows of the Parent Company, the consolidated statement of changes in equity and the statement of changes in equity of the Parent Company for the year then ended, as well as the notes to financial statements.

I. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The management of Tianye Water is responsible for the preparation and fair presentation of financial statements. Such responsibility includes: (1) preparation of the financial statements in accordance with the Accounting Standards for Business Enterprises to ensure fair presentation; (2) the design, implementation and maintenance of necessary internal controls so that the financial statements are free from material misstatement whether due to fraud or error.

II. RESPONSIBILITY OF THE CERTIFIED PUBLIC ACCOUNTANT

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the China Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain a reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation of the financial statements 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 the accounting policies used and the reasonableness of the accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

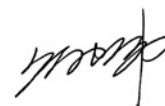
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. OPINION

In our opinion, the financial statements of Tianye Water have been prepared in accordance with the Accounting Standards for Business Enterprises, and present fairly, in all material aspects, the consolidated financial position and the financial position of the Parent Company as at 31 December 2012 and the consolidated financial performance and cash flows and those of the Parent Company for the year then ended.

Pan-China Certified Public Accountants LLP

Certified Public Accountant:



Certified Public Accountant:



Hangzhou, the People's Republic of China
28 March 2013

Consolidated Statement of Financial Position

As at 31 December 2012



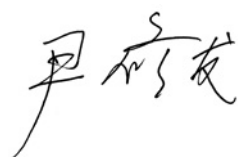
Prepared by: Xinjiang Tianye Water Saving Irrigation System Company Limited Amounts in RMB

Item	Notes	Closing balance	Opening balance
Current assets:			
Cash	1	111,742,324.15	61,391,380.49
Bill receivables	2	2,850,000.00	500,000.00
Trade receivables	3	132,920,975.31	39,451,540.04
Prepayments	4	16,720,944.27	94,985,934.83
Other receivables	5	16,367,505.81	52,192,607.94
Inventories	6	594,536,112.40	615,865,580.17
Other current assets	7	3,711,731.76	7,812,985.86
Total current assets		878,849,593.70	872,200,029.33
Non-current assets:			
Investment property	8	9,117,375.63	9,444,583.11
Fixed assets	9	162,498,571.21	186,145,727.15
Construction in progress	10	31,624,135.66	22,670,257.82
Construction materials	11	103,397.78	—
Intangible assets	12	12,840,445.81	13,136,590.44
Long-term prepaid expenses		501,843.25	—
Deferred tax assets	13	1,188,924.72	—
Other non-current assets	14	4,506,000.00	—
Total non-current assets		222,380,694.06	231,397,158.52
Total assets		1,101,230,287.76	1,103,597,187.85
Current liabilities:			
Short-term borrowings	16	100,000,000.00	120,000,000.00
Bill payables	17	—	20,000,000.00
Trade payables	18	168,858,662.14	112,985,770.53
Receipts in advance	19	66,273,003.68	60,384,898.71
Employee remuneration payable	20	3,674,031.04	3,587,833.35
Taxes payable	21	5,332,419.69	218,772.14
Other payables	22	15,206,623.46	47,746,665.79
Total current liabilities		359,344,740.01	364,923,940.52

Consolidated Statement of Financial Position

As at 31 December 2012

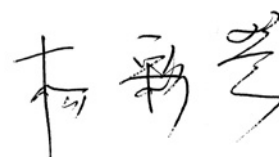
Item	Notes	Closing balance	Opening balance
Non-current liabilities:			
Other non-current liabilities	23	12,050,000.00	22,050,000.00
Total non-current liabilities		12,050,000.00	22,050,000.00
Total liabilities		371,394,740.01	386,973,940.52
Equity:			
Share capital	24	519,521,560.00	519,521,560.00
Capital reserve	25	15,372,472.17	5,372,472.17
Surplus reserves	26	34,746,526.80	34,602,766.91
Retained profits	27	142,176,550.82	139,108,919.23
Total equity attributable to owners of the Company		711,817,109.79	698,605,718.31
Non-controlling interests		18,018,437.96	18,017,529.02
Total equity		729,835,547.75	716,623,247.33
Total liabilities and equity		1,101,230,287.76	1,103,597,187.85



Legal representative:
Yin Xiu Fa



Responsible person for accounting:
Zhang Qiang



Responsible person for accountant:
Yang Cai Qin

Statement of Financial Position of the Company

As at 31 December 2012



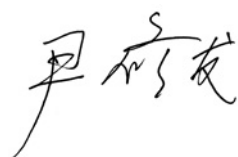
Prepared by: Xinjiang Tianye Water Saving Irrigation System Company Limited Amounts in RMB

Item	Notes	Closing balance	Opening balance
Current assets:			
Cash		64,347,372.08	33,801,828.09
Bill receivables		2,850,000.00	—
Trade receivables	1	99,082,861.93	26,105,116.08
Prepayments		12,902,669.80	72,926,435.57
Other receivables	2	96,793,114.15	149,692,463.31
Inventories		454,573,654.23	468,744,255.62
Other current assets		321,882.66	2,587,930.90
Total current assets		730,871,554.85	753,858,029.57
Non-current assets:			
Long-term equity investments	3	152,655,270.74	122,655,270.74
Investment property		9,117,375.63	9,444,583.11
Fixed assets		93,761,991.87	108,844,919.51
Construction in progress		31,624,135.66	20,377,207.53
Intangible assets		6,789,301.63	6,943,896.55
Long-term prepaid expenses		501,843.25	—
Deferred tax assets		708,011.71	—
Other non-current assets		4,506,000.00	—
Total non-current assets		299,663,930.49	268,265,877.44
Total assets		1,030,535,485.34	1,022,123,907.01
Current liabilities:			
Short-term borrowings		100,000,000.00	120,000,000.00
Bill payables		—	20,000,000.00
Trade payables		145,220,758.62	96,447,965.81
Receipts in advance		30,374,523.75	29,102,569.75
Employee remuneration payable		2,609,867.02	1,777,065.83
Taxes payable		2,305,710.46	106,099.92
Other payables		31,438,499.21	37,541,678.33
Total current liabilities		311,949,359.06	304,975,379.64

Statement of Financial Position of the Company

As at 31 December 2012

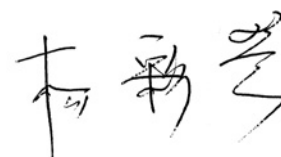
Item	Notes	Closing balance	Opening balance
Non-current liabilities:			
Other non-current liabilities		12,000,000.00	22,000,000.00
Total non-current liabilities		12,000,000.00	22,000,000.00
Total liabilities			
		323,949,359.06	326,975,379.64
Equity:			
Share capital		519,521,560.00	519,521,560.00
Capital reserve		18,474,739.46	8,474,739.46
Special reserve			
Surplus reserves		34,746,526.80	34,602,766.91
Retained profits		133,843,300.02	132,549,461.00
Total equity		706,586,126.28	695,148,527.37
Total liabilities and equity		1,030,535,485.34	1,022,123,907.01



Legal representative:
Yin Xiu Fa



Responsible person for accounting:
Zhang Qiang



Responsible person for accountant:
Yang Cai Qin

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012



Prepared by: Xinjiang Tianye Water Saving Irrigation System Company Limited Amounts in RMB

Item	Notes	Current period	Last period
1. Operating revenue		762,836,791.23	690,415,862.45
Including: Operating income	1	762,836,791.23	690,415,862.45
2. Operating cost		756,277,364.97	672,140,675.51
Including: Cost of sales	1	680,333,238.28	605,486,879.49
Business taxes and surcharges	2	4,020,349.34	920,064.67
Distribution costs	3	46,518,432.73	39,240,704.01
Administrative expenses	4	20,250,690.39	20,567,657.95
Finance costs	5	5,309,539.36	4,843,259.45
Assets impairment loss	6	-154,885.13	1,082,109.94
Add: Gain on changes in fair value (loss shall be stated as “-”)	7	—	4,487,625.00
Investment income (loss shall be stated as “-”)	8	-472,500.00	410,100.00
Including: Investment income from associates and jointly controlling entities		—	—
3. Operating profits (loss shall be stated as “-”)		6,086,926.26	23,172,911.94
Add: Non-operating income	9	2,320,935.40	2,258,935.14
Less: Non-operating expenses	10	2,424,363.84	806,844.55
Including: Loss on disposal of non-current assets		—	—
4. Total profits (loss shall be stated as “-”)		5,983,497.82	24,625,002.53
Less: Income tax expenses	11	2,771,197.40	4,503,038.02
5. Net profits (loss shall be stated as “-”)		3,212,300.42	20,121,964.51
Attributable to owners of the Company		3,211,391.48	21,238,390.30
Attributable to non-controlling interests		908.94	-1,116,425.79
6. Earnings per share			
(1) Basic earnings per share	12	0.01	0.04
(2) Diluted earnings per share	12	0.01	0.04
7. Other comprehensive income		—	—
8. Total comprehensive income		3,212,300.42	20,121,964.51
Attributable to owners of the Company		3,211,391.48	21,238,390.30
Attributable to non-controlling interests		908.94	-1,116,425.79

Legal representative:
Yin Xiu Fa

Responsible person for accounting:
Zhang Qiang

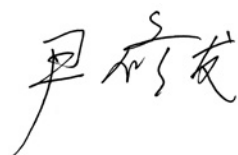
Responsible person for accountant:
Yang Cai Qin

Statement of Comprehensive Income of the Company

For the year ended 31 December 2012

Prepared by: Xinjiang Tianye Water Saving Irrigation System Company Limited Amounts in RMB

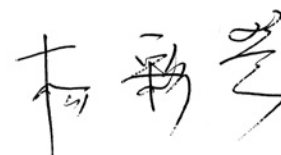
Item	Notes	Current period	Last period
1. Operating income	1	638,088,329.55	603,991,713.29
Less: Cost of sales	1	578,995,257.91	553,774,543.19
Business taxes and surcharges		3,176,075.54	780,595.09
Distribution costs		33,262,810.96	23,895,967.29
Administrative expenses		12,378,339.36	11,550,386.58
Finance costs		5,392,027.14	1,668,059.63
Assets impairment loss		527,011.51	-348,300.49
Add: Gain on changes in fair value (loss shall be stated as “-”)		—	4,487,625.00
Investment income (loss shall be stated as “-”)	2	-472,500.00	410,100.00
Including: Investment income from associates and jointly controlling entities		—	—
2. Operating profits (loss shall be stated as “-”)		3,844,307.13	17,568,187.00
Add: Non-operating income		1,157,411.71	1,917,682.37
Less: Non-operating expenses Including: Loss on disposal of non-current assets		2,353,239.45	765,146.74
3. Total profits (loss shall be stated as “-”)		2,688,479.39	18,720,722.63
Less: Income tax expenses		1,250,880.48	2,597,103.36
4. Net profits (loss shall be stated as “-”)		1,437,598.91	16,123,619.27
5. Other comprehensive income		—	—
6. Total comprehensive income		1,437,598.91	16,123,619.27



Legal representative:
Yin Xiu Fa



Responsible person for accounting:
Zhang Qiang



Responsible person for accountant:
Yang Cai Qin

Consolidated Statement of Cash Flows

For the year ended 31 December 2012



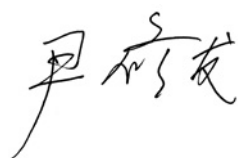
Prepared by: Xinjiang Tianye Water Saving Irrigation System Company Limited Amounts in RMB

Item	Notes	Current period	Last period
1. Cash flow from operating activities:			
Cash received from product sales and rendering of services		793,177,628.56	753,327,149.72
Refund of taxes and levies received		16,801.01	599,420.29
Other cash received relating to operating activities	1	3,235,483.45	44,654,150.37
Sub-total of cash inflow from operating activities		796,429,913.02	798,580,720.38
Cash paid for purchase of goods and services received			
Cash paid to and on behalf of employees		82,761,610.32	64,479,465.21
Payments of all types of taxes and surcharges		35,651,895.25	15,880,380.72
Other cash paid relating to operating activities	2	51,316,834.19	70,678,993.55
Sub-total of cash outflow from operating expenses		724,518,458.01	872,459,986.95
Net cash flow from operating activities		71,911,455.01	-73,879,266.57
2. Cash flow from investment activities:			
Cash received from disposals of investments		—	6,000,000.00
Cash received from returns on investments		—	410,100.00
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		392,156.86	—
Sub-total of cash inflow from investment activities		392,156.86	6,410,100.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets			
Cash paid to acquire fixed assets, intangible assets and other long-term assets		6,090,712.77	25,588,559.31
Cash paid for investments		—	6,000,000.00
Other cash paid relating to investment activities		—	199,908.40
Sub-total of cash outflow from investment activities		6,090,712.77	31,788,467.71
Net cash flow generated from investment activities		-5,698,555.91	-25,378,367.71

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

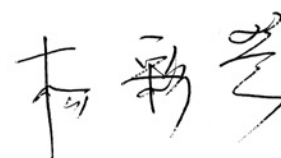
Item	Notes	Current period	Last period
3. Cash flows from financing activities:			
Cash received from borrowings		120,000,000.00	120,000,000.00
Sub-total of cash inflow from financing activities		120,000,000.00	120,000,000.00
Cash paid for repayment of borrowings		140,000,000.00	80,000,000.00
Cash paid for dividend, profit distribution or interest expenses		5,614,565.00	5,152,725.78
Including: Dividend and profit of minority shareholder paid by subsidiaries		—	—
Sub-total of cash outflow from financing activities		145,614,565.00	85,152,725.78
Net cash flow from financing activities		-25,614,565.00	34,847,274.22
4. Effect on cash and cash equivalents of change in foreign exchange rate		9.56	—
5. Net increase in cash and cash equivalents		40,598,343.66	-64,410,360.06
Add: Balance in cash and cash equivalents at the beginning of the period		61,391,380.49	25,801,740.55
6. Balance in cash and cash equivalents at the end of the period		101,989,724.15	61,391,380.49



Legal representative:
Yin Xiu Fa



Responsible person for accounting:
Zhang Qiang



Responsible person for accountant:
Yang Cai Qin

Statement of Cash Flows of the Company

For the year ended 31 December 2012



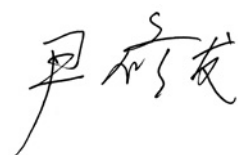
Prepared by: Xinjiang Tianye Water Saving Irrigation System Company Limited Amounts in RMB

Item	Current period	Last period
1. Cash flow from operating activities:		
Cash received from product sales and rendering of services	661,941,893.08	634,203,995.94
Refund of taxes and levies received	15,553.51	348,681.90
Other cash received relating to operating activities	1,285,960.46	37,804,666.86
Sub-total of cash inflow from operating activities	663,243,407.05	672,357,344.70
Cash paid for purchase of goods and services received	452,092,389.40	652,367,587.70
Cash paid to and on behalf of employees	52,642,031.62	47,853,572.12
Payments of all types of taxes and surcharges	28,866,384.57	12,119,846.79
Other cash paid relating to operating activities	40,520,774.08	23,552,458.47
Sub-total of cash outflow from operating expenses	574,121,579.67	735,893,465.08
Net cash flow from operating activities	89,121,827.38	-63,536,120.38
2. Cash flow from investment activities:		
Cash received from returns on investments	—	410,100.00
Sub-total of cash inflow from investment activities	—	410,100.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets	2,961,727.95	20,654,002.28
Cash paid for investments	30,000,000.00	—
Sub-total of cash outflow from investment activities	32,961,727.95	20,654,002.28
Net cash flow generated from investment activities	-32,961,727.95	-20,243,902.28

Statement of Cash Flows of the Company

For the year ended 31 December 2012

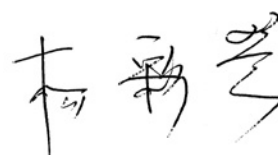
Item	Current period	Last period
3. Cash flows from financing activities:		
Cash received from borrowings	120,000,000.00	120,000,000.00
Sub-total of cash inflow from financing activities	120,000,000.00	120,000,000.00
Cash paid for repayment of borrowings	140,000,000.00	80,000,000.00
Cash paid for dividend, profit distribution or interest expenses	5,614,565.00	4,981,725.78
Sub-total of cash outflow from financing activities	145,614,565.00	84,981,725.78
Net cash flow from financing activities	-25,614,565.00	35,018,274.22
4. Effect on cash and cash equivalents of change in foreign exchange rate	9.56	—
5. Net increase in cash and cash equivalents	30,545,543.99	-48,761,748.44
Add: Balance in cash and cash equivalents at the beginning of the period	33,801,828.09	82,563,576.53
6. Balance in cash and cash equivalents at the end of the period	64,347,372.08	33,801,828.09



Legal representative:
Yin Xiu Fa



Responsible person for accounting:
Zhang Qiang



Responsible person for accountant:
Yang Cai Qin

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012



Prepared by: Xinjiang Tianye Water Saving Irrigation System Company Limited

Amounts in RMB

Item	Current period										
	Attributable to owners of the parent									Non-controlling interests	Total equity
	Share capital	Capital reserve	Less: Depository shares	Special reserve	Surplus reserve	General risk provision	Retained profits	Other			
1. Closing balance of previous year	519,521,560.00	5,372,472.17	-	-	34,602,766.91	-	139,108,919.23	-	18,017,529.02	716,623,247.33	
2. Opening balance of the year	519,521,560.00	5,372,472.17	-	-	34,602,766.91	-	139,108,919.23	-	18,017,529.02	716,623,247.33	
3. Movements in the current year											
(Decreases denoted in "-")	-	10,000,000.00	-	-	143,759.89	-	3,067,631.59	-	908.94	13,212,300.42	
(1) Net profits	-	-	-	-	-	-	3,211,391.48	-	908.94	3,212,300.42	
(2) Other comprehensive income	-	-	-	-	-	-	-	-	-	-	
Subtotal	-	-	-	-	-	-	3,211,391.48	-	908.94	3,212,300.42	
(3) Owner contributions and capital reductions	-	10,000,000.00	-	-	-	-	-	-	-	10,000,000.00	
1. Owner contributions	-	-	-	-	-	-	-	-	-	-	
2. Other	-	10,000,000.00	-	-	-	-	-	-	-	10,000,000.00	
(4) Profit Distribution	-	-	-	-	143,759.89	-	-143,759.89	-	-	-	
1. Appropriations to surplus reserve	-	-	-	-	143,759.89	-	-143,759.89	-	-	-	
4. Closing balance for the period	519,521,560.00	15,372,472.17	-	-	34,746,526.80	-	142,176,550.82	-	18,018,437.96	729,835,547.75	

Item	Last period										
	Attributable to owners of the parent									Non-controlling interests	Total owners' equity
	Share capital	Capital reserve	Less: Depository shares	Special reserve	Surplus reserve	General risk provision	Retained profits	Other			
1. Closing balance of previous year	519,521,560.00	10,740,401.90	-	-	32,999,575.65	-	119,473,720.19	-	18,431,691.12	701,166,948.86	
2. Opening balance of the year	519,521,560.00	10,740,401.90	-	-	32,999,575.65	-	119,473,720.19	-	18,431,691.12	701,166,948.86	
3. Movements in the current year											
(Decreases denoted in "-")	-	-5,367,929.73	-	-	1,603,191.26	-	19,635,199.04	-	-414,162.10	15,456,298.47	
(1) Net profits	-	-	-	-	-	-	21,238,390.30	-	-1,116,425.79	20,121,964.51	
(2) Other comprehensive income	-	-	-	-	-	-	-	-	-	-	
Subtotal	-	-	-	-	-	-	21,238,390.30	-	-1,116,425.79	20,121,964.51	
(3) Owner contributions and capital reductions	-	-5,367,929.73	-	-	-	-	-	-	702,263.69	-4,665,666.04	
1. Owner contributions	-	-3,004,054.73	-	-	-	-	-	-	702,263.69	-2,301,791.04	
2. Other	-	-2,363,875.00	-	-	-	-	-	-	-	-2,363,875.00	
(4) Profit Distribution	-	-	-	-	1,603,191.26	-	-1,603,191.26	-	-	-	
1. Appropriations to surplus reserve	-	-	-	-	1,603,191.26	-	-1,603,191.26	-	-	-	
4. Closing balance for the period	519,521,560.00	5,372,472.17	-	-	34,602,766.91	-	139,108,919.23	-	18,017,529.02	716,623,247.33	

尹修发

张强

杨彩琴

Legal representative:
Yin Xiu Fa

Responsible person for accounting:
Zhang Qiang

Responsible person for accountant:
Yang Cai Qin

Statement of Changes in Equity of the Company

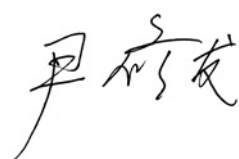
For the year ended 31 December 2012

Prepared by: Xinjiang Tianye Water Saving Irrigation System Company Limited

Amounts in RMB

Item	Share capital	Capital reserve	Current period			General risk provision	Retained profits	Other	Total equity
			Less: Depository shares	Special reserve	Surplus reserve				
1. Closing balance of previous year	519,521,560.00	8,474,739.46	—	—	34,602,766.91	—	132,549,461.00	—	695,148,527.37
2. Opening balance of the year	519,521,560.00	8,474,739.46	—	—	34,602,766.91	—	132,549,461.00	—	695,148,527.37
3. Movements in the current year (Decreases denoted in "-")	—	10,000,000.00	—	—	143,759.89	—	1,293,839.02	—	11,437,598.91
(1) Net profits	—	—	—	—	—	—	1,437,598.91	—	1,437,598.91
(2) Other comprehensive income	—	—	—	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—	1,437,598.91	—	1,437,598.91
(3) Owner contributions and capital reductions	—	10,000,000.00	—	—	—	—	—	—	10,000,000.00
1. Owner contributions	—	—	—	—	—	—	—	—	—
2. Other	—	10,000,000.00	—	—	—	—	—	—	10,000,000.00
(4) Profit Distribution	—	—	—	—	143,759.89	—	-143,759.89	—	—
1. Appropriations to surplus reserve	—	—	—	—	143,759.89	—	-143,759.89	—	—
4. Closing balance for the period	519,521,560.00	18,474,739.46	—	—	34,746,526.80	—	133,843,300.02	—	706,586,126.28

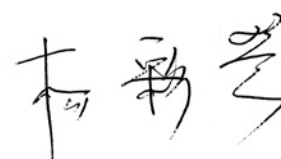
Item	Share capital	Capital reserve	Last period			General risk provision	Retained profits	Other	Total owners' equity
			Less: Depository shares	Special reserve	Surplus reserve				
1. Closing balance of previous year	519,521,560.00	10,740,401.90	—	—	32,999,575.65	—	118,029,032.99	—	681,290,570.54
2. Opening balance of the year	519,521,560.00	10,740,401.90	—	—	32,999,575.65	—	118,029,032.99	—	681,290,570.54
3. Movements in the current year (Decreases denoted in "-")	—	-2,265,662.44	—	—	1,603,191.26	—	14,520,428.01	—	13,857,956.83
(1) Net profits	—	—	—	—	—	—	16,123,619.27	—	16,123,619.27
(2) Other comprehensive income	—	—	—	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—	16,123,619.27	—	16,123,619.27
(3) Owner contributions and capital reductions	—	-2,265,662.44	—	—	—	—	—	—	-2,265,662.44
1. Owner contributions	—	—	—	—	—	—	—	—	—
2. Other	—	-2,265,662.44	—	—	—	—	—	—	-2,265,662.44
(4) Profit Distribution	—	—	—	—	1,603,191.26	—	-1,603,191.26	—	—
1. Appropriations to surplus reserve	—	—	—	—	1,603,191.26	—	-1,603,191.26	—	—
4. Closing balance for the period	519,521,560.00	8,474,739.46	—	—	34,602,766.91	—	132,549,461.00	—	695,148,527.37



Legal representative:
Yin Xiu Fa



Responsible person for accounting:
Zhang Qiang



Responsible person for accountant:
Yang Cai Qin

Notes to Financial Statements

For the year ended 31 December 2012



Currency: RMB

I. CORPORATE BACKGROUND

Xinjiang Tianye Water Saving Irrigation System Company Limited (the “Company”) is a joint stock limited liability company founded through co-investment by Xinjiang Tianye Company Limited (“Tianye Company”) and Xinjiang Shihezi Investment Company Limited (新疆石河子運發投資有限責任公司) on 27 December 1999 with a Corporate Business License No. 6590011090067. The Company has registered capital of RMB519,521,560.00 comprising 519,521,560 shares of a nominal value of RMB1 each, of which there are 317,121,560 domestic shares and 202,400,000 overseas H shares. Since 24 January 2008, listing of the Company’s H shares has been transferred from the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) to the Main Board of the Stock Exchange with its Stock Code changed from 8280 to 0840.

The Company is primarily engaged in plastic product manufacturing, with a business scope covering: development and marketing of high and new water saving irrigation technologies; interim testing and marketing of advanced water saving fittings; technology transfer and service for water saving irrigation; development and utilization of computer application software for water saving irrigation; production and sales of PVC pipelines for water supply, PE pipelines and assemblies, pressure compensatory style drip films, labyrinth-style drip films, embedded-style drip films, agricultural plastic films and drippers; import of scrap steel, scrap copper, scrap aluminum, scrap paper and scrap plastic; recycling and processing of scrap and obsolete plastic; distribution of electrical and mechanical goods (other than compact size vehicles) and chemical goods (other than dangerous chemical items and highly poisonous items); hydraulic industry (irrigation and drainage) (Class C); grade one subcontractor for construction of water saving irrigation project (specific scope is subject to quality certificate); business of exporting products and technologies produced by this enterprise itself and business of importing machinery and equipment, parts and components, raw and auxiliary materials and technologies required by this enterprise, other than goods and technologies solely operated by this enterprise or prohibited from import and export by the State.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS

1. Basis of preparation

The Company’s financial statements have been prepared on a going concern basis in accordance with the “Enterprise Accounting Standards — Basic Standards” and 38 specific accounting standards, subsequent practice notes, interpretations and other relevant regulations (collectively “ASBEs”) promulgated by the Ministry of Finance in 15 February 2006. In addition, the Company has also disclosed relevant financial information required by the Rules Governing the Listing of Securities on the Stock Exchange.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(continued)*

2. Statement of compliance

The financial statements prepared by the Company comply with the ASBEs and truly and completely reflect the relevant information, including financial position, the results of operations and cash flows, of the Company.

3. Financial year

The financial year of the Company is from 1 January to 31 December of each calendar year.

4. Reporting currency

The reporting currency was Renminbi.

5. Accounting treatment for business combinations involving and not involving entities under common control

1. Accounting treatment for business combinations involving entities under common control

Assets and liabilities obtained by the Company in the business combination are recognized at their carrying amounts at the combination date as recorded by the party being combined. The difference between the carrying amount of the consideration paid for the combination (or aggregate face values of the shares issued) and the carrying amount of the net assets obtained is adjusted to capital reserves. If the capital reserve is not sufficient to absorb the difference, any excess is adjusted to retained profits.

2. Accounting treatment for business combinations not involving entities under common control

The excess of the consideration paid for business combination over the share of the attributable net identifiable assets of the acquiree, measured at fair value at the combination date, was recognized as goodwill. In case the fair value of the consideration paid is less than the fair value of the share of the attributable net identifiable assets of the acquiree, a review of the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities of the acquiree and the consideration paid for the combination is conducted. If the review indicates that the fair value of the consideration paid is indeed less than the fair value of the share of the attributable net identifiable assets of the acquiree, the difference is recognized in current profit or loss.



II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(continued)*

6. Preparation basis of consolidated financial statements

The parent includes all subsidiaries under its control in the consolidation scope for consolidated financial statements, which are prepared by the parent pursuant to ASBE 33 — Consolidated financial statements based on the financial statements of the parent and its subsidiaries and other relevant information, adjusted for long-term equity investments in subsidiaries using the equity method.

7. Recognition standards for cash and cash equivalents

Cash shown in the Statement of Cash Flows comprises cash on hand and deposits readily available for payments. Cash equivalents represent short-term highly liquid investments which are readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value.

8. Foreign currency translation

Upon initial recognition, foreign currency transactions are translated into Renminbi amounts using the spot exchange rate at the dates of the transactions. At the balance sheet date, foreign currency monetary items are translated using the spot exchange rate at the balance sheet date. The translation differences arising from different exchange rates, except those relating to the principle of and interests on the foreign currency borrowings for the acquisition, construction or production of assets eligible for capitalization, are recognized in current profit or loss. Also at the balance sheet date, foreign currency non-monetary items measured at historical cost continue to be translated using the spot exchange rate at the dates of the transactions and it does not change its carrying amount in Renminbi. Foreign currency non-monetary items measured at fair value are translated using the spot exchange rate at the fair value recognition dates. The differences arising from the above translations are recognized in current profit or loss or capital reserves.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(continued)*

9. Financial instruments

1. Classification of financial assets and financial liabilities

The Company classifies its financial assets into four categories at initial recognition: financial assets at fair value through profit or loss (FVTPL) (including financial assets held for trading and financial assets designated as at FVTPL), held-to-maturity investments, loans and receivables, and available-for-sale financial assets.

The Company classifies its financial liabilities into two categories at initial recognition: financial liabilities at FVTPL (including financial liabilities held for trading and financial liabilities designated at FVTPL) and other financial liabilities.

2. Recognition, measurement and derecognition of financial assets and financial liabilities

The Company recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the financial instrument. Financial assets or financial liabilities are initially recognized at fair value. For financial assets or financial liabilities at FVTPL, the relevant transaction costs are directly recognized in current profit or loss; for other financial assets or financial liabilities, the relevant transaction costs are recognized in their initial recognition amount.

Financial assets are subsequently measured at fair value without deduction of the possible transaction costs upon the disposal thereof in the future, except that: (i) held-to-maturity investments and loans and receivables are measured using the effective interest method on the basis of amortised cost; and (ii) equity investments not quoted in an active market and whose fair value cannot be reliably measured and derivatives linked to and settled by way of delivery of such equity investments are carried at cost.

Financial liabilities are subsequently measured using the effective interest method on the basis of amortised cost, except that: (i) financial liabilities at FVTPL are measured at fair value without deduction of the possible transaction costs upon the settlement thereof in the future; (ii) derivative financial liabilities linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured are carried at cost; and (iii) Financial guarantee contracts not classified as financial liabilities designated as at FVTPL or the loan commitment for loans to be granted at an interest rate below the market rate which is not designated as at FVTPL, after initial recognition, are subsequently measured at the higher of: (a) the amount determined under ASBE 13 — Contingency; and (b) the initial recognized amount less accumulated amortization determined according to ASBE 14 — Revenue.



II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(continued)*

9. Financial instruments *(continued)*

2. Recognition, measurement and derecognition of financial assets and financial liabilities *(continued)*

Any gains or losses arising from the change in fair value on financial assets or financial liabilities, except for those falling under cash flow hedging, are accounted for as follows: (i) gains or losses arising from the change in fair value on financial assets or financial liabilities at FVTPL are recorded as gain or loss from changes in fair value. Interests or cash dividends received during the period in which such assets are held, are recognised as investment income. On disposal, the differences between the consideration received and initial recognised amount are recognised as investment income and adjust the gain or loss from changes in fair value accordingly; and (ii) changes in fair value of available-for-sale financial assets are recorded in capital reserves. Interests calculated using the effective interest method for the period in which the assets are held, are recognised as investment income. Cash dividends from available-for-sale equity investments are recognised as investment income when the dividends are declared by the investee. On disposal, the differences between the consideration received and the carrying amount of assets after deducting the accumulated fair value adjustments previously recorded in capital reserves are recorded as investment income.

A financial asset is derecognized when the contractual rights to receive cash flows from the asset has expired, or substantially all the risks and rewards associated with the ownership of the asset have been transferred. A financial liability is derecognised when the underlying present obligations (or part of it) are discharged.

3. Recognition and measurement of transfer of financial assets

If the Company has transferred substantially all the risks and rewards associated with the ownership of a financial asset to the transferee, the asset should be derecognized. If the Company retains substantially all the risks and rewards of ownership of a financial asset, the transferred asset should continue to be recognized, with the received consideration recognized as a financial liability. When the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, it may either derecognize the financial asset and recognize any associated assets and liabilities if control of the financial asset has not been retained; or recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability if control has been retained.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(continued)*

9. Financial instruments *(continued)*

3. Recognition and measurement of transfer of financial assets *(continued)*

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, the difference between (i) the carrying amount of the financial asset transferred; and (ii) the sum of the consideration received from the transfer and the accumulated fair value adjustments previously recorded in in total shareholders' equity, is recognised in current profit or loss. If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the respective fair values of those parts. The difference between (i) the carrying amount allocated to the part derecognised; and (ii) the sum of the consideration received for the part derecognized and the accumulated fair value adjustments allocated to the part derecognised which has been previously recorded in in total shareholders' equity, is recognised in current profit or loss.

4. Determination of fair value of primary financial assets and financial liabilities

For a financial asset or a financial liability which has an active market, the Company uses the quoted price in the active market to establish its fair value. For a financial asset or a financial liability which has no active market, the Company establishes fair value by using a valuation technique, which includes using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another financial instrument that is substantially the same, discounted cash flow analysis and option pricing models. For financial asset acquired or originated or, financial liability assumed initially, its fair value is based on the market transaction price.

5. Assessment and provision for impairment on financial assets

The carrying amount of financial assets, other than financial assets at FVTPL, is assessed at the balance sheet date. Provision for impairment is made when there is objective evidence indicating that a financial asset is impaired.



II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(continued)*

9. Financial instruments *(continued)*

5. Assessment and provision for impairment on financial assets *(continued)*

For a financial asset that is individually significant, the Company assesses the asset individually for impairment. For a financial asset that is not individually significant, the Company assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment.

If a financial asset carried at amortised cost is impaired as indicated by objective evidence at the period end, an impairment loss is recognized as the excess of the carrying amount of the asset over the present value of estimated future cash flows. If an equity investment not quoted in an active market and whose fair value cannot be reliably measured or a derivative financial asset linked to and settled by way of delivery of such equity investment is impaired, an impairment loss is recognized as the excess of the carrying amount of the investment or asset over the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. When there is a significant decline, or a prolonged decline is expected, in fair value of available-for-sale financial assets, taken into account all considerations, accumulated loss on fair value that previously recorded in equity is recorded as impairment loss.

10. Trade receivables

1. Individually significant trade receivables for which separate bad-debt provision is made

Basis of individually significant	A trade receivable is considered individually significant if it amounts to RMB1 million or above
Basis of individually significant and for which bad debt provision has been separately made	Individually assessed for impairment with bad-debt provisions made based on the difference between the present value of its estimated future cash flows and its carrying amount.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(continued)*

10. Trade receivables *(continued)*

2. Trade receivables for which collective bad debt provision is made

(1) *Basis for determining the group and method of provisioning for bad debt*

Basis for determining the group

Aging analysis method group Trade receivables at the same age with similar credit risk characteristics

Individual assessment method group Amounts due from related parties subject to consolidation, deposits for state land treatment project and government procurement

Method of provisioning for bad debt

Aging analysis method group Aging analysis method

Individual assessment method group Individually assessed for impairment with bad-debt provisions made based on the difference between the present value of its estimated future cash flows and its carrying amount.

(2) *Aging analysis method*

Aging	Percentage of provisions for trade receivables (%)	Percentage of provisions for other receivables (%)
Within 1 year (inclusive)	1.00	1.00
1-2 years (inclusive)	50.00	50.00
Over 2 years	100.00	100.00



II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(continued)*

10. Trade receivables *(continued)*

3. Individually insignificant trade receivables for which separate bad-debt provision is made

Reason for making separate bad-debt provision	For state land treatment projects and government procurements, separate bad-debt provisions are made based on the solvency, cash flows and other indicators of the debtor.
Method of provisioning for bad debt	Individually assessed for impairment with bad-debt provisions made based on the difference between the present value of its estimated future cash flows and its carrying amount.

For other receivables such as bill receivables, prepayments, interests receivable, and long-term receivables, bad-debt provisions are made based on the difference between the present value of its estimated future cash flows and its carrying amount.

11. Inventories

1. Classifications of inventories

Inventories are finished goods or merchandise held for sale in the ordinary course of business, or work in progress in the process of production for such sale, or materials or supplies to be consumed in the production process or in the rendering of services.

2. Cost of inventories transferred out

Cost of inventories transferred out is determined using the weighted average method.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(continued)*

11. Inventories *(continued)*

3. Basis for determining the net realisable value of inventories and provision methods for decline in value of inventories

At the balance sheet date, inventories are carried at the lower of cost and net realisable value. Any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the value of inventories. For inventories directly for sale, net realisable value is measured based on the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale and relevant taxes. For inventories that need processing, net realisable value is measured based on the estimated selling price of finished goods in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. At the balance sheet date, for an item of inventories where a portion is subject to contractual price while the remainder is not, their net realisable values are determined and compared with their corresponding costs respectively to recognise the amount of provision, or reversal of provision, for diminution in the value of inventories.

4. Inventory system

The Company maintains a perpetual inventory system.

5. Amortisation methods for consumables including low-value consumables and packaging materials

(1) *Low-value consumables*

Low-value consumables are amortised in full when received for use.

(2) *Packaging materials*

Packaging materials are amortised in full when received for use.



II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(continued)*

12. Long-term equity investment

1. Determination of investment cost

- (1) The initial investment cost of a long-term equity investment obtained through a business combination involving entities under common control is the Company's share of the carrying amount of shareholders' equity of the party being combined at the combination date, if the consideration for combination is settled in cash, by way of transfer of non-cash assets, assumption of liabilities or issuance of equity securities. The difference between the initial investment cost of the long-term equity investment and the carrying amounts of the consideration given or the total nominal value of shares issued is adjusted to capital reserve. If the balance of the capital reserve is insufficient, any excess is adjusted to retained profits.
- (2) For a long-term equity investment obtained through a business combination not involving entities under common control, the initial investment cost is the fair value of the consideration given for combination at the acquisition date.
- (3) A long-term equity investment acquired otherwise than through a business combination is initially recognised at the actual consideration paid if the investment is acquired by cash, or at the fair value of the equity securities issued if the investment is acquired by issuing equity securities, or at the value stipulated in the investment contract or agreement if the investment is contributed by shareholders, unless the value so agreed is deemed unfair.

2. Subsequent measurement and recognition

When the Company controls the investee, a long-term equity investment is accounted for using the cost method, and adjusted to equity method when preparing consolidated financial statements. The cost method is used when the Company does not jointly control or has significant influence over the investee, and the long term equity investment is not quoted in an active market, and have no reliably measurable fair values. The equity method is used to account for long-term equity investment when the Company has a joint control or significant influence over the investee.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(continued)*

12. Long-term equity investment *(continued)*

3. Basis for determining the existence of joint control or significant influence over an investee

Joint control is the contractually agreed sharing of control where the significant financial and operating decisions of the investee require the unanimous consent of the parties sharing control under the contract. Significant influence is the power to participate in the financial and operating policy decisions of investee but is not control or joint control over those policies.

4. Impairment test and provision methods for impairment

For an investment in subsidiaries, associates, and jointly controlled entities, an impairment is provided for based on the excess of the carrying amount over the recoverable amount when there is objective evidence that the investment is impaired at the balance sheet date. For a long-term equity investment without joint control or significant influence over the investee, not quoted in an active market, and whose fair value cannot be reliably measured, an impairment is provided for under ASBE 22 — Recognition and measurement of financial instruments.

13. Investment property

1. Investment property includes land use rights let out, land use rights held for sale, and buildings let out.
2. Investment property is initially measured at cost and subsequently through the cost pattern, and depreciated or amortised using the same method for fixed assets and intangible assets. At the balance sheet date, an impairment is provided for based on the excess of the carrying amount over the recoverable amount when there is evidence that the investment property is impaired.

14. Fixed assets

1. Recognition, measurement and depreciation of fixed assets

Fixed assets represent the tangible assets held for production or supply of goods or services, rental or for administrative purposes with useful lives over one accounting year.



II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(continued)*

14. Fixed assets *(continued)*

1. Recognition, measurement and depreciation of fixed assets *(continued)*

Fixed assets are accounted for at the actual cost on acquisition and depreciated using the straight-line method from the following month after they are ready for intended use.

2. Depreciation of fixed assets

No.	Class	Useful life (years)	Residual value rate (%)	Annual depreciation rate (%)
1	Plant and buildings	8–40	3.00–5.00	2.40–11.90
2	Machinery and equipment	5–14	3.00–5.00	6.80–19.00
3	Motor vehicles	5–10	3.00–5.00	9.50–19.00
4	Electronics and other equipment	5–14	3.00–5.00	6.80–19.00

3. Impairment test methods and impairment provision methods for fixed assets

At the balance sheet date, an impairment is provided for based on the excess of the carrying amount over the recoverable amount when there is evidence that the fixed assets are impaired.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(continued)*

14. Fixed assets *(continued)*

4. Recognition and measurement of fixed assets under financial lease

Leases are classified as finance leases if one or more of the following conditions are met: (i) the ownership of the leased assets is transferred to the lessee upon expiry of the lease; (ii) the lessee has the option to purchase the leased assets at a price estimated to be far lower than the fair value thereof upon the exercise of the option and therefore it can be reasonably ascertained at inception of the lease that the lessee will exercise the option; (iii) the lease term accounts for a high percentage, generally 75% or above, of the useful life of the leased assets even if no ownership is transferred; (iv) the present value of minimum lease payment made by the lessee at inception of the lease almost represents 90% or above of the fair value of the leased assets at inception of the lease. The present value of minimum lease payment received by the lessor at inception of the lease almost represents 90% or above of the fair value of the leased assets at inception of the lease; (v) the leased assets are of such a unique nature that they can only be used by the lessee unless significant alteration is made.

Fixed assets under finance lease are accounted for based on the lower of the fair value of the leased assets and the present value of minimum lease payments, each determined at inception of the lease, and are depreciated using the depreciation policy for self-owned fixed assets.

15. Construction in progress

1. Construction-in-progress is recognised when the inflow of economic benefits is probable and the cost can be reliably measured, and is measured at the actual cost incurred till it is ready for intended use.
2. Construction-in-progress is transferred into fixed assets when it is ready for its intended use based on the actual cost. For a completed project ready for intended use but with final account unsettled, the asset is transferred into fixed assets based on estimated value. After final account of the project has been settled, the Company shall base on actual cost to make adjustment on the previous estimated value, but need not to adjust the depreciation retrospectively.
3. At the balance sheet date, an impairment is provided for based on the excess of the carrying amount over the recoverable amount when there is evidence that the construction-in-progress is impaired.



II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(continued)*

16. Borrowing costs

1. Capitalization of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or origination of assets qualified for capitalization are capitalized as part of the cost of those assets. Other borrowing costs are expensed and charged to current profit or loss when incurred.

2. Timing of borrowing costs capitalization

- (1) Borrowing costs shall be capitalized when capital expenditures and borrowing costs have been incurred, and activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced.
- (2) Capitalization of borrowing costs should be suspended during periods in which abnormal interruption has lasted for more than three months during the process of acquisition, construction or production of assets qualified for capitalization. The borrowing cost incurred during interruption is recognised as current expenses until the acquisition, construction or production activities resume.
- (3) The capitalization of borrowing costs ceases when the assets acquired, constructed or produced and qualified for capitalization are ready for their intended use or sale.

3. Capitalized amount of borrowing costs

For specific borrowings used to acquire, construct or produce assets qualified for capitalization, the amount of interest costs (including amortization of discount or premium determined using the effective interest method) actually incurred on such borrowings for the period shall be capitalized after deducting any interest earned from depositing the unused borrowings in the bank or any investment income arising from the temporary investment of those borrowings during the capitalization period. For general borrowings used to acquire, construct or produce assets qualified for capitalization, the capitalized amount of interests on general borrowings shall be determined on the basis that the weighted average (of the excess of cumulative assets expenditures over the specific borrowings) times capitalization rate (of used general borrowings).

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(continued)*

17. Intangible assets

1. Intangible assets, including land use rights, patent rights and non-patented technologies, are initially measured at cost.
2. Intangible assets with definite useful lives are reasonably amortized over their useful lives based on the pattern of the economic benefits relating to the intangible assets are expected to be realised. Intangible assets whose economic benefits realization pattern cannot be reliably anticipated are amortised on a straight-line basis over the following useful life:

Item	Estimated useful life (year)
Land use rights	50

3. For intangible assets with definite useful lives, an impairment is provided for based on the excess of the carrying amount over the recoverable amount when there is evidence at the balance sheet date that the intangible assets are impaired. For intangible assets with indefinite useful lives and those not ready for use, an impairment test is performed each year, irrespective of whether there is evidence of impairment.

18. Long-term prepaid expenses

Long-term prepaid expenses are measured at actual amount and amortized evenly over the beneficial or required period. If the Long-term prepaid expenses are no longer beneficial to the subsequent accounting periods, the unamortized balance is then fully transferred to current profit or loss.

19. Provisions

1. Provisions are recognised when the Company has a present obligation as a result of contingencies such as provision of external guarantee, litigation, quality warranty, and loss-making contract, 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.



II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(continued)*

19. Provisions *(continued)*

2. Provisions are initially stated at the best estimate of the expenditure expected to settle the present obligation. Carrying amounts of all provisions are reviewed at each balance sheet date.

20. Revenue

1. Sales of goods

Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer if it is probable that the economic benefits will flow to the Company and the amount of revenue and related costs incurred or to be incurred can be measured reliably, provided that the Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Revenue is recognised upon issuance of invoice based on shipment order after the delivery and acceptance of goods by customers through personally taking delivery at the warehouse or commissioning the Company for delivery.

2. Rendering of services

At the balance sheet date, when transaction result of the rendering of services could be measured reliably (which means the amount of revenue can be measured reliably, the relevant economic benefits will probably flow to the Company, the percentage of construction work and relevant cost incurred or to be incurred can be measured reliably), related revenue from rendering of services is recognized according to the percentage of completion. The percentage of completion is based on the percentage of services rendered relative to the total volume of services to be rendered. When transaction result of the rendering of services could not be measured reliably at the balance sheet date, revenue from rendering of services is recognised as the service cost incurred which is carried forward if the costs of services rendered are expected to be compensated, otherwise it is not recognised with such costs recorded in the current profit or loss.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(continued)*

20. Revenue *(continued)*

3. Transfer of assets use rights

Revenue from transfer of assets use rights is recognised when the relevant economic benefits will probably flow to the Company, and the amount of revenue can be measured reliably. Interest income is recognized according to the length of time for which the Company's monetary funds are used by others and the effective interest rate. Income from usage fee is recognized according to timing and method as agreed under relevant contracts or agreements.

4. Construction contracts

- (1) Construction contract revenue and cost are recognised by percentage of completion if the results of the contract could be reliably estimated at the balance sheet date, otherwise revenue is recognised as the actual recoverable contract cost with the contract cost recognised as contract expense for the period in which it is incurred if such cost is recoverable, or not recognised with the contract cost directly recognised as contract expense if such cost is unrecoverable.
- (2) The results of the contract can be reliably estimated if it is probable that economic benefits relating to the contract will flow to the Company and the actually incurred contract cost can be clearly distinguished and reliably measured. For contracts with fixed prices, the following conditions should also be met: the total revenue of the contract can be reliably measured, and percentage of completion and outstanding cost for completion can be reliably estimated.
- (3) The percentage of completion is based on the percentage of completed contract work volume relative to the estimated total contract work volume.
- (4) At the balance sheet date, expected loss is recognised as current expense if the expected total contract cost exceeds total contract revenue. For construction contracts being performed, provisions for diminution in value of inventories are made based on the excess. For loss-making contracts to be performed, provisions are made based on the excess.



II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(continued)*

21. Government grants

1. Government grants include government grants relating to assets and those relating to income.
2. The grant is measured as the amount received or receivable where it takes the form of a cash asset, or at fair value where it is not a cash asset. Where the fair value cannot be reliably obtained, it should be measured at the nominal value.
3. Government grants relating to assets are recognised as a deferred income and allocated to current profit or loss over the expected useful life of the relevant asset by equal annual instalments. Government grants relating to income and applied towards reimbursement of related costs or losses in subsequent periods are recognised as deferred income and taken to current profit or loss for the period in which the related costs are recognized. Government grants, applied towards reimbursement of related costs or losses already incurred, are directly recognized in current profit or loss.

22. Deferred tax assets and deferred tax liabilities

1. Deferred tax assets or deferred tax liabilities are recognised based on the difference between the carrying amounts of the assets or liabilities and their tax bases (or, for an item not recognised as assets or liabilities but whose tax base can be determined under tax laws, the difference between the tax base and the carrying amount), and are calculated at the tax rates expected to apply to the period in which the assets are recovered or the liabilities are settled.
2. Deferred tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. At the balance sheet date, deferred tax assets unrecognised in prior periods are recognised to the extent that there is obvious evidence that it has become probable that sufficient taxable profit will be available in subsequent periods against which the deductible temporary differences can be utilised.
3. The carrying amount of deferred tax assets is reviewed at the balance sheet date and written down to the extent that it is no longer probable that sufficient taxable profit will be available against which the deferred tax asset can be utilised. Such amount is written back to the extent that it has become probable that sufficient taxable profit will be available.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(continued)*

22. Deferred tax assets and deferred tax liabilities *(continued)*

4. The Company's current and deferred income taxes are recognised in current profit or loss as tax expense or profit, excluding income tax arising from business combination, as well as transactions or items directly recognised in equity.

23. Operating leases and finance leases

1. Operating leases

When the company acts as lessee, rental expenses under operating leases are recognized as relevant asset costs or in current profit or loss on the straight-line basis over the lease term, with any initial direct cost incurred directly charged to current profit or loss. Contingent rental is charged to current profit or loss when incurred.

When the company acts as lessor, rental under operating leases are recognized in current profit or loss on the straight-line basis over the lease term, with any initial direct cost incurred directly charged to current profit or loss. Contingent rental is credited to current profit or loss when incurred.

2. Finance leases

When the company acts as lessee, at the inception of lease, the lower of fair value of leased assets at the inception of lease and the present value of minimum lease payment is recognised as the value of leased assets. The minimum lease payment is recognised as the value of long-term payable. Their difference is recorded as unrecognised finance costs with any initial direct expense incurred recorded in the value of leased assets. For each period of the lease term, current finance cost is calculated using effective interest method.

When the company acts as lessor, at the inception of lease, the sum of minimum lease income at the inception of lease and the initial direct expense is recognised as the value of finance lease payment receivable, with unsecured balance also recorded. The difference between the sum of minimum lease income, initial direct expense and unsecured balance and the sum of their present values is recognised as unrealised finance income. For each period of the lease term, current finance income is calculated using effective interest method.



II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(continued)*

24. Hedge accounting

1. Hedges include fair value hedges and cash flow hedges.
2. Hedge accounting is applied to hedges that meet the following conditions: (i) at the inception of a hedge relationship, the Company formally designates the hedge relationship (ie the relationship between the hedging instrument and the hedged item) and documents the hedge relationship, the risk management objective and its strategy for undertaking the hedge; (ii) Such hedges are expected to be highly effective and comply with the risk management strategy set by the Company for the hedge relationship at the inception; (iii) for cash flow hedges for expected transactions, such expected transactions will probably take place and must expose the Company to risks of movement in cash flows that will eventually affect the profit or loss; (iv) the hedge effectiveness can be reliably measured; (v) the hedge effectiveness is evaluated on an ongoing basis, ensuring the hedge is highly effective in the period in which the hedge relationship is designated.

A hedge is deemed highly effective if (i) it is expected at the inception or for subsequent periods to effectively offset movement in fair value or cash flows arising from the hedged risks in the period in which the hedge is designated; and (ii) the actual offset result of the hedge ranges from 80% to 125%.

3. Hedge accounting treatment

(1) *Fair value hedges*

If the hedging instrument is a derivative, the gain or loss arising from movement in the fair value thereof is recognized in current profit or loss. If the hedging instrument is not a derivative, the gain or loss on the carrying amount thereof due to exchange rate movement is recognized in current profit or loss.

The gain or loss on the hedged item arising from the hedged risks is recognised in current profit or loss, with adjustment to the carrying amount of the hedged item.

(2) *Cash flow hedges*

- 1) The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in current profit or loss.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(continued)*

24. Hedge accounting *(continued)*

3. Hedge accounting treatment *(continued)*

(2) Cash flow hedges *(continued)*

- 2) If the hedged item is an expected transaction for which the Company subsequently recognises a financial asset or financial liability, the gain or loss directly recognized in equity is transferred to current profit or loss in the same period in which the financial asset or financial liability affects the profit or loss. If the Company subsequently recognises a non-financial asset or non-financial liability due to the expected transaction, the gain or loss directly recognized in equity is transferred to the amount initially recognised on the non-financial asset or non-financial liability. If the Company subsequently recognises a asset or liability due to the expected transaction, the gain or loss directly recognized in equity is transferred to current profit or loss in the same period in which the asset or liability affects the profit or loss.

For other cash flow hedges, the gain or loss on the hedging instrument directly recognized in equity is transferred to current profit or loss in the same period in which the hedged, expected transaction affects the profit or loss.

4. A hedge is deemed highly effective if:

- (1) it is expected at the inception or for subsequent periods to effectively offset movement in fair value or cash flows arising from the hedged risks in the period in which the hedge is designated; and
- (2) the actual offset result of the hedge ranges from 80% to 125%.

Hedge accounting no longer applies when the hedging instrument has expired, or has been sold, terminated or exercised, or no longer qualifies for hedge accounting.

The Company uses the ratio analysis method to evaluate the effectiveness of hedges.



III. TAXATION

1. Principle tax items and tax rates

Tax	Basis	Tax rates
Value-added tax	Sales of goods or rendering of services	0%, 13%, 17%
Property tax	1.2% of the property value less 30%, or 12% of rents	
City maintenance and construction tax	Amount of payable turnover tax	7%
Education surcharge	Amount of payable turnover tax	3%
Local education surcharge	Amount of payable turnover tax	2%
Enterprise income tax	Amount of taxable profit	15%, 25%

2. Tax concession and approval documents

1. Value-added tax ("VAT")

- (1) Incomes of the Company and its subsidiaries from sales of agricultural plastic films are exempted from value-added tax under the Circular of Ministry of Finance and State Administration of Taxation on VAT Exempt Policy for Certain Materials for Production (Cai Shui [2001] No. 113) issued by the Ministry of Finance and the State Administration of Taxation.

From 1 July 2007, incomes of the Company and its subsidiaries from production, sales, distribution and retails of tapes and pipelines for drip irrigation have been exempted from VAT under the Circular on VAT Exempt for Tapes and Pipelines for Drip Irrigation (Cai Shui [2007] No. 83) issued by the Ministry of Finance and the State Administration of Taxation.

From 1 January 2005, VAT has been levied at a tax rate of 13% on water saving drip irrigation products, which are processed and assembled with filters, main pipes, branch pipes, agricultural plastic films for drip irrigation, sprinkler heads, etc., produced and sold by the Company and its subsidiaries, under the Circular of Shihezi SAT Office on VAT Levied on Water Saving Drip Irrigation Products Produced and Sold by Xinjiang Tianye Water Saving Irrigation System Company Limited issued by the Shihezi SAT Office of the Xinjiang Uygur Autonomous Region on 9 September 2005.

III. TAXATION *(continued)*

2. Tax concession and approval documents *(continued)*

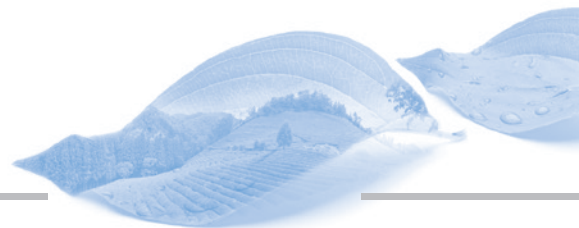
1. Value-added tax (“VAT”) *(continued)*

- (2) From 20 April 2004, after accounted for separately from other taxable items, incomes of the Company’s subsidiary 哈密天業紅星節水灌溉有限責任公司 (“Hami Tianye”) generated from production and sales of agricultural plastic films have been exempted from VAT under the Reply to Application for VAT Exempt from Hami Tianye (Ha Shi Guo Shui Han [2004] No. 95) issued by the Hami Municipal SAT Office.

From 25 June 2004, VAT has been levied at a tax rate of 13% on incomes of the Company’s subsidiary Hami Tianye from production of water saving drip irrigation products which are processed and assembled with filters, main pipes, branch pipes, agricultural plastic films for drip irrigation, sprinkler heads, etc. under the Reply on VAT Levied on Water Saving Drip Irrigation Products Distributed by Hami Tianye (Ha Shi Guo Shui Han [2004] No. 140) issued by the Hami Municipal SAT Office, pursuant to Article 2, Section 2, Paragraph 4 of the Provisional Regulations of the People’s Republic of China on Value-added Tax..

- (3) From 1 April 2009, incomes of the Company’s subsidiary 石河子市天誠節水器材有限公司 (“Tiancheng Jieshui”) from production and sale of tapes for drip irrigation have been exempted from VAT under the Notice on Registration and Filing for Tax Exempt (Sha Guo Shui Jian Mian Bei Zi [2009] No. 058) issued by the Shawan County SAT Office.

From 1 April 2009, incomes of the Company’s subsidiary Tiancheng Jieshui from production and sale of mulch plastic films have been exempted from VAT under the Notice on Registration and Filing for Tax Exempt (Sha Guo Shui Jian Mian Bei Zi [2009] No. 059) issued by the Shawan County SAT Office.



III. TAXATION *(continued)*

2. Tax concession and approval documents *(continued)*

2. Enterprise income tax (“EIT”)

- (1) The Company is subject to an EIT tax rate of 15%.

Pursuant to “State Administration of Taxation of Shihezi Economic and Technology Development Zone in Xinjiang Uygur Autonomous Region Kai Guo Shui (Shi Kai) Guo Shui Jian Mian Bei Zi [2012] No. 117” (新疆維吾爾自治區石河子經濟技術開發區國家稅務局開國稅(石開)國稅減免備字[2012]117號文), the Company was granted a reduced EIT tax rate of 15% for the period from 1 January 2011 to 31 December 2013 as a hi-tech enterprise under Article 28 of the Law of the PRC on Enterprise Income Tax and Articles 5 and 19 of Measures for the Administration of Tax Deduction or Exemption (for Trial Implementation).

- (2) The Company’s subsidiary 甘肅天業節水器材有限公司 (“Gansu Tianye”) was granted a reduced EIT tax rate of 15% for 2012 as it qualified for tax concessions relating to the Western Development
- (3) Save for the Company and its subsidiary Gansu Tianye which were subject to an EIT tax rate of 15%, other subsidiaries were subject to an EIT tax rate of 25%.

Notes to Financial Statements

For the year ended 31 December 2012

IV. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

1. Subsidiaries acquired by way of incorporation or investment

Name of subsidiary	Type of subsidiary	Place of registration	Nature of Business	Registered capital (RMB in 10 thousand)	Scope of Business	Organisation number
石河子開發區天業節水工程安裝有限公司 ("Tianye Anzhuang")	Controlled subsidiary	Shihezi, Xinjiang	Construction	1,000.00	Installation, services and consulting of agricultural water saving irrigation products	75765235-0
Hami Tianye	Controlled subsidiary	Hami, Xinjiang	Manufacturing	1,900.00	Manufacture, sale and technical support of drip irrigation equipment, plastics, agricultural plastic films, drip films, packagings	75457676-X
奎屯天屯節水有限公司 ("Kuitun Jieshui")	Controlled subsidiary	Kuitun, Xinjiang	Manufacturing	1,200.00	Manufacture, sale and technical support of drip irrigation equipment, PVC pipelines and PE pipelines, and construction of irrigation projects	79226730-0
北京天業潤華節水灌溉技術有限公司 ("Beijing Jieshui")	Controlled subsidiary	Beijing	Commerce	300.00	Development, transfer, support, promotion of technologies, equipment installation, maintenance and repair	66752876-X
阿克蘇天業節水有限公司 ("Akesu Jieshui")	Controlled subsidiary	Akesu, Xinjiang	Manufacturing	4,000.00	PVC pipelines, PE pipelines and assemblies used in irrigation; pressure compensatory style drip films, labyrinth-style drip films	67925171-0
Tiancheng Jieshui	Controlled subsidiary	Shihezi, Xinjiang	Manufacturing	1,500.00	Manufacture, sale, technical support and installation of drip tapes, plastic pipelines, agricultural plastic films, drip irrigation assemblies	68274452-4



IV. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

1. Subsidiaries acquired by way of incorporation or investment (continued)

Name of subsidiary	Effective capital contribution at period-end (RMB in 10 thousand)	Balance of other items effectively representing net investment in subsidiary	Percentage of shareholding (%)	Percentage of voting rights (%)	Whether statements are consolidated
Tianye Anzhuang	950.00	—	95.00	95.00	Yes
Hami Tianye	1,154.95	—	60.00	60.00	Yes
Kuitun Jieshui	1,200.00	—	100.00	100.00	Yes
Beijing Tianye	153.00	—	51.00	51.00	Yes
Akesu Jieshui	4,000.00	—	100.00	100.00	Yes
Tiancheng Jieshui	900.00	—	60.00	60.00	Yes

Name of subsidiary	Minority interests	Amount in minority interests offsetting profit and loss thereof	Amount of parent's interests offsetting current loss shared by minority interests over minority interests' share in such subsidiary at beginning of year
Tianye Anzhuang	602,852.78	—	—
Hami Tianye	7,299,289.51	—	—
Kuitun Jieshui	—	—	—
Beijing Tianye	1,571,482.66	—	—
Akesu Jieshui	—	—	—
Tiancheng Jieshui	7,631,637.10	—	—

Notes to Financial Statements

For the year ended 31 December 2012

IV. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

(continued)

2. Subsidiaries acquired by way of business combination involving entities under common control

Name of subsidiary	Type of subsidiary	Place of registration	Nature of Business	Registered capital (RMB in 10 thousand)	Scope of Business	Organisation number
石河子天業物資回收 有限責任公司 ("Tianye Wuzi Huishou")	Controlled subsidiary	Shihezi, Xinjiang	Commerce	250.00	Recycling, processing and sale of wasted plastics and glass	74222457-2
Gansu Tianye	Controlled subsidiary	Zhangye, Gansu	Manufacturing	6,000.00	Manufacture and sale of water saving plastics; development and promotion of irrigation technologies; manufacture of new water saving equipment	71902286-8
新疆阿拉爾天農節水有限 責任公司 ("Aral Jieshui")	Controlled subsidiary	Aral, Xinjiang	Manufacturing	1,000.00	Sale and technical support of drip irrigation equipment, PVC pipelines and PPR pipelines	74220106-3

Name of subsidiary	Effective capital contribution at period-end (RMB in 10 thousand)	Balance of other items effectively representing net investment in subsidiary	Percentage of shareholding (%)	Percentage of voting rights (%)	Whether statements are consolidated
Tianye Wuzi Huishou	247.00	—	98.00	98.00	Yes
Gansu Tianye	6,141.50	—	100.00	100.00	Yes
Aral Jieshui	519.08	—	51.00	51.00	Yes

Name of subsidiary	Minority interests	Amount in minority interests offsetting profit and loss thereof	Amount of parent's interests offsetting current loss shared by minority interests over minority interests' share in such subsidiary at beginning of year
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Tianye Wuzi Huishou	215,663.87	—	—
Gansu Tianye	—	—	—
Aral Jieshui	697,512.04	—	—



V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Explanatory notes to major items in the Consolidated Statement of Financial Position

1. Cash

(1) Details

Item	Closing balance			Opening balance		
	Original currency amount	Exchange rate	RMB equivalent	Original currency amount	Exchange rate	RMB equivalent
Cash on hand:						
RMB	420.18	1.00	420.18	971.55	1.00	971.55
Sub-total			420.18			971.55
Bank deposit:						
RMB	111,544,009.75	1.00	111,544,009.75	61,303,155.26	1.00	61,303,155.26
HKD	80,719.13	0.8114	65,495.50			
Sub-total			111,609,505.25			61,303,155.26
Other cash:						
RMB	132,398.72	1.00	132,398.72	87,253.68	1.00	87,253.68
Sub-total			132,398.72			87,253.68
Total			111,742,324.15			61,391,380.49

- (2) Notes on funds restricted in use, placed overseas, or facing potential recovery risks due to charge, pledge, or freeze.

Aral Jieshui's bank deposit of RMB9,752,600.00 had been frozen as agreed by its shareholders who were negotiating its future form of business after the operating term expired.

2. Bill receivables

(1) Details

Category	Closing balance			Opening balance		
	Book balance	Bad-debt provision	Carrying amount	Book balance	Bad-debt provision	Carrying amount
Bank acceptance bills	2,850,000.00	—	2,850,000.00	500,000.00	—	500,000.00
Total	2,850,000.00	—	2,850,000.00	500,000.00	—	500,000.00

Notes to Financial Statements

For the year ended 31 December 2012

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Explanatory notes to major items in the Consolidated Statement of Financial Position (continued)

2. Bill receivables (continued)

- (2) There were no pledged bill receivables at the period-end.
- (3) There were no bills converted into trade receivables due to the issuer's failure to perform at period-end.
- (4) Bills endorsed by the Company for others but not yet due at the period-end (top 5 in amount)

Issuer	Issue date	Expiry date	Amount	Remark
河北會興金屬製品有限公司	2012.9.7	2013.3.7	1,000,000.00	
湖南永清環保股份有限公司	2012.11.15	2013.5.15	850,000.00	
成都市歐克農業發展有限責任公司	2012.8.23	2013.2.23	500,000.00	
河北會興金屬製品有限公司	2012.10.17	2013.4.17	500,000.00	
寧夏華能碳化硅製品有限公司	2012.10.30	2013.4.29	500,000.00	
Sub-total			3,350,000.00	

3. Trade receivables

(1) Details

1) Details by category

Category	Closing balance			
	Book balance		Bad-debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	105,032,704.25	75.37	179,365.52	0.17
For which bad debt provision has been collectively made				
Aging analysis method group	17,656,256.58	12.67	6,250,334.51	35.40
Individually insignificant and for which bad debt provision has been separately made	16,661,714.51	11.96	—	—
Total	139,350,675.34	100.00	6,429,700.03	4.61



V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Explanatory notes to major items in the Consolidated Statement of Financial Position (continued)

3. Trade receivables (continued)

(1) Details (continued)

1) Details by category (continued)

Category	Opening balance		Bad-debt provision	
	Book balance Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	10,017,816.50	21.24	—	—
For which bad debt provision has been collectively made				
Aging analysis method group	25,512,417.90	54.09	6,550,911.11	25.68
Individually insignificant and for which bad debt provision has been separately made	11,633,285.46	24.67	1,161,068.71	9.98
Total	47,163,519.86	100.00	7,711,979.82	16.35

2) Trade receivables individually significant and for which bad debt provision has been separately made

Trade receivables	Book balance	Bad-debt provision	Provision percentage (%)	Reason for provision
Payment for goods	105,032,704.25	179,365.52	0.17	Bad debt provision has been separately made for state land treatment project and government tendering project
Sub-total	105,032,704.25	179,365.52	0.17	

Notes to Financial Statements

For the year ended 31 December 2012

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Explanatory notes to major items in the Consolidated Statement of Financial Position (continued)

3. Trade receivables (continued)

(1) Details (continued)

- 3) Trade receivables for which bad debt provision has been collectively made using the aging analysis method

Age	Closing balance			Opening balance		
	Book balance		Bad-debt provision	Book balance		Bad-debt provision
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	7,542,123.86	42.72	75,421.24	16,971,404.80	66.52	169,714.04
1-2 years	7,878,438.91	44.62	3,939,219.46	4,319,632.08	16.93	2,159,816.05
2-3 years	895,436.05	5.07	895,436.05	1,892,826.85	7.42	1,892,826.85
3-4 years	239,041.07	1.35	239,041.07	2,328,554.17	9.13	2,328,554.17
4-5 years	1,101,216.69	6.24	1,101,216.69	—	—	—
Sub-total	17,656,256.58	100.00	6,250,334.51	25,512,417.90	100.00	6,550,911.11

- 4) Trade receivables individually insignificant and for which bad debt provision has been separately made at the period-end

Trade receivables	Book balance	Bad-debt provision	Provision percentage (%)	Reason
				for provision
Payment for goods	16,661,714.51	—	—	Bad debt provision has been separately made for state land treatment project and government procurement
Sub-total	16,661,714.51	—	—	



V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

1. Explanatory notes to major items in the Consolidated Statement of Financial Position *(continued)*

3. Trade receivables *(continued)*

(2) Trade receivables actually written off for the period

Name of entity	Nature of trade receivables	Amount written off	Reason for write-off	Arising from connected transaction
134th Regiment of Eighth Agricultural Division	Payment for goods	253,416.90	Payment for goods unrecoverable	No
Xinhu Farm of Sixth Agricultural Division	Payment for goods	330,434.55	Payment for goods unrecoverable	No
127th Regiment	Payment for goods	41,676.00	Payment for goods unrecoverable	No
Office of Shenzhen Kangda in Xinwu	Payment for goods	128,000.00	Payment for goods unrecoverable	No
Sub-total		753,527.45		

(3) There were no amounts due from shareholders or other related parties holding 5% or more in the voting shares of the Company at the period-end.

Notes to Financial Statements

For the year ended 31 December 2012

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Explanatory notes to major items in the Consolidated Statement of Financial Position (continued)

3. Trade receivables (continued)

(4) Trade receivables from top 5 accounts

Name of entity	Relationship with Company	Book balance	Age	Share of trade receivable balance (%)
Bumeng County drip irrigation works in Liaoning water saving drip irrigation project	Non-related party	13,802,950.00	Within 1 year	9.91
吉林省節水灌溉發展有限公司	Non-related party	11,310,387.70	Within 1 year	8.12
Minqin County Construction Management Office for Shiyang River Key Project	Non-related party	11,256,817.47	Within 1 year	8.08
Finance Bureau of Beizhen, Liaoning	Non-related party	9,700,000.00	Within 1 year	6.96
Rural Economic Development Office of Linghai	Non-related party	8,000,000.00	Within 1 year	5.74
Sub-total		54,070,155.17		38.81

4. Prepayments

(1) Aging analysis

Age	Closing balance				Opening balance			
	Book balance	Percentage (%)	Bad-debt provision	Carrying amount	Book balance	Percentage (%)	Bad-debt provision	Carrying amount
Within 1 year	13,980,765.02	83.61	—	13,980,765.02	86,747,743.15	91.32	—	86,747,743.15
1-2 years	213,081.12	1.28	—	213,081.12	4,725,867.12	4.98	—	4,725,867.12
2-3 years	253,047.00	1.51	—	253,047.00	3,512,324.56	3.70	—	3,512,324.56
Over 3 years	2,274,051.13	13.60	—	2,274,051.13	—	—	—	—
Total	16,720,944.27	100.00	—	16,720,944.27	94,985,934.83	100.00	—	94,985,934.83



V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

1. Explanatory notes to major items in the Consolidated Statement of Financial Position *(continued)*

4. Prepayments *(continued)*

(2) Prepayments to top 5 accounts

Name of entity	Relationship with Company	Closing balance	Age	Reason for unsettlement
Northwest Chemicals Distriction Branch of PetroChina Company Limited	Non-related party	5,600,776.50	Within 1 year	Pending settlement
北京中財萬鑫科技有限公司	Non-related party	1,012,877.44	Within 1 year	Prepayment for goods
丹東渤海節水灌溉設備有限公司	Non-related party	479,999.99	Within 1 year	Prepayment for goods
內蒙古耐森節水設備有限責任公司	Non-related party	403,293.40	Within 1 year	Prepayment for goods
Yang Changfu	Non-related party	384,982.84	Within 1 year	Prepayment for goods
Sub-total		7,881,930.17		

(3) There were no amounts prepaid to shareholders or other related parties holding 5% or more in the voting shares of the Company at the period-end.

Notes to Financial Statements

For the year ended 31 December 2012

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Explanatory notes to major items in the Consolidated Statement of Financial Position (continued)

5. Other receivables

(1) Details

1) Details by category

Category	Closing balance			
	Book balance		Bad-debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	4,448,073.80	21.91	—	—
For which bad debt provision has been collectively made				
Aging analysis method group	8,586,777.05	42.29	3,509,093.54	40.87
Individually insignificant and for which bad debt provision has been separately made	7,271,284.81	35.80	429,536.31	5.91
Total	20,306,135.66	100.00	3,938,629.85	19.40

Category	Opening balance			
	Book balance		Bad-debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	38,801,255.33	69.25	—	—
For which bad debt provision has been collectively made				
Aging analysis method group	9,675,159.82	17.27	3,677,450.96	38.01
Individually insignificant and for which bad debt provision has been separately made	7,557,883.72	13.48	164,239.97	2.17
Total	56,034,298.87	100.00	3,841,690.93	6.86



V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Explanatory notes to major items in the Consolidated Statement of Financial Position (continued)

5. Other receivables (continued)

(1) Details (continued)

- 2) Individually significant and for which bad debt provision has been separately made

Receivables	Book balance	Bad-debt provision	Provision percentage (%)	Reason for provision
Project payment lent to government	4,448,073.80	—	—	Bad debt not provided for, and the present value of future cash flows equal to the carrying amount
Sub-total	4,448,073.80	—	—	

- 3) Other receivables for which bad debt provision has been collectively made using the aging analysis method

Age	Closing balance			Opening balance		
	Book balance Amount	Percentage (%)	Bad-debt provision	Book balance Amount	Percentage (%)	Bad-debt provision
Within 1 year	4,660,132.31	54.27	46,601.32	5,033,020.16	52.02	50,330.20
1-2 years	928,305.05	10.81	464,152.53	2,030,037.82	20.98	1,015,018.92
2-3 years	675,396.51	7.87	675,396.51	373,187.56	3.86	373,187.56
3-4 years	84,028.90	0.98	84,028.90	120,919.54	1.25	120,919.54
4-5 years	120,919.54	1.41	120,919.54	359,521.96	3.72	359,521.96
Over 5 years	2,117,994.74	24.66	2,117,994.74	1,758,472.78	18.17	1,758,472.78
Sub-total	8,586,777.05	100.00	3,509,093.54	9,675,159.82	100.00	3,677,450.96

Notes to Financial Statements

For the year ended 31 December 2012

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

1. Explanatory notes to major items in the Consolidated Statement of Financial Position *(continued)*

5. Other receivables *(continued)*

(1) *Details (continued)*

- 4) Individually insignificant and for which bad debt provision has been separately made

Trade receivables	Book balance	Bad-debt provision	Provision percentage (%)	Reason for provision
Project payment or deposit lent to government	7,271,284.81	429,536.31	5.91	Bad debt provided for based on the difference between the present value of future cash flows and the carrying amount
Sub-total	7,271,284.81	429,536.31	5.91	

- (2) There were no amounts due from shareholders or other related parties holding 5% or more in the voting shares of the Company at the period-end.



V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

1. Explanatory notes to major items in the Consolidated Statement of Financial Position *(continued)*

5. Other receivables *(continued)*

(3) Other receivables from top 5 accounts

Name of entity	Relationship with Company	Book balance	Age	Share of other receivable balance (%)	Nature or content of amounts
Gao Yongxin/government project	Non-related party	1,100,000.00	1-3 years	5.42	Project borrowings
Dabao construction payment	Non-related party	1,067,576.80	1-2 years	5.26	Project borrowings
Zhu Wanguo/Drip irrigation project in Ergong Township, Jimusaer County, etc.	Non-related party	1,050,000.00	1-3 years	5.17	Project borrowings
Cao Jianguo/Project of the Water Conservancy Bureau of Zepu County, etc.	Non-related party	925,000.00	1-5 years	4.56	Project borrowings
Pang Zhenyuan/Hongqi Farm	Non-related party	917,000.00	2-4 years	4.52	Project borrowings
Sub-total		5,059,576.80		24.93	

Notes to Financial Statements

For the year ended 31 December 2012

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Explanatory notes to major items in the Consolidated Statement of Financial Position (continued)

6. Inventories

(1) Details

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Materials in transit	—	—	—	60,019.00	—	60,019.00
Raw materials	183,926,057.23	—	183,926,057.23	201,504,444.98	—	201,504,444.98
Work-in-progress	13,609,406.18	—	13,609,406.18	8,008,714.41	—	8,008,714.41
Finished goods	378,612,809.92	287,327.31	378,325,482.61	388,766,307.07	16,942.52	388,749,364.55
Materials under sub-contract processing	18,030,132.50	—	18,030,132.50	17,044,532.76	—	17,044,532.76
Materials for construction-in-progress	645,033.88	—	645,033.88	498,504.47	—	498,504.47
Total	594,823,439.71	287,327.31	594,536,112.40	615,882,522.69	16,942.52	615,865,580.17

(2) Provision for inventory impairment

1) Details

Item	Opening balance	Increase in the period	Decrease in the period		Closing balance
			Write-back	Write-off	
Finished goods	16,942.52	270,384.79	—	—	287,327.31
Sub-total	16,942.52	270,384.79	—	—	287,327.31

- 2) Basis of provision for inventory impairment, reason for write-back of provision for inventory impairment and percentage of amount written back for the period to Closing balance of inventories for the period



V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

1. Explanatory notes to major items in the Consolidated Statement of Financial Position *(continued)*

6. Inventories *(continued)*

(2) *(continued)*

Item	Basis of provision for inventory impairment	Reason for write-back of provision for inventory impairment for the period	Percentage of amount written back for the period to Closing balance of inventories (%)
Finished goods	Net realisable value of inventories lower than carrying amount thereof		—
Sub-total			

(3) There were no inventories used for providing guarantee at the period-end.

7. Other current assets

(1) *Details*

Item	Closing balance	Opening balance
Prepaid EIT	1,055,069.52	—
Creditable VAT	2,656,662.24	7,812,985.86
Total	3,711,731.76	7,812,985.86

(2) *Other notes*

The excess of EIT and VAT actually paid in the period over the sum of the amount due at the period-beginning and the amount payable for the period was presented as the prepaid amount in other current assets.

Notes to Financial Statements

For the year ended 31 December 2012

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Explanatory notes to major items in the Consolidated Statement of Financial Position (continued)

8. Investment property

Item	Opening balance	Increase in the period	Decrease in the period	Closing balance
1) Sub-total of opening carrying amount	10,098,998.07	—	—	10,098,998.07
Plant and buildings	10,098,998.07	—	—	10,098,998.07
2) Sub-total of accumulated depreciation and amortisation	654,414.96	327,207.48	—	981,622.44
Plant and buildings	654,414.96	327,207.48	—	981,622.44
3) Sub-total of net carrying amount	9,444,583.11	—	327,207.48	9,117,375.63
Plant and buildings	9,444,583.11	—	327,207.48	9,117,375.63
4) Sub-total of accumulated provision for impairment	—	—	—	—
Plant and buildings	—	—	—	—
5) Total carrying amount	9,444,583.11	—	327,207.48	9,117,375.63
Plant and buildings	9,444,583.11	—	327,207.48	9,117,375.63

Depreciation for the period was RMB327,207.48.



V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Explanatory notes to major items in the Consolidated Statement of Financial Position (continued)

9. Fixed assets

(1) Details

Item	Opening balance		Increase in the period	Decrease in the period	Closing balance
1) Sub-total of opening carrying amount	414,499,921.12		7,816,839.17	17,867,438.85	404,449,321.44
Plant and buildings	87,630,603.91		2,605,837.51	7,442,385.68	82,794,055.74
Machinery and equipment	316,088,165.03		4,455,014.34	10,425,053.17	310,118,126.20
Motor vehicles	5,091,544.50		289,952.99	—	5,381,497.49
Office equipment and others	5,689,607.68		466,034.33	—	6,155,642.01
		Transfer in during the period	Provision for the period		
2) Sub-total of accumulated depreciation	228,176,106.37	—	22,352,134.55	8,755,578.29	241,772,662.63
Plant and buildings	13,209,292.49	—	3,083,697.18	2,638,043.49	13,654,946.18
Machinery and equipment	209,473,078.12	—	18,186,757.17	6,117,534.80	221,542,300.49
Motor vehicles	3,422,085.42	—	360,275.24	—	3,782,360.66
Office equipment and others	2,071,650.34	—	721,404.96	—	2,793,055.30
3) Sub-total of net carrying amount	186,323,814.75	—	—	—	162,676,658.81
Plant and buildings	74,421,311.42	—	—	—	69,139,109.56
Machinery and equipment	106,615,086.91	—	—	—	88,575,825.71
Motor vehicles	1,669,459.08	—	—	—	1,599,136.83
Office equipment and others	3,617,957.34	—	—	—	3,362,586.71
4) Sub-total of provision for impairment	178,087.60	—	—	—	178,087.60
Plant and buildings	—	—	—	—	—
Machinery and equipment	178,087.60	—	—	—	178,087.60
Motor vehicles	—	—	—	—	—
Office equipment and others	—	—	—	—	—
5) Total carrying amount	186,145,727.15	—	—	—	162,498,571.21
Plant and buildings	74,421,311.42	—	—	—	69,139,109.56
Machinery and equipment	106,436,999.31	—	—	—	88,397,738.11
Motor vehicles	1,669,459.08	—	—	—	1,599,136.83
Office equipment and others	3,617,957.34	—	—	—	3,362,586.71

Depreciation for the period amounted to RMB22,352,134.55. An original amount of RMB2,602,105.84 was transferred to fixed assets from construction-in-progress in the period.

Notes to Financial Statements

For the year ended 31 December 2012

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

1. Explanatory notes to major items in the Consolidated Statement of Financial Position *(continued)*

9. Fixed assets *(continued)*

(2) Idled fixed assets

Item	Original carrying amount	Accumulated depreciation	Provision for impairment	Carrying amount	Remark
Motor vehicles	266,951.00	258,942.47	—	8,008.53	
Office equipment and others	238,764.94	184,965.99	—	53,798.95	
Sub-total	505,715.94	443,908.46	—	61,807.48	

(3) Fixed assets without title certificates

Item	Reason	Expected time for issuance of title certificates
Certain plant and buildings of Tiancheng Jieshui	Newly built with building ownership certificate yet to be issued	In progress

(4) There were no fixed assets used for providing guarantee at the period-end.



V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Explanatory notes to major items in the Consolidated Statement of Financial Position (continued)

10. Construction-in-progress

(1) Details

Name of works	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Reconstruction of equipments in 2nd drip irrigation workshop	514,555.63	—	514,555.63	514,555.63	—	514,555.63
Reconstruction of drip irrigation project	2,966,914.77	—	2,966,914.77	2,966,914.77	—	2,966,914.77
50 coextrusion drip irrigation machines	2,085,067.95	—	2,085,067.95	2,085,067.95	—	2,085,067.95
PP pipelines machine unit	1,611,755.82	—	1,611,755.82	603,415.24	—	603,415.24
PE one-trip pallet project	4,733,764.88	—	4,733,764.88	2,915,520.83	—	2,915,520.83
Technical re-engineering for 100 drip irrigation equipments	1,358,841.12	—	1,358,841.12	643,967.91	—	643,967.91
Production of 100 drip irrigation equipments	14,965,063.16	—	14,965,063.16	9,678,194.28	—	9,678,194.28
Reconstruction of PVC pipeline production line	—	—	—	2,293,050.29	—	2,293,050.29
Reconstruction of blending system in hard pipe workshop	362,035.90	—	362,035.90	—	—	—
Pressure compensatory emitter project	710,081.15	—	710,081.15	—	—	—
PE65/33 pipeline machine unit	269,230.77	—	269,230.77	—	—	—
Embedded cylinder-style emitter project	281,959.32	—	281,959.32	—	—	—
Repair and reconstruction of screw on equipment in drip pipe workshop	419,394.33	—	419,394.33	—	—	—
PVC65 pipeline machine unit	247,048.96	—	247,048.96	—	—	—
Miscellaneous	1,098,421.90	—	1,098,421.90	969,570.92	—	969,570.92
Total	31,624,135.66	—	31,624,135.66	22,670,257.82	—	22,670,257.82

Notes to Financial Statements

For the year ended 31 December 2012

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Explanatory notes to major items in the Consolidated Statement of Financial Position (continued)

10. Construction-in-progress (continued)

(2) Movement

1) Details

Name of works	Budget (RMB in ten thousand)	Opening balance	Increase in the period	Transferred to fixed assets	Other decrease	Percentage of input to budget (%)
Reconstruction of equipments in 2nd drip irrigation workshop	55.00	514,555.63	—	—	—	93.56
Reconstruction of drip irrigation project	300.00	2,966,914.77	—	—	—	98.90
50 coextrusion drip irrigation machines	210.00	2,085,067.95	—	—	—	99.29
PP pipelines machine unit	300.00	603,415.24	1,008,340.58	—	—	53.73
PE one-trip pallet project	600.00	2,915,520.83	1,818,244.05	—	—	78.90
Technical re-engineering for 100 drip irrigation equipments	200.00	643,967.91	714,873.21	—	—	67.94
Production of 100 drip irrigation equipments	2,000.00	9,678,194.28	5,286,868.88	—	—	74.83
Reconstruction of PVC pipeline production line	229.00	2,293,050.29	—	2,293,050.29	—	100.00
Reconstruction of blending system in hard pipe workshop	40.00	—	362,035.90	—	—	90.51
Pressure compensatory emitter project	75.00	—	710,081.15	—	—	94.68
PE65/33 pipeline machine unit	28.00	—	269,230.77	—	—	96.15
Embedded cylinder-style emitter project	30.00	—	281,959.32	—	—	93.99
Repair and reconstruction of screw on equipment in drip pipe workshop	50.00	—	419,394.33	—	—	83.88
PVC65 pipeline machine unit	26.00	—	247,048.96	—	—	95.02
Miscellaneous	150.00	969,570.92	437,906.53	309,055.55	—	93.83
Total	4,293.00	22,670,257.82	11,555,983.68	2,602,105.84	—	



V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

1. Explanatory notes to major items in the Consolidated Statement of Financial Position *(continued)*

10. Construction-in-progress *(continued)*

(2) Movement *(continued)*

1) Details *(continued)*

Name of works	Progress (%)	Accumulated capitalised interests	Capitalised interests for the period	Annualised rate of interest capitalisation for the period (%)	Funding source	Closing balance
Reconstruction of equipments in 2nd drip irrigation workshop	93.56	—	—	—	Internal	514,555.63
Reconstruction of drip irrigation project	98.90	—	—	—	Internal	2,966,914.77
50 coextrusion drip irrigation machines	99.29	—	—	—	Internal	2,085,067.95
PP pipelines machine unit	53.73	—	—	—	Internal	1,611,755.82
PE one-trip pallet project	78.90	—	—	—	Internal	4,733,764.88
Technical re-engineering for 100 drip irrigation equipments	67.94	—	—	—	Internal	1,358,841.12
Production of 100 drip irrigation equipments	74.83	—	—	—	Internal	14,965,063.16
Reconstruction of PVC pipeline production line	100.00	—	—	—	Internal	
Reconstruction of blending system in hard pipe workshop	90.51	—	—	—	Internal	362,035.90
Pressure compensatory emitter project	94.68	—	—	—	Internal	710,081.15
PE65/33 pipeline machine unit	96.15	—	—	—	Internal	269,230.77
Embedded cylinder-style emitter project	93.99	—	—	—	Internal	281,959.32
Repair and reconstruction of screw on equipment in drip pipe workshop	83.88	—	—	—	Internal	419,394.33
PVC65 pipeline machine unit	95.02	—	—	—	Internal	247,048.96
Miscellaneous	93.83	—	—	—	Internal	1,098,421.90
Total		—	—	—		31,624,135.66

Notes to Financial Statements

For the year ended 31 December 2012

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Explanatory notes to major items in the Consolidated Statement of Financial Position (continued)

11. Materials for construction

Item	Opening balance	Increase in the period	Decrease in the period	Closing balance
Dedicated materials	—	103,397.78	—	103,397.78
Total	—	103,397.78	—	103,397.78

12. Intangible assets

Item	Opening balance	Increase in the period	Decrease in the period	Closing balance
1) Sub-total of opening carrying amount	14,414,108.82	—	—	14,414,108.82
Land use rights	14,414,108.82	—	—	14,414,108.82
2) Sub-total of accumulated depreciation	1,277,518.38	296,144.63	—	1,573,663.01
Land use rights	1,277,518.38	296,144.63	—	1,573,663.01
3) Sub-total of net carrying amount	13,136,590.44	—	296,144.63	12,840,445.81
Land use rights	13,136,590.44	—	296,144.63	12,840,445.81
4) Sub-total of provision for impairment	—	—	—	—
Land use rights	—	—	—	—
5) Total carrying amount	13,136,590.44	—	296,144.63	12,840,445.81
Land use rights	13,136,590.44	—	296,144.63	12,840,445.81

Amortisation for the period amounted to RMB296,144.63.



V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

1. Explanatory notes to major items in the Consolidated Statement of Financial Position *(continued)*

13. Deferred tax assets and deferred tax liabilities

(1) *Recognised deferred tax assets*

Item	Closing balance	Opening balance
Deferred tax assets		
Provision for assets impairment	1,188,924.72	—
Total	1,188,924.72	—

(2) *Details of deductible differences*

Item	Amount
Provision for assets impairment	6,393,404.17
Sub-total	6,393,404.17

14. Other non-current assets

Item	Closing balance	Opening balance
Prepayment for equipment	4,506,000.00	—
Total	4,506,000.00	—

Notes to Financial Statements

For the year ended 31 December 2012

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

1. Explanatory notes to major items in the Consolidated Statement of Financial Position *(continued)*

15. Details of provision for assets impairment

Item	Opening balance	Provision for the period	Decrease in the period		Closing balance
			Write-back	Write-off	
Bad-debt provision	11,553,670.75	-425,269.92	—	753,527.45	10,374,873.38
Provision for inventory impairment	16,942.52	270,384.79	—	—	287,327.31
Fixed assets provision for impairment	178,087.60	—	—	—	178,087.60
Total	11,748,700.87	-154,885.13	—	753,527.45	10,840,288.29

16. Short-term borrowings

Item	Closing balance	Opening balance
Secured borrowings	100,000,000.00	120,000,000.00
Total	100,000,000.00	120,000,000.00

17. Bill payables

Category	Closing balance	Opening balance
Letter of credit	—	20,000,000.00
Total	—	20,000,000.00



V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Explanatory notes to major items in the Consolidated Statement of Financial Position (continued)

18. Trade payables

(1) Details

Age	Closing balance	Opening balance
Within 1 year	165,824,191.15	108,915,235.96
1-2 years	817,239.03	236,427.47
2-3 years	124,980.97	1,149,625.93
Over 3 years	2,092,250.99	2,684,481.17
Total	168,858,662.14	112,985,770.53

Item	Closing balance	Opening balance
Payment for goods	168,858,662.14	112,985,770.53
Total	168,858,662.14	112,985,770.53

(2) There were no amounts due to shareholders or other related parties holding 5% or more in the voting shares of the Company at the period-end.

(3) Notes on significant trade payables aged over 1 year

Name of entity	Amount	Reason for unsettlement
北京天業綠洲科技發展有限公司	484,608.93	Payment for goods
張家港市聯大機械有限公司	212,372.00	Remaining payment for equipment to be settled
紅星塑料製品廠	151,183.85	Remaining payment for equipment to be settled
佛山市巴頓菲爾震雄塑料設備有限公司	115,500.00	Remaining payment for equipment to be settled
Sub-total	963,664.78	

Notes to Financial Statements

For the year ended 31 December 2012

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

1. Explanatory notes to major items in the Consolidated Statement of Financial Position *(continued)*

19. Receipts in advance

(1) *Details*

Item	Closing balance	Opening balance
Payment for goods received in advance	66,273,003.68	60,384,898.71
Total	66,273,003.68	60,384,898.71

(2) There were no receipts in advance from shareholders or other related parties holding 5% or more in the voting shares of the Company at the period-end.

(3) *Notes on significant receipts in advance aged over 1 year*

Name of entity	Amount	Reason for unsettlement
新疆天禹節水灌溉技術開發有限公司	4,069,032.21	Payment for materials to be settled
Chahayang Farm in Heilongjiang	2,165,800.00	Payment for materials to be settled
呼圖壁縣天山農業發展公司	1,077,313.94	Payment for materials to be settled
Sub-total	7,312,146.15	



V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Explanatory notes to major items in the Consolidated Statement of Financial Position (continued)

20. Accrued employee benefits

Item	Opening balance	Increase in the period	Decrease in the period	Closing balance
Employee wages or salaries, bonuses, and subsidies	869,916.53	59,388,720.10	59,891,917.25	366,719.38
Employee benefits	33,026.47	954,737.25	972,842.25	14,921.47
Social security	403,991.89	12,783,736.63	13,187,728.52	—
Inc: Medical insurance	118,887.67	3,650,412.23	3,769,299.90	—
Basic endowment assurance	262,387.65	8,106,616.29	8,369,003.94	—
Unemployment insurance	7,053.35	468,444.65	475,498.00	—
Work injury insurance	12,982.91	422,845.15	435,828.06	—
Maternity insurance	2,680.31	109,201.27	111,881.58	—
Others	—	26,217.04	26,217.04	—
Housing provident fund	63,123.35	1,235,382.62	1,291,497.62	7,008.35
Union and education funds	2,214,690.11	1,401,275.09	348,863.36	3,267,101.84
Enterprise annuity	—	6,999,494.04	6,981,214.04	18,280.00
Chairman incentive funds	3,085.00	84,462.28	87,547.28	—
Total	3,587,833.35	82,847,808.01	82,761,610.32	3,674,031.04

There were no delinquent amounts in closing accrued employee benefits.

21. Taxes payable

Item	Closing balance	Opening balance
VAT	4,271,884.02	—
Consumption tax	145,000.00	—
EIT	218,346.66	81,733.91
Individual income tax	72,778.25	175,799.66
City maintenance and construction tax	317,796.96	14,833.94
Property tax	36,000.00	-15,374.44
Land use tax	—	-14,686.35
Education surcharge	224,497.82	2,607.42
Stamp duty	16,987.21	—
Other	29,128.77	-26,142.00
Total	5,332,419.69	218,772.14

Notes to Financial Statements

For the year ended 31 December 2012

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

1. Explanatory notes to major items in the Consolidated Statement of Financial Position *(continued)*

22. Other payables

(1) *Details*

Item	Closing balance	Opening balance
Deposit	150,382.00	412,840.73
Temporary receipts payable	4,991,879.40	6,309,247.30
Current account	8,951,251.37	39,614,708.73
Others	1,113,110.69	1,409,869.03
Total	15,206,623.46	47,746,665.79

(2) *Amounts due to shareholders or other related parties holding 5% or more in the voting shares of the Company at the period-end.*

Name of entity	Closing balance	Opening balance
北京天業綠洲科技發展有限公司	484,608.93	951,548.93
Xinjiang Tianye Company Limited	1,785,675.00	1,785,675.00
Sub-total	2,270,283.93	2,737,223.93

(3) *Notes on significant other payables aged over 1 year*

Name of entity	Closing balance	Nature and content of amount
Amounts collected and paid	3,134,225.83	Freights collected and paid
Sub-total	3,134,225.83	



V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

1. Explanatory notes to major items in the Consolidated Statement of Financial Position *(continued)*

23. Other non-current liabilities

(1) Details

Item	Closing balance	Opening balance
Wasted drip tapes recycling and reuse project with an annual capacity of 20,000 tons	—	10,000,000.00
Industrial water saving irrigation technologies and products promotion project	12,000,000.00	12,000,000.00
Development of high strength drip film production and machine recycling technologies	50,000.00	50,000.00
Total	12,050,000.00	22,050,000.00

(2) Other notes

- 1) Pursuant to the circular on special funds in central budget for Tianye Group's wasted drip tapes recycling and reuse project with an annual capacity of 20,000 tons, which was issued by the Development and Reform Commission of Xinjiang Production and Construction Corps ("XPCC") Eighth Agricultural Division, the Company was granted special funds of RMB10 million in central budget for the project, which was transferred to capital reserves during the period.
- 2) Pursuant to the circular "Bing Cai Jian (2010) No. 100" (兵財建(2010)100號) issued by the Finance Bureau of XPCC and the circular "Shi Cai Jian (2010) No.89" (師財建(2010)89號) issued by the Finance Bureau of XPCC Eighth Agricultural Division on the grant of special funds for commercialisation of research outputs, the Company was granted special funds of RMB12 million for industrial promotion of water saving irrigation technologies and products.

Notes to Financial Statements

For the year ended 31 December 2012

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Explanatory notes to major items in the Consolidated Statement of Financial Position (continued)

23. Other non-current liabilities (continued)

(2) Other notes (continued)

- 3) Pursuant to the circular “Shi Cai Jian [2009] No. 161” (師財發[2009]161號) issued by the Finance Bureau of XPCC Thirteenth Agricultural Division on the payment of Thirteenth Agricultural Division technological project funds in 2009, the Company was granted special funds of RMB50,000 for the development of high strength Mulch plastic film production and machine recycling technologies.

24. Share capital

Item	Opening balance	Increase in the period	Decrease in the period	Closing balance
Domestic shares	317,121,560.00	—	—	317,121,560.00
Overseas listed H shares	202,400,000.00	—	—	202,400,000.00
Total	519,521,560.00	—	—	519,521,560.00

25. Capital reserves

(1) Details

Item	Opening balance	Increase in the period	Decrease in the period	Closing balance
Share premium	5,372,472.17	—	—	5,372,472.17
Other capital reserves	—	10,000,000.00	—	10,000,000.00
Total	5,372,472.17	10,000,000.00	—	15,372,472.17



V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Explanatory notes to major items in the Consolidated Statement of Financial Position (continued)

25. Capital reserves (continued)

(2) Other notes

Pursuant to the circular on special funds in central budget for Tianye Group's wasted drip tapes recycling and reuse project with an annual capacity of 20,000 tons, which was issued by the Development and Reform Commission of XPCC Eighth Agricultural Division, the Company was granted special funds of RMB10 million in central budget for the project, which was transferred to capital reserves during the period.

26. Surplus reserves

Item	Opening balance	Increase in the period	Decrease in the period	Closing balance
Statutory surplus reserves	29,269,477.71	143,759.89	—	29,413,237.60
Discretionary surplus reserves	5,333,289.20	—	—	5,333,289.20
Total	34,602,766.91	143,759.89	—	34,746,526.80

27. Retained profits

Item	Amount	Percentage of withdrawal or allocation
Retained profits at previous period-end before adjustment	139,108,919.23	
Adjustment to total opening retained profits	—	
Opening retained profits after adjustment	139,108,919.23	
Add: Net profits attributable to owners of parent	3,211,391.48	
Less: Statutory surplus reserves	143,759.89	Withdrawn by 10% of the net profits of the parent
Closing retained profits	142,176,550.82	

Notes to Financial Statements

For the year ended 31 December 2012

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2. Explanatory notes to major items in the Consolidate Statement of Comprehensive Income

1. Operating income/operating expenses

(1) *Details*

Item	Current period	Last period
Operating income from principal activities	762,836,791.23	690,415,862.45
Other operating income	—	—
Operating expenses	680,333,238.28	605,486,879.49

(2) *Operating income/operating expenses from principal activities (by product)*

Product	Current period		Last period	
	Income	Expenses	Income	Expenses
Drip films and drip assemblies	477,943,169.33	425,567,327.36	395,297,139.67	350,083,480.80
PVC/PE pipelines	279,398,155.25	251,114,509.41	295,118,722.78	255,403,398.69
Provision of installation services	5,495,466.65	3,651,401.51	—	—
Sub-total	762,836,791.23	680,333,238.28	690,415,862.45	605,486,879.49

(3) *Operating income from principal activities (by region)*

Name of region	Current period	Last period
Xinjiang	475,660,479.25	406,838,240.75
PRC excluding Xinjiang	287,176,311.98	278,074,493.24
Overseas	—	5,503,128.46
Sub-total	762,836,791.23	690,415,862.45



V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2. Explanatory notes to major items in the Consolidate Statement of Comprehensive Income *(continued)*

1. Operating income/operating expenses *(continued)*

(4) Operating income from top 5 customers of the Company

Name of customer	Operating income	Share of total operating income (%)
Grand Petrochemical Co., Ltd	41,923,076.92	5.50
Fumeng County drip irrigation works in Liaoning water saving drip irrigation project	31,088,053.45	4.08
133rd Regiment of Eighth Agricultural Division	30,095,636.12	3.95
吉林省節水灌溉發展有限公司	18,978,397.03	2.49
121st Regiment of Eighth Agricultural Division	17,693,521.94	2.32
Sub-total	139,778,685.46	18.34

2. Business taxes and surcharges

Item	Current period	Last period	Basis
Business tax	270,117.90	246,864.36	See Tax in the Notes to Financial Statements
City maintenance and construction tax	2,156,828.57	395,820.51	
Education surcharge	926,853.12	250,500.30	
Local education surcharge	615,565.42	7,762.69	
Other	50,984.33	19,116.81	
Total	4,020,349.34	920,064.67	

Notes to Financial Statements

For the year ended 31 December 2012

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2. Explanatory notes to major items in the Consolidate Statement of Comprehensive Income *(continued)*

3. Cost of sales

Item	Current period	Last period
Salaries, benefits and social security contributions	14,319,940.43	10,630,074.38
Transportation costs	10,502,985.21	11,260,782.42
Travel expenses	5,391,406.40	758,399.62
Compensation for products transferred out	4,609,618.81	3,305,228.98
Service fees	2,848,842.29	2,646,252.00
Sales commission	2,553,708.82	4,442,344.50
Depreciation charge	711,631.29	690,452.96
Warehousing and storage fees	660,823.58	503,492.51
Other	4,919,475.90	5,003,676.64
Total	46,518,432.73	39,240,704.01

4. Administrative expenses

Item	Current period	Last period
Salaries, benefits and social security contributions	12,186,810.82	11,168,830.64
Agency service fees	1,725,249.51	1,708,703.89
Taxes and levies	1,544,599.79	1,369,029.05
Depreciation and amortisation charge	804,902.14	1,124,704.41
Development fees	35,635.00	816,512.69
Car expenses	794,345.05	803,563.10
Premium for property insurance	496,922.65	623,265.85
Entertainment fees	677,244.78	441,593.74
Travel expenses	249,274.51	324,687.48
Other	1,735,706.14	2,186,767.10
Total	20,250,690.39	20,567,657.95



V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2. Explanatory notes to major items in the Consolidate Statement of Comprehensive Income *(continued)*

5. Finance costs

Item	Current period	Last period
Interest expenses	5,614,565.00	5,176,921.66
Less: Interest income	395,964.39	675,081.38
Add: Exchange loss	5,049.36	131,026.54
Add: Other expenses	85,889.39	210,392.63
Total	5,309,539.36	4,843,259.45

6. Assets impairment loss

Item	Current period	Last period
Bad debt loss	-425,269.92	1,082,109.94
Inventory impairment loss	270,384.79	—
Total	-154,885.13	1,082,109.94

7. Gain on changes in fair value

Item	Current period	Last period
Financial assets held for trading	—	4,487,625.00
Total	—	4,487,625.00

8. Investment income

Item	Current period	Last period
Investment income from disposal of financial assets held for trading	-472,500.00	410,100.00
Total	-472,500.00	410,100.00

Notes to Financial Statements

For the year ended 31 December 2012

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2. Explanatory notes to major items in the Consolidate Statement of Comprehensive Income *(continued)*

9. Non-operating profits

(1) *Details*

Item	Current period	Last period	Amount recognised in current non-recurring profit or loss
Total gain on disposal of non-current assets	2,123.00	—	2,123.00
Of which: Gain on disposal of fixed assets	2,123.00	—	2,123.00
Donations received	—	8,200.00	—
Government grants	485,982.66	2,000,738.39	485,982.66
Gain on inventory take	—	42,157.01	—
Fine income	13,807.05	34,475.91	13,807.05
Amounts not payable	1,740,609.90	—	1,740,609.90
Other	78,412.79	173,363.83	78,412.79
Total	2,320,935.40	2,258,935.14	2,320,935.40



V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2. Explanatory notes to major items in the Consolidate Statement of Comprehensive Income *(continued)*

9. Non-operating profits *(continued)*

(2) *Details of government grants*

Item	Current period	Last period
Financial grant for demonstration and promotion of drip irrigation technology for double cropping in Henan	100,000.00	—
Grant for SME to develop international market in 2011	68,100.00	—
National scientific and technological award 2011	100,000.00	—
Grant for famous-brand product of Gansu	34,000.00	—
Reduction and exemption of tax	183,882.66	250,738.39
Special funds for 2000T paper plastic re-engineering project	—	1,750,000.00
Sub-total	485,982.66	2,000,738.39

Notes to Financial Statements

For the year ended 31 December 2012

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Explanatory notes to major items in the Consolidate Statement of Comprehensive Income (continued)

10. Non-operating losses

Item	Current period	Last period	Amount recognised in current non-recurring profit or loss
Donation	2,800.00	—	2,800.00
Fines	2,375,090.69	15,613.15	2,375,090.69
liquidated damages	—	791,231.40	—
Other	46,473.15	—	46,473.15
Total	2,424,363.84	806,844.55	2,424,363.84

11. Income tax expenses

Item	Current period	Last period
Current income tax calculated under tax laws and relevant requirements	2,211,589.21	4,242,998.80
Deferred income tax adjustment	559,608.19	260,039.22
Total	2,771,197.40	4,503,038.02



V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2. Explanatory notes to major items in the Consolidate Statement of Comprehensive Income *(continued)*

12. Calculations of basic and diluted earnings per share

(1) *Calculations of basic earnings per share*

Item	Number	Year of 2012
Net profits attributable to the ordinary shareholders of the Company	A	3,211,391.48
Total number of shares at beginning	B	519,521,560.00
Increase in number of shares due to transfer from reserves to capital or distribution of scrip dividend	C	—
Increase in number of shares due to issuance of new shares or convertibles	D	—
Number of months calculated from the month after increase in shares to end of reporting period	E	—
Decrease in number of shares due to repurchase	F	—
Number of months calculated from the month after decrease in shares to end of reporting period	G	—
Reduction in number of shares during the reporting period	H	—
Number of months in the reporting period	I	12.00
Weighted average number of outstanding ordinary shares	$J=B+C+D \times E/I - F \times G/I - H$	519,521,560.00
Basic earnings per share	$K=A/J$	0.01

(2) *Calculations of diluted earnings per share*

Calculations of diluted earnings per share are the same as the calculations of basic earnings per share.

Notes to Financial Statements

For the year ended 31 December 2012

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3. Explanatory notes to major items in the consolidated statement of cash flows

1. Other cash received for operating activities

Item	Current period
Interest income	395,964.39
Deposit received and refund	1,006,136.46
Government grants received	485,982.66
Current account and petty cash	1,347,399.94
Total	3,235,483.45

2. Other cash paid for operating activities

Item	Current period
Cost of sales paid	26,877,242.20
Administrative expenses paid	5,714,377.64
Finance costs paid	85,889.39
Current account paid	18,639,324.96
Total	51,316,834.19



V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Explanatory notes to major items in the consolidated statement of cash flows (continued)

3. Supplemental information to statement of cash flows

(1) Supplemental information to statement of cash flows

Supplemental information	Current period	Last period
1) Net profits reconciled to cash from operating activities:		
Net profits	3,212,300.42	20,121,964.51
Add: Provision for assets impairment	-154,885.13	1,082,109.94
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of productive biological assets	22,352,134.55	24,218,808.67
Amortisation of intangible assets	296,144.63	298,192.53
Amortisation of long-term prepaid expenses	129,071.28	62,209.36
Loss/(gain) on disposal of fixed, intangible and other long-term assets	-2,123.00	—
Loss/(gain) on retirement of fixed assets	—	—
Loss/(gain) on changes in fair value	—	-4,487,625.00
Finance cost/(income)	5,614,565.00	4,981,725.78
Investment cost/(income)	472,500.00	-410,100.00
Decrease/(Increase) in deferred tax assets	559,608.19	260,048.22
Increase/(decrease) in deferred tax liabilities	—	—
Decrease/(increase) in inventories	21,059,082.98	-148,800,410.76
Decrease/(increase) in operating receivables	-32,061,563.78	9,474,779.13
Increase/(decrease) in operating payables	50,434,619.87	19,319,031.05
Others	—	—
Net cash from operating activities	71,911,455.01	-73,879,266.57
2) Major investing and financing activities not involving payment or receipt in cash:	—	—
Debt converted to capital	—	—
Convertible corporate bonds due within 1 year	—	—
Fixed assets under finance leases	—	—
3) Net change in cash and cash equivalents:	—	—
Closing cash balance	101,989,724.15	61,391,380.49
Less: Opening cash balance	61,391,380.49	125,801,740.55
Add: Closing cash equivalents balance	—	—
Less: Opening cash equivalents balance	—	—
Net increase in cash and cash equivalents	40,598,343.66	-64,410,360.06

Notes to Financial Statements

For the year ended 31 December 2012

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3. Explanatory notes to major items in the consolidated statement of cash flows *(continued)*

3. Supplemental information to statement of cash flows *(continued)*

(2) Composition of cash and cash equivalents

Item	Closing balance	Opening balance
1) Cash	101,989,724.15	61,391,380.49
Of which: Cash on hand	420.18	971.55
Bank deposits readily available for payment	101,856,905.25	61,303,155.26
Other cash readily available for payment	132,398.72	87,253.68
Central bank deposits available for payment	—	—
Deposits in peer	—	—
Lendings to peer	—	—
2) Cash equivalents	—	—
Of which: Bond investment due within 3 months	—	—
3) Closing cash and cash equivalents	101,989,724.15	61,391,380.49

(3) Notes to supplemental information to statement of cash flows

Aral Jieshui's bank deposit of RMB9,752,600.00 had been frozen as agreed by its shareholders who were negotiating its future form of business after the operating term expired.

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Related parties

1. Parent of the Company

Name of parent	Relationship	Type	Place of registration	Legal representative	Nature of business
Xinjiang Tianye Company Limited	Holding company	Stock company	Shihezi, Xinjiang Uygur Autonomous Region	Yu Tianchi	Manufacturing



VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

1. Related parties (continued)

1. Parent of the Company (continued)

Name of parent	Registered capital	Percentage of shareholding of Company (%)	Percentage of voting rights of Company (%)	Ultimate controller of Company	Organisation number
Xinjiang Tianye Company Limited	RMB438.592 million	38.91	38.91	Xinjiang Tianye (Group) Limited	22860144-3

2. For subsidiaries of the Company, refer to business combination and consolidated financial statements in the Notes to Financial Statements.

3. Other related parties of the Company

Name of other related parties	Relationship between other Company	Organisation number
新疆石河子市長運生化有限責任公司	Controlling subsidiary of parent	71894627-6
石河子泰安建築工程有限公司	Controlling subsidiary of parent	71087939-8
石河子開發區天業化工有限責任公司	Controlling subsidiary of parent	66062239-0
石河子天業番茄製品有限公司	Controlling subsidiary of parent	71297749-3
北京天業綠洲科技發展有限公司	Controlling subsidiary of parent	72260391-1
石河子開發區匯業信息技術有限責任公司	Subsidiary of ultimate holding company	74865623-7
石河子開發區匯能工業設備安裝有限公司	Subsidiary of ultimate holding company	75458962-4
石河子南山水泥廠	Subsidiary of ultimate holding company	23108265-6
石河子開發區天業熱電有限責任公司	Subsidiary of ultimate holding company	77039122-0
精河縣晶羿礦業有限公司	Subsidiary of ultimate holding company	23108265-6
托克遜縣天業礦產開發有限公司	Subsidiary of ultimate holding company	69781623-6
天能化工有限公司	Subsidiary of ultimate holding company	55243347-x
天辰化工有限公司	Subsidiary of ultimate holding company	79817784-0
新疆天業集團礦業有限公司	Subsidiary of ultimate holding company	67925996-6
新疆天業仲華礦業有限責任公司	Subsidiary of ultimate holding company	69340199-X
石河子開發區天業車輛維修服務有限公司	Subsidiary of ultimate holding company	78178371-3

Notes to Financial Statements

For the year ended 31 December 2012

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

2. Related party transactions

1. Related party transactions regarding purchase and sale of goods and rendering and receipt of services

1) Related party transactions regarding purchase of goods and receipt of services

Related party	Details of related party transaction	Pricing and decision process of related party transaction	Current period		Last period	
			Amount	Share of similar transaction amount (%)	Amount	Share of similar transaction amount (%)
Xinjiang Tianye Company Limited	Raw materials procurement	Market price	55,687,955.56	8.19	70,066,802.30	11.57
新疆石河子市長運生化有限責任公司	Industrial electricity	Market price	3,304,152.25	0.49	4,703,201.97	0.78
石河子開發區匯業信息技術有限責任公司	Raw materials procurement	Market price	2,549,435.50	0.37	4,143,153.85	0.68
天辰化工有限公司電廠	Raw materials procurement	Market price	66,997.90	0.01	—	—
石河子開發區匯能工業設備安裝有限公司	Raw materials procurement	Market price	20,155.00	—	—	—
石河子開發區天業車輛維修服務有限公司	Repair of vehicles	Market price	61,196.18	0.01	—	—
Xinjiang Tianye (Group) Limited	Railway freights	Market price	107,857.75	0.02	—	—
Total			61,797,750.14	9.09	78,913,158.12	13.03



VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

2. Related party transactions (continued)

1. Related party transactions regarding purchase and sale of goods and rendering and receipt of services (continued)

2) Related party transactions regarding sale of goods and rendering of services

Related party	Details of related party transaction	Pricing and decision process of related party transaction	Current period		Last period	
			Amount	Share of similar transaction amount (%)	Amount	Share of similar transaction amount (%)
新疆石河子市長連生有限責任公司	Sale of water saving products	Market price	—	—	52,130.65	0.01
石河子泰安建築工程有限責任公司	Sale of water saving products	Market price	26,911.38	—	368,906.00	0.05
Xinjiang Tianye Company Limited	Sale of water saving products	Market price	157,863.09	0.02	48,259.81	0.01
石河子開發區天業化工有限責任公司	Sale of water saving products	Market price	7,705.72	—	9,342.08	—
石河子天業番茄製品有限責任公司	Sale of water saving products	Market price	105,948.03	0.01	421,443.56	0.06
Xinjiang Tianye (Group) Limited	Sale of water saving products	Market price	967,273.92	0.13	819,617.88	0.12
石河子開發區匯能工業設備安裝有限公司	Sale of water saving products	Market price	3,499.45	—	3,367.74	—
石河子南山水泥廠	Sale of water saving products	Market price	63,374.00	0.01	35,673.71	0.01
石河子開發區天業熱電有限責任公司	Sale of water saving products	Market price	3,457.90	—	9,589.74	—
天辰化工有限公司	Sale of water saving products	Market price	84,458.47	0.01	80,560.35	0.01
精河縣晶羿礦業有限公司	Sale of water saving products	Market price	—	—	134,234.06	0.02
托克遜縣天業礦產開發有限公司	Sale of water saving products	Market price	39,802.70	0.01	5,595.12	—
天能化工有限公司	Sale of water saving products	Market price	102,757.80	0.01	192,932.38	0.03
新疆天業集團礦業有限公司	Sale of water saving products	Market price	77,806.40	0.01	—	—
石河子開發區匯業信息技術有限責任公司	Sale of water saving products	Market price	1,795.36	—	—	—
新疆天業仲華礦業有限責任公司	Sale of water saving products	Market price	1,900.00	—	—	—
Total			1,644,554.22	0.21	2,181,653.08	0.32

Notes to Financial Statements

For the year ended 31 December 2012

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

2. Related party transactions (continued)

2. Related party leases

(1) Details

1) The Company as lessor

Name of lessor	Name of lessee	Type of leased assets	From	To	Pricing basis of received rent	Received rent recognised for the year
The Company	Xinjiang Tianye Company Limited	Buildings	2012.1.1	2012.12.31	Market price	600,000.00

2) The Company as lessee

Name of lessor	Name of lessee	Type of leased assets	From	To	Pricing basis of paid rent	Paid rent recognised for the year
Xinjiang Tianye Company Limited	The Company	Office and plant	2011.7.1	2014.6.30	Market price	1,455,820.00
Xinjiang Tianye Company Limited	Tianye Jieshui Anzhuang	Office and plant	2011.7.1	2014.6.30	Market price	3,500.00
Xinjiang Tianye Company Limited	Tianye Wuzi Huishou	Office	2011.7.1	2014.6.30	Market price	4,320.00

3. Related party guarantees

Guarantor	Secured party	Guarantee amount	From	to	Guarantee performed
Xinjiang Tianye Company Limited	The Company	50,000,000.00	2012.11.30	2013.5.28	No
Xinjiang Tianye (Group) Limited	The Company	50,000,000.00	2012.12.25	2013.12.25	No

4. Trademark License

Pursuant to a trademark license agreement entered into between Xinjiang Tianye (Group) Limited and the Company, Xinjiang Tianye (Group) Limited has granted, at nil consideration, to the Company the right to use a registered trademark on 17 kinds of rubber bands, sealants, agricultural plastic films, plastic pipelines, poles, plates, strip, non-metal hoses, insulating materials, non-metal horseshoes, non-conducting materials for retaining heat, and waterproof packing products from 1 December 2010 to 31 December 2013.



VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

3. Amounts due to related parties

Item	Related parties	Closing balance	Opening balance
Other payables	北京天業綠洲科技發展有限公司	484,608.93	951,548.93
	Xinjiang Tianye Company Limited	1,785,675.00	1,785,675.00
Sub-total		2,270,283.93	2,737,223.93

4. Emolument of key management personnel

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:

1. Compensation to key management personnel

Item	Current period	Last period
Compensation to key management personnel	3,563,221.89	2,259,181.47

Notes to Financial Statements

For the year ended 31 December 2012

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

4. Emolument of key management personnel (continued)

2. Remuneration paid to the directors and supervisors during the year:

Item	Current period	Last period
Executive directors		
Hou Guo Jun	—	—
Yin Xiu Fa	—	—
Shi Xiang Shen	—	—
Li Shuang Quan	502,941.67	436,352.83
Zhu Jia Ji	449,874.63	292,901.56
Chen Lin	—	—
Shao Mao Xu	225,002.62	171,423.20
Sub-total	1,177,818.92	900,677.59
Independent non-executive directors		
He Lin Wang	30,000.00	30,000.00
Xia Jun Min	30,000.00	30,000.00
Gu Lie Feng	30,000.00	30,000.00
Mai Jing Xiu	48,600.00	50,000.00
Wang Yun	30,000.00	30,000.00
Sub-total	168,600.00	170,000.00
Supervisors:		
Ni Mei Lan	233,122.75	189,849.87
He Jie	42,000.00	42,000.00
Huang Jun Lin	30,000.00	30,000.00
Zhou Qian	—	—
Sub-total	305,122.75	261,849.87
Total	1,651,541.67	1,332,527.46

Hou Guo Jun resigned as the executive director of the Company on 15 June 2012.



VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

4. Emolument of key management personnel *(continued)*

2. Remuneration paid to the directors and supervisors during the year: *(continued)*

The compensation and retirement benefit of Yin Xiu Fa and Chen Lin were paid by Xinjiang Tianye Company Limited, and the Company was not required to reimburse the compensation and retirement benefit paid by Xinjiang Tianye Company Limited.

The compensation and retirement benefit of Shi Xiang Shen were paid by Xinjiang Tianye (Group) Limited, and the Company was not required to reimburse the compensation and retirement benefit paid by Xinjiang Tianye (Group) Limited.

Shao Mao Xu appointed the executive director of the Company on 15 June 2012.

Independent non-executive directors, including He Lin Wang, Xia Jun Min, Gu Lie Feng, Mai Jing Xiu and Wang Yun Xiang, 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 Company.

Mr. He Jie and Mr. Huang Jun Lin are the independent supervisors of the Company 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 Company.

3. Five highest paid individuals

Of the five individuals with the highest emoluments in the Company, there are two directors for the year (2011: two) whose emoluments are included in Note 6(4).2. The emoluments of the remaining three (2011: three) individuals were as follows:

Item	Current period	Last period
Salaries and other benefits	995,244.10	936,211.20
Retirement benefits scheme contributions	212,834.64	159,540.22
Sub-total	1,208,078.74	1,095,751.42

The emoluments of each of the five highest paid individuals in the Company are less than RMB1 million.

VII. CONTINGENCIES

As at the balance sheet date, the Company had no material contingencies that should be disclosed.

VIII. COMMITMENTS

As at the balance sheet date, the Company had no material commitments that should be disclosed.

IX. POST BALANCE SHEET EVENT

The Company had no disclosable event occurring after the balance sheet date and up to the date of approval of these financial statements.

X. OTHER SIGNIFICANT MATTERS

1. Segment reporting

The Company regularly analyses its revenues by business operations, including the design, manufacture, installation and sale of irrigation system and equipment. The operation of the Company constitutes one single reportable segment under the provisions on segment information in business statements of the No. 3 Interpretation of ASBE and accordingly, no separate segment information is prepared.

The Company's business during the period came from sales in PRC. Further, the segment assets and capital expenditure by geographical area in which the assets are located are substantially located in the PRC.

There were no customers with whom transactions have exceeded 10% of the Company's operating income during the year.

2. Financial instruments and risk management

The Company's financial instruments mainly include bill receivables, trade receivables, equity investment, borrowings, bill payables and trade payables. For details of each of these financial instruments, refer to the relevant notes. The Company has adopted appropriate risk management policies to mitigate the risks associated with these financial instruments. The management manages and monitors these exposures to ensure they are confined in a controlled scope.



X. OTHER SIGNIFICANT MATTERS *(continued)*

2. Financial instruments and risk management *(continued)*

1. Categories of financial instruments

Details	Current period	Last period
Financial assets		
Cash	111,742,324.15	61,391,380.49
Bill receivables	2,850,000.00	500,000.00
Receivables (note 1)	149,288,481.12	91,644,147.98
Sub-total	263,880,805.27	153,535,528.47
Financial liabilities		
Short-term borrowings	100,000,000.00	120,000,000.00
Bill payables	—	20,000,000.00
Payables (note 2)	184,065,285.60	160,732,436.32
Sub-total	284,065,285.60	300,732,436.32

Note 1: Receivables include trade receivables and other receivables

Note 2: Payables include trade payables and other payables

2. Risk management objectives and policies

The Company manages its risks to balance risks with return, minimise the adverse effect of risks on the Company's results of operations, and maximize the return to shareholders and other stakeholders. Based on this, the basic strategy used by the Company for risk management is to identify and analyse various risks facing the Company, establish suitable risk tolerance limit and manage the risks within a controlled range by monitoring them in a timely and reliable manner.

X. OTHER SIGNIFICANT MATTERS (continued)**2. Financial instruments and risk management** (continued)**2. Risk management objectives and policies** (continued)

(1) Market risk

1) Foreign currency risk

Foreign currency risk refers to the risk that arises from movement in foreign currency exchange rate. The majority of the Company's operations and transactions are in the PRC with their functional currency of RMB. Foreign currency risk during the period mainly related to HKD. As as 31 December 2012, the Company's assets and liabilities were denominated in RMB, except for the following HKD-denominated item:

Item	Closing balance		Opening balance	
	Original currency amount	RMB equivalent	Original currency amount	RMB equivalent
HKD	80,719.13	65,495.50	—	—

The Company has a relatively small amount of deposits denominated in foreign currency. Day-to-day foreign expenses mainly used to pay the fees for making disclosure on the Stock Exchange and newspapers, so change in exchange rate had an insignificant impact on the Company.

2) Cash flow and fair value interest rate risk

Other than bank deposits, the Company does not have significant interest-bearing assets. Any change in the interest rate is not considered to have significant impact to the Company's performance.

The interest rate risk which affects the Company mainly arises from bank borrowings. The bank borrowings were at fixed rates and expose the Company to fair value interest rate risk.



X. OTHER SIGNIFICANT MATTERS *(continued)*

2. Financial instruments and risk management *(continued)*

2. Risk management objectives and policies *(continued)*

(1) Market risk *(continued)*

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

If interest rate on short-term borrowings had been 0.5% higher/lower and all other variables were held constant, the Company's net profit for the year would increase/decrease by RMB270,804.62 (2011: increase/decrease by RMB600,000). This is mainly attributable to the Company's exposure to interest rates on bank borrowings.

(2) Credit risk

As at 31 December 2012, the Company's maximum exposure to credit risk arose from the inability to recover trade receivables due to the counter parties failure to perform their agreed obligations.

To mitigate credit risk, the Company reviews the recoverability of each single trade receivable at each balance sheet date, ensuring sufficient bad-debt provisions have been made for uncoverable amounts. The management of the Company believe that the credit risk suffered by the Company has been reduced significantly.

The Company is exposed to limited credit risk on bank deposits as its cash was placed in banks with high credit ratings.

Because the Company's trade receivable risks were diversified into a range of partners and customers, as of 31 December 2012, 5.50% and 18.34% of the Company's operating income came from its largest customer and the top 5 customers. As such, the Company did not have any significant concentration of credit risk.

(3) Liquidity risk

In the management of the liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company'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.

X. OTHER SIGNIFICANT MATTERS *(continued)*

2. Financial instruments and risk management *(continued)*

3. Fair value

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

The fair value of financial assets and financial liabilities with standard terms and an active market is determined by reference to the prevailing bid and ask price in the active market responsively.

The fair value of other 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.

4. Capital Risk Management

The Company manages its capital to ensure that it will be able to continue as a going concern, provide returns to shareholders, and benefits to other stakeholders, while maintaining the optimal capital structure to reduce the cost of capital.

The capital structure of the Company consists of short-term bank borrowings, bank deposits and equity attributable to shareholders of the Company. The management determines the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Company will balance its overall capital structure through the payment of dividends, new share issues as well as repayment of existing borrowings.

The Company 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 plus net debt. As at 31 December 2012, the Company's equity ratio was -0.27% (2011: 7.56%). The Company's capital risk is low.

	Current year	Last year
Total borrowings	100,000,000.00	120,000,000.00
Less: Cash and cash equivalents	101,989,724.15	61,391,380.49
Net debt	-1,989,724.15	58,608,619.51
Equity	729,835,547.75	716,623,247.33
Total capital	727,845,823.60	775,231,866.84
Gearing ratio	-0.27%	7.56%



XI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

1. Explanatory notes to major items in the Balance Sheet of the Parent Company

1. Trade receivables

(1) Details

1) Details by category

Category	Closing balance			
	Book balance		Bad-debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	78,537,225.72	75.66	—	—
For which bad debt provision has been collectively made				
Aging analysis method group	13,233,166.99	12.75	4,720,078.04	35.67
Individually insignificant and for which bad debt provision has been separately made	12,032,547.26	11.59	—	—
Total	103,802,939.97	100.00	4,720,078.04	4.55

Notes to Financial Statements

For the year ended 31 December 2012

XI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT (continued)

1. Explanatory notes to major items in the Statement of Financial Position of the parent (continued)

1. Trade receivables (continued)

(1) Details (continued)

1) Details by category (continued)

Category	Book balance		Opening balance	
	Amount	Percentage	Amount	Bad-debt provision
		(%)		Percentage
	Amount	(%)	Amount	(%)
Individually significant and for which bad debt provision has been separately made	8,369,306.88	26.95	—	—
For which bad debt provision has been collectively made				
Aging analysis method group	16,344,584.73	52.64	3,905,771.07	23.90
Individually insignificant and for which bad debt provision has been separately made	6,337,818.45	20.41	1,040,822.91	16.42
Total	31,051,710.06	100.00	4,946,593.98	15.93

2) Trade receivables individually significant and for which bad debt provision has been separately made

Trade receivables	Book balance	Bad-debt provision	Provision percentage	Reason for provision
Payment for goods	78,537,225.72	—	—	Bad debt provision has been separately made for state land treatment project and government tendering project
Sub-total	78,537,225.72	—	—	



XI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT (continued)

1. Explanatory notes to major items in the Statement of Financial Position of the parent (continued)

1. Trade receivables (continued)

(1) Details (continued)

- 3) Trade receivables for which bad debt provision has been collectively made using aging analysis method

Age	Closing balance			Opening balance		
	Book balance	Percentage	Bad-debt	Book balance	Percentage	Bad-debt
	Amount	(%)	provision	Amount	(%)	provision
Within 1 year	4,969,214.07	37.55	49,692.14	11,246,398.87	68.81	112,463.99
1-2 years	7,187,134.05	54.31	3,593,567.03	2,609,757.56	15.97	1,304,878.78
2-3 years	886,849.02	6.70	886,849.02	1,446,866.78	8.85	1,446,866.78
3-4 years	—	—	—	851,591.67	5.21	851,591.67
4-5 years	—	—	—	189,969.85	1.16	189,969.85
Over 5 years	189,969.85	1.44	189,969.85	—	—	—
Sub-total	13,233,166.99	100.00	4,720,078.04	16,344,584.73	100.00	3,905,771.07

- 4) Trade receivables individually insignificant and for which bad debt provision has been separately made at the period-end

Trade receivables	Book balance	Bad-debt provision	Provision percentage	Reason for provision
Payment for goods	12,032,547.26	—	—	Bad debt provision has been separately made for state land treatment project and government tendering project
Sub-total	12,032,547.26	—	—	

Notes to Financial Statements

For the year ended 31 December 2012

XI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT *(continued)*

1. Explanatory notes to major items in the Statement of Financial Position of the parent *(continued)*

1. Trade receivables *(continued)*

(2) Trade receivables actually written off for the period

Name of entity	Nature of trade receivables	Amount written off	Reason for write-off	Arising from connected transaction
134th Regiment of Eighth Agricultural Division	Payment for goods	253,416.90	Payment for goods unrecoverable	No
Xinhu Farm of Sixth Agricultural Division	Payment for goods	330,434.55	Payment for goods unrecoverable	No
127th Regiment	Payment for goods	41,676.00	Payment for goods unrecoverable	No
Office of Shenzhen Kangda in Xinwu	Payment for goods	128,000.00	Payment for goods unrecoverable	No
Sub-total		753,527.45		

(3) There were no amounts due from shareholders or other related parties holding 5% or more in the voting shares of the Company at the period-end.



XI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT *(continued)*

1. Explanatory notes to major items in the Statement of Financial Position of the parent *(continued)*

1. Trade receivables *(continued)*

(4) Trade receivables from top 5 accounts

Name of entity	Relationship with Company	Book balance	Age	Share of trade receivable balance (%)
Bumeng County drip irrigation works in Liaoning water saving drip irrigation project	Non-related party	13,802,950.00	Within 1 year	13.30
吉林省節水灌溉發展有限公司	Non-related party	11,310,387.70	Within 1 year	10.90
Finance Bureau of Beizhen, Liaoning	Non-related party	9,700,000.00	Within 1 year	9.34
Rural Economic Development Office of Linghai	Non-related party	8,000,000.00	Within 1 year	7.71
People's Government of Jianchang County, Huludao	Non-related party	7,500,000.00	Within 1 year	7.23
Sub-total		50,313,337.70		48.48

Notes to Financial Statements

For the year ended 31 December 2012

XI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT (continued)

1. Explanatory notes to major items in the Statement of Financial Position of the parent (continued)

2. Other receivables

(1) Details

1) Details by category

Category	Closing balance			
	Book balance		Bad-debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	2,150,000.00	2.19	—	—
For which bad debt provision has been collectively made				
Aging analysis method group	2,992,097.07	3.05	1,121,777.87	37.49
Individually assessment method group	86,711,041.80	88.27	—	—
Sub-total	89,703,138.87	91.32	1,121,777.87	1.25
Individually insignificant and for which bad debt provision has been separately made	6,373,107.18	6.49	311,354.03	4.89
Total	98,226,246.05	100.00	1,433,131.90	1.46



XI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT *(continued)*

1. Explanatory notes to major items in the Statement of Financial Position of the parent *(continued)*

2. Other receivables *(continued)*

(1) Details *(continued)*

1) Details by category *(continued)*

Category	Opening balance		Bad-debt provision	
	Book balance	Percentage	Amount	Percentage
	Amount	(%)	Amount	(%)
Individually significant and for which bad debt provision has been separately made	16,327,941.30	10.80	—	—
For which bad debt provision has been collectively made				
Aging analysis method group	4,063,657.51	2.69	1,275,435.43	31.39
Individually assessment method group	124,515,357.62	82.39	—	—
Sub-total	128,579,015.13	85.08	1,275,435.43	0.99
Individually insignificant and for which bad debt provision has been separately made	6,225,182.28	4.12	164,239.97	2.64
Total	151,132,138.71	100.00	1,439,675.40	0.95

Notes to Financial Statements

For the year ended 31 December 2012

XI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT (continued)

1. Explanatory notes to major items in the Statement of Financial Position of the parent (continued)

2. Other receivables (continued)

(1) Details (continued)

- 2) Closing other receivables individually significant and for which bad debt provision has been separately made

Other receivables	Book balance	Bad-debt provision	Percentage of provision (%)	Reason for provision
Project payment lent to government	2,150,000.00	—	—	No bad debt provision has been made, with its future cash flows equal to its carrying amount
Sub-total	2,150,000.00	—	—	

- 3) Other receivables for which bad debt provision has been collectively made using the aging analysis method

Age	Closing balance			Opening balance		
	Book balance Amount	Percentage (%)	Bad-debt provision	Book balance Amount	Percentage (%)	Bad-debt provision
Within 1 year	1,490,067.35	49.80	14,900.67	1,897,876.58	46.70	18,978.77
1-2 years	790,305.05	26.41	395,152.53	1,818,648.54	44.75	909,324.27
2-3 years	623,772.46	20.85	623,772.46	307,132.39	7.56	307,132.39
3-4 years	47,952.21	1.60	47,952.21	—	—	—
4-5 years	—	—	—	40,000.00	0.99	40,000.00
Over 5 years	40,000.00	1.34	40,000.00	—	—	—
Sub-total	2,992,097.07	100.00	1,121,777.87	4,063,657.51	100.00	1,275,435.43



XI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT (continued)

1. Explanatory notes to major items in the Statement of Financial Position of the parent (continued)

2. Other receivables (continued)

(1) Details (continued)

- 4) Other receivables for which bad debt provision has been collectively made using the individually assessment method

Name of entity	Book balance	Bad-debt provision	Provision percentage (%)	Reason for provision
Aral Jieshui	13,076,659.22	—	—	Subsidiary subject to consolidation
Hami Jieshui	1,190,123.06	—	—	Subsidiary subject to consolidation
Kuitun Jieshui	22,422,123.00	—	—	Subsidiary subject to consolidation
Akesu Jieshui	40,817,900.23	—	—	Subsidiary subject to consolidation
Tiancheng Jieshui	9,204,236.29	—	—	Subsidiary subject to consolidation
Sub-total	86,711,041.80	—	—	

- 5) Other receivables individually insignificant and for which bad debt provision has been separately made at the period-end

Other receivables	Book balance	Bad-debt provision	Provision percentage (%)	Reason for provision
Project payment lent to government	6,373,107.18	311,354.03	4.89	Bad debt provision has been made based on the difference between its future cash flows and its carrying amount
Sub-total	6,373,107.18	311,354.03	4.89	

Notes to Financial Statements

For the year ended 31 December 2012

XI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT *(continued)*

1. Explanatory notes to major items in the Statement of Financial Position of the parent *(continued)*

2. Other receivables *(continued)*

(2) There were no amounts due from shareholders holding 5% or more in the voting shares of the Company at the period-end.

(3) *Other receivables from top 5 accounts*

Name of entity	Relationship with Company	Book balance	Age	Share of other receivable balance (%)	Nature or content of amount
Gao Yongxin/ government project	Non-related party	1,100,000.00	1–3 years	1.12	Project payment lent
Zhu Wanguo/Drip irrigation project in Ergong Township, Jimusaer County	Non-related party	1,050,000.00	1–3 years	1.07	Project payment lent
Cao Jianguo/Project of the Water Conservancy Bureau of Zepu County, etc.	Non-related party	925,000.00	1–5 years	0.94	Project payment lent
Pang Zhenyuan/ Hongqi Farm	Non-related party	917,000.00	2–4 years	0.93	Project payment lent
Liubo/Water saving and grain increasing project in Liaoning	Non-related party	803,563.10	Within 1 year	0.82	Project payment lent
Sub-total		4,795,563.10		4.88	



XI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT (continued)

1. Explanatory notes to major items in the Statement of Financial Position of the parent (continued)

2. Other receivables (continued)

(4) Other amounts due from related parties

Name of entity	Relationship with Company	Book balance	Share of other receivable balance (%)
Aral Jieshui	Subsidiary	13,076,659.22	13.31
Hami Jieshui	Subsidiary	1,190,123.06	1.21
Kuitun Jieshui	Subsidiary	22,422,123.00	22.83
Akesu Jieshui	Subsidiary	40,817,900.23	41.55
Tiancheng Jieshui	Subsidiary	9,204,236.29	9.37
Sub-total		86,711,041.80	88.27

3. Long-term equity investment

Investee	Accounting method	Investment cost	Beginning of Period	Movement	End of Period
Tianye Anzhuang	Cost method	9,500,000.00	9,500,000.00	—	9,500,000.00
Hami Tianye	Cost method	11,549,490.47	11,549,490.47	—	11,549,490.47
Kuitun Jieshui	Cost method	12,000,000.00	12,000,000.00	—	12,000,000.00
Beijing Tianye	Cost method	1,530,000.00	1,530,000.00	—	1,530,000.00
Akesu Jieshui	Cost method	40,000,000.00	40,000,000.00	—	40,000,000.00
Tiancheng Jieshui	Cost method	9,000,000.00	9,000,000.00	—	9,000,000.00
Tianye Wuzi Huishou	Cost method	2,470,000.00	2,470,000.00	—	2,470,000.00
Gansu Tianye	Cost method	61,414,950.00	31,414,950.00	30,000,000.00	61,414,950.00
Aral Jieshui	Cost method	5,190,830.27	5,190,830.27	—	5,190,830.27
Total		152,655,270.74	122,655,270.74	30,000,000.00	152,655,270.74

Notes to Financial Statements

For the year ended 31 December 2012

XI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT *(continued)*

1. Explanatory notes to major items in the Statement of Financial Position of the parent *(continued)*

3. Long-term equity investment *(continued)*

Investee	Percentage of shareholding (%)	Percentage of voting rights (%)	Notes on inconsistency between percentage of shareholding and percentage of voting rights	Impairment provision	Impairment provision for the period	Cash dividends for the period
Tianye Anzhuang	95.00	95.00	—	—	—	—
Hami Tianye	60.00	60.00	—	—	—	—
Kuitun Jieshui	100.00	100.00	—	—	—	—
Beijing Tianye	51.00	51.00	—	—	—	—
Akesu Jieshui	100.00	100.00	—	—	—	—
Tiancheng Jieshui	60.00	60.00	—	—	—	—
Tianye Wuzi Huishou	98.00	98.00	—	—	—	—
Gansu Tianye	100.00	100.00	—	—	—	—
Aral Jieshui	51.00	51.00	—	—	—	—

2. Explanatory notes to major items in the Income Statement of the Parent Company

1. Operating income/Operating expenses

(1) Details

Item	Current period	Last period
Operating income from principal activities	638,088,329.55	603,991,713.29
Other operating income	—	—
Operating expenses	578,995,257.91	553,774,543.19



XI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT *(continued)*

2. Explanatory notes to major items in the Income Statement of the parent *(continued)*

1. Operating income/Operating expenses *(continued)*

(2) Operating income/operating expenses from principal activities (by product)

Name of product	Current period		Last period	
	Income	Expenses	Income	Expenses
Drip films and drip assemblies	468,668,657.55	429,445,148.05	443,483,163.96	416,820,094.75
PVC/PE pipelines	163,864,321.35	145,898,708.35	160,508,549.33	136,954,448.44
Income from construction	5,555,350.65	3,651,401.51	—	—
Total	638,088,329.55	578,995,257.91	603,991,713.29	553,774,543.19

(3) Operating income from principal activities (by region)

Name of region	Current period	Last period
Xinjiang	350,912,017.57	399,042,591.59
PRC excluding Xinjiang	287,176,311.98	199,445,993.24
Overseas	—	5,503,128.46
Sub-total	638,088,329.55	603,991,713.29

Notes to Financial Statements

For the year ended 31 December 2012

XI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT *(continued)*

2. Explanatory notes to major items in the Income Statement of the parent *(continued)*

1. Operating income/Operating expenses *(continued)*

(4) Operating income from top 5 customers of the Company

Name of customer	Operating income	Share of total operating income (%)
Grand Petrochemical Co., Ltd	41,923,076.92	6.57
Bumeng County drip irrigation works in Liaoning water saving drip irrigation project	31,088,053.45	4.87
133rd Regiment of Eighth Agricultural Division	30,095,636.12	4.72
吉林省節水灌溉發展有限公司	18,978,397.03	2.97
121st Regiment of Eighth Agricultural Division	17,693,521.94	2.77
Sub-total	139,778,685.46	21.90

2. Investment income

Item	Current period	Last period
Investment income from disposal of financial assets held for trading	-472,500.00	410,100.00
Total	-472,500.00	410,100.00



XI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT *(continued)*

3. Supplemental information to the Statement of Cash Flows of the Parent Company

Supplemental information	Current period	Last period
1. Net profits reconciled to cash from operating activities:		
Net profits	1,437,598.91	16,123,619.27
Add: Provision for assets impairment	527,011.51	-348,300.49
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of productive biological assets	16,113,424.87	17,658,654.16
Amortisation of intangible assets	154,594.92	154,594.92
Amortisation of long-term prepaid expenses	129,071.28	—
Loss/(gain) on disposal of fixed, intangible and other long-term assets	—	—
Loss/(gain) on retirement of fixed assets	—	—
Loss/(gain) on changes in fair value	—	-4,487,625.00
Finance cost/(income)	5,614,565.00	4,981,725.78
Investment cost/(income)	472,500.00	-410,100.00
Decrease/(Increase) in deferred tax assets	247,930.70	371,012.18
Increase/(decrease) in deferred tax liabilities	—	—
Decrease/(increase) in inventories	14,170,601.39	-125,100,227.46
Decrease/(increase) in operating receivables	17,756,732.14	-15,202,444.30
Increase/(decrease) in operating payables	32,497,796.66	42,722,970.56
Others	—	—
Net cash from operating activities	89,121,827.38	-63,536,120.38
2. Major investing and financing activities not involving payment or receipt in cash:		
Debt converted to capital	—	—
Convertible corporate bonds due within 1 year	—	—
Fixed assets under finance leases	—	—
3. Net change in cash and cash equivalents:		
Closing cash balance	64,347,372.08	33,801,828.09
Less: Opening cash balance	33,801,828.09	82,563,576.53
Add: Closing cash equivalents balance	—	—
Less: Opening cash equivalents balance	—	—
Net increase in cash and cash equivalents	30,545,543.99	-48,761,748.44

Notes to Financial Statements

For the year ended 31 December 2012

XII. OTHER SUPPLEMENTAL INFORMATION

The Company prepared its financial statements according to relevant requirements under both the HKFRS issued by the Hong Kong Institute of Certified Public Accountants and the ASBE issued by the Ministry of Finance of the PRC for the year ended 31 December 2011 and previous years, and disclosed its financial statements prepared under the HKFRS on the Hong Kong Stock Exchange.

According to the “Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong” which was published by the Stock Exchange in December 2010, from 1 January 2012, the Company prepared its financial statements under the ASBE alone, rather than the HKFRS, and disclosed its financial statements prepared under the ASBE on the Hong Kong Stock Exchange. As the Company is incorporated in the Mainland, the Company believes the financial statements prepared under the ASBE comply with the Listing Rules and the disclosure requirements and are in the best interest of the Company.

Differences between the owners' equity as at 31 December 2011 and net profit for the year of 2011 prepared under the ASBE and those prepared under the HKFRS are as follows:

Item	Net profit For the year ended 31 December 2011	Owners' equity As at 31 December 2011
Amount under ASBE	20,121,964.51	716,623,247.33
Adjustments under HKFRS		
1. Amortisation of long-term prepaid expenses	-315,680.83	-814,864.02
2. Unrecognised deferred tax assets	-91,869.17	-646,370.90
3. Other	-439,846.88	-439,846.88
Total	-847,396.88	-1,901,081.80
Amount under HKFRS	19,274,567.63	714,722,165.53

Xinjiang Tianye Water Saving Irrigation System Company Limited

28 March 2013

Five Years Financial Summary

For the year ended 31 December 2012



The table below summarises the audited results, assets and liabilities of the Group for the year ended 31 December 2012, 2011, 2010, 2009 and 2008. Such information for 2008–2011 is compiled based on the Hong Kong Financial Reporting Standards, and information for 2012 is compiled based on the ASBE.

RESULTS

	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
Turnover	762,837	690,416	588,491	571,028	664,248
Profit for the year and total comprehensive income attributable to owners of the Company	3,211	18,956	17,151	6,479	6,694

ASSETS AND LIABILITIES

	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
Total Assets	1,101,230	1,103,598	1,022,169	970,782	1,003,624
Total Liabilities	371,395	388,876	322,187	286,718	322,937
Non-controlling Interests	(18,018)	(15,217)	(17,299)	(18,532)	(21,771)
Equity Attributable to owners of the Company	711,817	699,505	682,683	665,532	658,916

Property Interests held by the Group in the PRC

For the year ended 31 December 2012

Location of Property	Lease term	Percentage of Interests attributable to the Group	Floor Area Use (sq.m)
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