

# ANNUAL 2016 REPORT



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

Stock Code: 840

\* for identification purposes only

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# Corporate Information

## DIRECTORS

### Executive Directors

Mr. Chen Lin (*Chairman*)  
Mr. Zhang Qiang  
Mr. Li He (appointed on 10th June, 2016)  
Mr. Yang Wan Sen (appointed on 10th June, 2016)  
Mr. Zhu Jia Ji (retired on 10th June, 2016)  
Mr. Shao Mao Xu (retired on 10th June, 2016)

### Independent non-executive Directors

Mr. Yin Feihu  
Mr. Qin Ming  
Mr. Mak King Sau  
Mr. Cao Jian (retired on 10th June, 2016)

## SUPERVISORS

Mr. Xu Hongzhen (appointed on 10th June, 2016)  
Mr. Wang Jian (appointed on 10th June, 2016)  
Ms. Chen Jun (appointed on 10th June, 2016)  
Mr. Han Pan (retired on 10th June, 2016)  
Mr. He Jie (retired on 10th June, 2016)  
Mr. Yang Ming (retired on 10th June, 2016)

## QUALIFIED ACCOUNTANT

Ms. Chow Yuk Lan

## COMPANY SECRETARY

Ms. Chow Yuk Lan

## COMPLIANCE OFFICER

Mr. Zhang Qiang

## AUDIT COMMITTEE

Mr. Qin Ming (*Chairman*)  
Mr. Yin Feihu  
Mr. Mak King Sau  
(appointed on 10th June, 2016)  
Mr. Cao Jian (retired on 10th June, 2016)

## REMUNERATION COMMITTEE

Mr. Yin Feihu (*Chairman*)  
Mr. Qin Ming  
Mr. Zhang Qiang  
Mr. Cao Jian (retired on 10th June, 2016)

## NOMINATION COMMITTEE

Mr. Yin Feihu (*Chairman*)  
Mr. Qin Ming  
Mr. Chen Lin  
Mr. Cao Jian (retired on 10th June, 2016)  
Mr. Zhang Qiang (resigned on 10th June, 2016)

## AUDITOR

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

## Corporate Information

### HONG KONG LEGAL ADVISER

Li & Partners  
22nd Floor, Worldwide House  
19 Des Voeux Road Central  
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 A, 27/F  
Billion Plaza II  
10 Cheung Yue Street  
Cheung Sha Wan  
Kowloon  
Hong Kong

### HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
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 (the “**Board**”) of Directors (the “**Director(s)**”), I hereby announce the report of Xinjiang Tianye Water Saving Irrigation System Company Limited (the “**Company**”) together with its subsidiaries (the “**Group**”) for the year ended 31st December, 2016.*

## **BUSINESS REVIEW**

- Operating income for the year ended 31st December, 2016 was approximately RMB671,402,000, an increase of approximately 0.59% from year 2015.
- Net loss attributable to owners of the Company for the year ended 31st December, 2016 was approximately RMB57,339,000 (2015: net loss attributable to owners of the Company was approximately RMB6,794,000).
- Basic and diluted loss per share for the year was approximately RMB0.110 (2015: basic and diluted loss per share of approximately RMB0.013).

## **PROSPECTS**

During the reporting period, faced with scarce water resources, changing ecosystem, and other noticeable issues, the Chinese government further increased investments in agricultural water management, efficient water-saving irrigation, and facility-supported farming. Unfortunately, the Group's economic benefits were directly affected by slowed economic growth in China, increasingly intensified competition in the water-saving business, and a growing conflict between the demand and the supply.

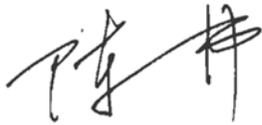
The Directors of the Group believe the Chinese government introduces the water-saving agriculture as a regional strategy for developing a healthy national economy. In recent years, the area of efficient water-saving irrigation has been increased by 100 million mu, indicating a broad market and development landscape for the water-saving industry. In view of this, the Group will fully utilize its own advantages and seize opportunities to increase investments in technological research and development, as well as expediting product upgrade and iteration. By diversifying and differentiating the premier products, the Group will enhance its competitive strength in the domestic and overseas market.

## Chairman's Statement

### 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,



**Chen Lin**

*Chairman of the Board*

Xinjiang, the PRC  
31st March, 2017

# Management Discussion and Analysis

## OVERVIEW

As a pioneer in providing one-stop solutions for a water saving irrigation system in the PRC, the Group is principally engaged in the design, manufacturing and sales of drip tapes, 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 systems for its customers. The 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 plants. 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 a water saving irrigation system have been recognised by both the PRC government and producers of agricultural products in the PRC.



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

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 base by expanding its sales and distribution network.

## Management Discussion and Analysis

## RESULTS OF OPERATIONS

## Operating income

For the year ended 31st December, 2016, operating income of the Group was approximately RMB671,402,000, representing an increase of approximately 0.59% from approximately RMB667,448,000 for the year ended 31st December, 2015.

The following table summarises the breakdown of operating income of the Group for each of the two years ended 31st December, 2016 and 31st December, 2015 by products:

Category	For the year ended 31st December, 2016		For the year ended 31st December, 2015		Year-on-year percentage change
	Operating income RMB'000	Percentage of total Operating income %	Operating income RMB'000	Percentage of total Operating income %	
Drip tapes and drip assemblies	<b>299,164</b>	<b>44.56</b>	292,960	43.89	<b>2.12</b>
PVC/PE pipelines	<b>325,252</b>	<b>48.44</b>	330,635	49.54	<b>(1.63)</b>
Provision of installation services	<b>15,848</b>	<b>2.36</b>	28,238	4.23	<b>(43.88)</b>
Other operating income	<b>31,138</b>	<b>4.64</b>	15,615	2.34	<b>99.41</b>
<b>Total</b>	<b>671,402</b>	<b>100.00</b>	667,448	100.00	

For the year ended 31st December, 2016, sales of drip tapes and drip assemblies slightly increased by approximately 2.12% to approximately RMB299,164,000, while sales of PVC/PE pipelines decreased by approximately 1.63% to approximately RMB325,252,000. At the same time, the sales volume of drip tapes and drip assemblies decreased from approximately 22,418 tonnes for the year ended 31st December, 2015 to approximately 20,204 tonnes for the year ended 31st December, 2016, while the sales volume of PVC/PE pipelines decreased from approximately 54,515 tonnes for the year ended 31st December, 2015 to approximately 48,307 tonnes for the year ended 31st December, 2016. The decrease in sales volume of products of the Group was mainly attributable to the impact of international crude oil prices and increasingly intensified competition in the water-saving business.

## Cost of sales

For the year ended 31st December, 2016, cost of sales of the Group was approximately RMB630,786,000, representing an increase of approximately 3.64% from approximately RMB608,639,000 for the year ended 31st December, 2015. Costs of sales for the year ended 31st December, 2016 comprised direct materials costs of approximately RMB520,903,000, direct labour costs of approximately RMB52,481,000 and production overhead of approximately RMB57,402,000, which accounted for approximately 82.58%,

## Management Discussion and Analysis

8.32% and 9.10%, respectively, of the total costs of sales for year 2016. Costs of sales for the year ended 31st December, 2015 comprised direct materials costs of approximately RMB523,622,000, direct labour costs of approximately RMB44,267,000 and production overhead of approximately RMB40,750,000, which accounted for approximately 86.03%, 7.27% and 6.70%, respectively, of the total costs of sales for year 2015.

### Non-operating income

For the year ended 31st December, 2016, non-operating income was approximately RMB3,194,000 and consisted primarily of government grants; comparing to the amount of approximately RMB6,199,000 for the year ended 31st December, 2015, which mainly represented amounts not payables written off and government grants.

### Distribution costs

Distribution costs were approximately RMB44,353,000 for the year ended 31st December, 2016, representing an increase of approximately 6.43% from the previous year. The amount accounted for approximately 6.61% of the total operating income for the year ended 31st December, 2016, which was slightly higher than its share of total operating income of approximately 6.24% in the previous year. Distribution costs mainly comprised transportation costs, salaries expenses, sales service fee, advertising fee, etc. For the year ended 31st December, 2016, advertising fee and transportation costs increased by approximately 240.74% and 9.04% to approximately RMB1,648,000 and RMB12,741,000, respectively.

### Administrative expenses

Administrative expenses increased by approximately 26.69% to approximately RMB32,043,000 for the year ended 31st December, 2016. The amount accounted for approximately 4.77% of total operating income for the year ended 31st December, 2016, which was higher than its share of total operating income of approximately (3.79%) in the previous year.

### Finance costs

Finance income for the year ended 31st December, 2016 was approximately RMB374,000 while finance income for the year ended 31st December, 2015 was approximately RMB255,000, consisted mainly of interest income incurred from deposits with banks.

## Management Discussion and Analysis

### Operating loss

As a result of the factors discussed above, the Group's operating loss for the year ended 31st December, 2016 was approximately RMB62,481,000, representing an increase of approximately RMB50,511,000 from operating loss of approximately RMB11,970,000 for the corresponding period in the previous year. The Group's operating loss ratio (expressed as a percentage of operating loss over the Group's operating income) was approximately 1.79% and 9.31% for the years ended 31st December, 2015 and 2016, respectively.

### Net loss attributable to owners of the Company

As a result of the factors discussed above, the net loss attributable to owners of the Company increased by approximately RMB50,545,000, from net loss of approximately RMB6,794,000 for the year ended 31st December, 2015 to net loss of approximately RMB57,339,000 for the year ended 31st December, 2016. For the two years ended 31st December, 2015 and 2016, the Group's net loss margins were approximately 1.02% and 8.54%, respectively.

### Key Risk Factors

The following section lists out the key risks and uncertainties that the Group is facing. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below. Besides, this annual report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company.

### Collection of trade receivables

The Group will grant credit terms to certain creditworthy customers. However, there is no assurance that the Group's trade receivables will be fully repaid on a timely basis. If all or some of the Group's customers with accounts receivables fail to pay all or part of, or delay the payment due to the Group for whatever reasons, additional provisions will have to be made by the Group which may adversely affect its profitability.

### Changes in preferential tax treatment

Further details regarding the taxation of the Group are set out in part IV – "Taxation" in the notes to the consolidated financial statements in this annual report. The Company and its subsidiaries enjoy certain tax relief in enterprise income tax and value-added tax. However, there is no assurance that the Group can enjoy the same preferential tax treatment in the future. In the event that the PRC Government changes its tax policy of supporting encouraged enterprises or the Company ceases to be recognised as an encouraged enterprise, the Group may have to be subject to income tax at a rate of 25%, and value-added tax at a rate of 17% for drip tapes, both of which may adversely affect the Group's operating results.

## Management Discussion and Analysis

### Reliance on the PRC market and the Xinjiang market

During the year, all of the Group's operating income was generated within the PRC. While the Group intends to develop overseas markets in the near future, the Directors expect that the PRC market will remain as the core market for which the Group's operating results are generated.

Accordingly, the Group's performance could be adversely affected as a result of any material adverse change in the economic, political, legal and social conditions in the PRC and in particular, Xinjiang. The Group's strategy is based on the assumption that demand in the PRC and in particular, Xinjiang for water saving irrigation products will continue to grow. Any economic changes in the PRC, and in particular, Xinjiang which is different from such assumption could seriously and adversely affect the Group's business and profitability.

### Product liability

Any defects in the Group's water saving irrigation products could result in economic loss, adverse customer reaction against the Group, negative publicity, additional expenditure to rectify the problems and/or legal proceedings against the Group. Any litigation relating to such liability may be expensive and time-consuming, and successful claims against the Group could result in substantial monetary liability or damage to the reputation of the Group and disruption to the business operations of the Group. As at the Latest Practicable Date, the Group did not maintain any product liability insurance to cover any claims in respect of personal injury or deterioration of products sold by the Group. During the year, the Group had not experienced any claim for product liability by its customers. There is no assurance that the Group will be free from any claim in this regard, and if any claim is instituted against the Group, the Group's business, results of operation and financial position may be adversely affected.

### Non-compliance with environmental protection regulations

As the Group's production processes generate noise, waste water, waste gas and other industrial waste, the Group is required to comply with all national and local regulations regarding protection of the environment. Based on confirmation letters issued by Shihezi City Environmental Protection Bureau and other Environmental Protection Bureaus, the Group is in compliance with present environmental protection requirements. However, if more stringent regulations are adopted in the future, the costs of compliance with these new regulations could be substantial. The Directors believe that the Group has all necessary permits to conduct its business as it is presently conducted. If the Group fails to comply with present or future environmental regulations, however, the Group may be required to pay substantial fines, suspend production or cease operations.

## Management Discussion and Analysis

### Competition

The Directors are of the view that competition in the water saving irrigation industry is keen and any improvement of the quality of water saving irrigation products manufactured by the existing manufacturers and any increase in the number of competitors in the market may have a material and adverse impact on the Group's profitability. The competitors may succeed in providing services, and developing technologies and know-how that are more effective or cost efficient than those provided by the Group. Any increase in competition could result in the reduction of the Group's market share and have an adverse impact on the Group's business. There can be no assurance that the Group's business performance will be maintained in light of the possible increase in competition with the competitors.

### Seasonal factor

Sales of the Group's products are affected by the production cycle of agricultural products, which refers to sowing in Spring and harvesting in Autumn. In turn, sales of the Group's products are subject to seasonal fluctuations. Should there be any material reduction in the seasonal sales of the Group's products, the Group's profitability may be adversely affected.

### Fluctuations in the price of raw materials

The major raw materials purchased by the Group are PVC and PE resins, which are used for the production of PVC/PE pipelines. As PVC and PE resins are manufactured from crude oil, the increase in oil price would have a direct impact on the selling price of PVC and PE resins. In order to manage the impact of fluctuation in the price of raw materials, the Group may adjust the production formula and use substitution should the prices of any particular raw material rise substantially. Yet, the Group's result would be adversely affected if it is unable to obtain stable and continuous supply of raw materials in a timely manner or if there are significant increases in the price of the major raw materials in the future and the Group is not able to pass such increases to its customers.

### Risks associated with the historical background of Xinjiang

Xinjiang is located in the northwestern border of the PRC and it borders eight countries, namely Russia, Kazakhstan, Kyrgyzstan, Tajikistan, Pakistan, Mongolia, India and Afghanistan. Historically, it was a passageway of the ancient Silk Road and has now become the thoroughfare of the second "Asia-Europe Bridge". Therefore, Xinjiang is situated in a strategically important location.

Sporadic violence and terrorist attacks have taken place in Xinjiang which are alleged to be caused by the separatists. However, there is no assurance that terrorism activities in Xinjiang would not resurface under certain circumstances. If terrorist activities in Xinjiang turn rampant and cause social upheavals with destruction to agricultural production, the Group's operations may be interrupted by any such violence or terrorist attacks, resulting in lower revenues and unbudgeted costs for remedying any damage.

## Management Discussion and Analysis

### **FUTURE PROSPECTS**

During the reporting period, faced with scarce water resources, changing ecosystem, and other noticeable issues, the Chinese government further increased investments in agricultural water management, efficient water-saving irrigation, and facility-supported farming. Unfortunately, the Group's economic benefits were directly affected by slowed economic growth in China, increasingly intensified competition in the water-saving business, and a growing conflict between the demand and the supply.

The Directors of the Group believe the Chinese government introduces the water-saving agriculture as a regional strategy for developing a healthy national economy. In recent years, the area of efficient water-saving irrigation has been increased by 100 million mu, indicating a broad market and development landscape for the water-saving industry. In view of this, the Group will fully utilize its own advantages and seize opportunities to increase investments in technological research and development, as well as expediting product upgrade and iteration. By diversifying and differentiating the premier products, the Group will enhance its competitive strength in the domestic and overseas market.

### **INDEBTEDNESS**

#### **Borrowings**

As at 31st December, 2016, the Group had no outstanding bank loans (2015: Nil).

#### **Commitments**

As at 31st December, 2016, the Group had contracted but not provided for capital commitments of RMB1,795,000 (2015: RMB565,000).

### **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

#### **Liquidity ratios**

The current ratio and quick ratio of the Group as at 31st December, 2016 were approximately 2.60 and 1.03, respectively, representing a slight decrease of 0.20 in current ratio and a slight increase of 0.15 in quick ratio when compared to those as at 31st December, 2015.

#### **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.

## Management Discussion and Analysis

### Capital expenditures

For the year ended 31st December, 2016, 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 RMB11,479,000 (2015: approximately RMB16,241,000), which were in line with the expansion plans of the Group.

### Capital structure

For the year ended 31st December, 2016, the gearing ratio (which is defined as total borrowings over total equity) of the Group was zero (2015: zero). This is primarily due to the fact that the Group did not have any bank loan 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, 2016.

### 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 that 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, 2016, the Group had no contingent liabilities (2015: 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 was 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 2015 and 2016.

## Management Discussion and Analysis

### 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, 2016, the Group had 795 employees (2015: 806).

### RETIREMENT BENEFIT SCHEME AND OTHER BENEFITS

The Group provides employee benefits covering old-aged insurance scheme, medical insurance scheme, unemployment insurance scheme, labour injury insurance scheme and maternity insurance scheme (collectively under the social insurance scheme) for its staff, whereby the Group is required to make monthly contributions to these schemes. The 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 RMB9,938,000 for the year ended 31st December, 2016.

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\$1,500 per month 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, 2016, the Group had neither material acquisitions nor disposals of subsidiaries and associated companies.

## Management Discussion and Analysis

### MATERIAL INVESTMENTS

For the year ended 31st December, 2016, the Company contributed capital to establish Xinjiang Tianye Nanjiang Water Saving Agriculture Co., Ltd\* (新疆天業南疆節水農業有限公司), Zhongxinnong Modern Water Saving Technology Company Limited\* (中新農現代節水科技有限公司), Xinjiang Tianye Wisdom Agriculture Technology Company Limited\* (新疆天業智慧農業科技有限公司) and Xinjiang Tianye Ecological Technology Company Limited\* (新疆天業生態科技有限公司).

Xinjiang Tianye Nanjiang Water Saving Agriculture Co., Ltd completed the registration formalities with the relevant industry and commerce administration authorities regarding its establishment on 22nd March, 2016, and its creditability code of its Business License of Enterprise Legal Person is 91659003MA775QCJ69. The registered capital of such company is RMB20,000,000, and the Company owns 100% of the registered capital and exercises a substantial control over it. As at 31st December, 2016, the Company contributed RMB15,000,000. As result, such company is included in the consolidated financial statements of the Company upon the date of establishment.

Xinjiang Tianye Wisdom Agriculture Technology Company Limited completed the registration formalities with the relevant industry and commerce administration authorities regarding its establishment on 2nd September, 2016, and its creditability code of its Business License of Enterprise Legal Person is 91659001MA776U57XX. The registered capital of such company is RMB5,000,000, and the Company owns 70% of the registered capital and exercises a substantial control over it. As at 31st December, 2016, the Company contributed RMB700,000. As result, such company is included in the consolidated financial statements of the Company upon the date of establishment.

Zhongxinnong Modern Water Saving Technology Company Limited completed the registration formalities with the relevant industry and commerce administration authorities regarding its establishment on 23rd September, 2016, and its creditability code of its Business License of Enterprise Legal Person is 91659001MA776YC40E. The registered capital of such company is RMB100,000,000, and the Company owns 59% of the registered capital and exercises a substantial control over it. As at 31st December, 2016, the Company contributed RMB5,900,000. As result, such company is included in the consolidated financial statements of the Company upon the date of establishment.

Xinjiang Tianye Ecological Technology Company Limited completed the registration formalities with the relevant industry and commerce administration authorities regarding its establishment on 5th December, 2016, and its creditability code of its Business License of Enterprise Legal Person is 91659001MA777FOX5Y. The registered capital of such company is RMB25,000,000, and the Company owns 20% of the registered capital.

Save as disclosed above, for the year ended 31st December, 2016, the Group had no material investments.

## Management Discussion and Analysis

### **DIVIDEND**

The Board does not recommend the payment of any final dividend for the year ended 31st December, 2016 (2015: Nil).

### **CLOSURE OF REGISTER OF MEMBERS**

The register of the members of the Company will be closed from Friday, 26th May, 2017 to Thursday, 15th June, 2017 (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, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable and in any event not later than 4 p.m. on Thursday, 25th May, 2017.

# Environmental, Social and Governance Report

The Group, being one of the market leaders in China's water-saving agricultural irrigation industry, carries out its operations under the brand of "Tianye". The Group has established quality, environmental and occupational health and safety management systems according to the GB/T 19001-2008/ISO 9001:2008 standard, GB/T 24001-2004/ISO 14001:2004 standard and GB/T 28001-2011/OHSAS 18001:2007 standard and obtained the certification of quality management system, certification of environmental management system and certification of occupational health and safety management system approved and issued by China Classification Society Quality Assurance Ltd. Quality, environmental and occupational health and safety management systems set up by the Group cover various aspects, including but not limited to workplace practice, environmental protection and business operations. Systems that are crucial and closely related to our business are set out below:

## 1. Environment

### 1.1 Emission

In compliance with the requirements under such laws and regulations as the "Environmental Protection Law of the People's Republic of China", "Law of the People's Republic of China on Prevention and Control of Water Pollution", "Law of the People's Republic of China on Prevention and Control of Environmental Protection by Solid Waste", and "Law of the People's Republic of China on Promoting Clean Production", the Group established the "Management System for Standard Emissions of Greenhouse Gas and Hazardous and Non-Hazardous Waste" and "System for Identification, Assessment, Control and Management of Environmental Factors", under which, the Group has a specific department to engage in full monitoring over standard emissions of greenhouse gas and hazardous and hazard-free waste, and is subject to regular inspection by the relevant environmental supervision authorities. The Group's emissions of waste are mainly sorted into three types, namely, solid waste (including packaging waste, office waste, and municipal solid waste), liquid waste (including water for production and domestic sewage), and waste gas (including dust and smoke), the disposal methods and countermeasures of which are set forth as below:

1.1.1 Solid waste (including packaging waste, office waste, and municipal solid waste) will be sorted, collected and stored in a specified area before being transported by the environmental protection department to the recycle station for disposal.

1.1.2 Water for production, as part of the liquid waste, mainly serves as cooling water for equipment, which travels through the cooling tower for lowering temperature before entering the recycling water tank. Following tertiary sedimentation, it will be recycled to the tank for future internal use. Domestic sewage will flow into the municipal sewage pipeline after secondary sedimentation.

## Environmental, Social and Governance Report

1.1.3 Waste gas (including dust and smoke) is mainly derived from plastic granulation and heating. The dust collecting device and gas filtering device, which collects the dust and smoke, will be installed to individual equipment, and the recycled plastic dust will be further processed as raw materials before being purified to meet the standard gas emission.

### *The Group's Achievement in Reducing Emission in 2016*

In terms of solid waste, domestic sewage and waster for production under liquid waste, and waste gas, the Group recorded a disposition rate of 100%, an emission standard rate of 100% and a recycling rate of 100%, and an emission standard rate of 100%, respectively.

During 2016, no environmental or contamination accident was reported by the Group.

## **1.2 Use of Resources**

In compliance with the requirements under the “Energy Conservation Law of the People’s Republic of China”, the Group establishes the “Energy Conservation and Consumption Reduction Procedures”, under which, we will exercise control over the use of energy and resources during our production, operations, and management. Based on our energy consumption in 2015, the Group formulated the implementation plan for energy conservation and consumption reduction for 2016. By adopting several measures, including upgrades and transformation of the recycling system for water for production and production equipment automation, as compared to 2015, the Group’s electricity consumption decreased by 7,118,171 kWh and our water consumption dropped by 44,368 m<sup>3</sup> in 2016. In accordance with the “National Standardized General Principles for Calculation of Comprehensive Energy Consumption: GB2589-90” (《綜合能耗計算通則GB2589-90》) of the People’s Republic of China, based on the calculating standards for various types of energy, the Group’s energy consumption decreased by 849 tons of coal equivalent to 4,320.1 tons of coal equivalent as compared to 2015, representing a decrease of 16.5%.

## **1.3 Usage and emission of water**

In compliance with the requirements under the “Water Law of the People’s Republic of China”, as well as subject to the principles of reasonable utilization, conservation, and protection to realize sustainable utilization of water resources, the Group utilizes water resources through the water pipeline of the local municipal administration authorities. By adopting water conservation and consumption reduction, energy conservation and emission reduction, and other measures with respect to water utilization, the Group reported water consumption of 100,036 m<sup>3</sup> for 2016, representing a decrease of 30.7% as compared to water consumption of 144,404 m<sup>3</sup> in 2015.

## Environmental, Social and Governance Report

### 1.4 Environment and natural resources

In compliance with the requirements under the “Environmental Protection Law of the People’s Republic of China”, the Group establishes the “System for Identification, Assessment, Control and Management of Environmental Factors” to carry out a comprehensive identification and assessment of the Group’s productions and services, for the purpose of controlling environmental factors that affect the environment and our investments in the environment. With the active and effective prevention and control measures adopted, the Group constantly improves our production environment, paving the way for conservation of natural resources. In 2016, no material impacts on the environment and natural resources were reported due to the Group’s productions and services.

## 2. Society

### 2.1 Employment

The Group strictly observes national and local labor laws and regulations. To establish incentive and restraint mechanisms that link employee income and position with performance, the Group has formulated a series of remuneration management, performance assessment, and reward and punishment management systems applicable to the headquarters and companies under it, respectively, which would, at the same time of complying with national and local policies, ensure the remuneration stays at a reasonable level of competitiveness in the market. Besides, the Group’s headquarters has set up a “Best Employee Reward” scheme to give special rewards to individuals or teams with outstanding contributions to the Group’s benefits, so as to boost employees’ passion for innovation. The remuneration for employees in different regions takes into account the local living standard and operational condition, so the remuneration for the same position grade in different regions might vary to some extent. The Group is committed to providing equal opportunities. We respect gender equality by adopting the same remuneration level and structure for male and female employees, and taking the same way to determine the remuneration.

### 2.2 Health and Safety

The Group has adhered to the principle of “regulations compliance, cleanliness and civilization, harmony and safety, continuous improvement” and established a department specifically responsible for employees’ health and safety in the Group. The Group has formulated and implemented “Procedures for Hazard Identification, Risk Assessment and Control” and “Procedures for Identification, Assessment and Control of Environmental Factors” to identify and assess the environment and hazards during the Group’s production process as well as to determine and update environmental factors and impermissible risks. This allows the Group to effectively control the risk factors in relation to occupational health and safety that have or may have significant impacts on the environment in the course of management and production.

## Environmental, Social and Governance Report

### *Number of accidents at factory*

#### Work related injuries

The rate of work-related injuries is an industry benchmark for safety performance. For the purpose of this report, the number of work related injuries for every 1 million working hours was used. In 2016, the Group reported zero cases of work related injuries, and did not report any case of occupational diseases or work related injuries or fatality.

#### Employee structure

As at 31st December, 2016, the Group had a total number of 795 employees, who mainly aged from 31 to 50. Female employees accounted for 30% of the total number of employees. As highly automated production equipment for water-saving equipment requires less labor intensity, the majority of the operators are women. Talents are recruited according to the operational requirements of the Group and in compliance with labor laws and regulations, irrespective of ethnic origin, gender, age, religion, region, and nationality. Any pregnant employee of the Group is entitled to benefits during her conception and labor period, such as leave for maternity check-up, leave during pregnancy, and return to her pre-leave position with the same department after the period of maternity leave as an incentive to return to the workplace. In 2016, the Company's return rate of employees who took maternity leave during pregnancy was 100%.

### **2.3 Development and training**

The Group cherishes every employee and believes they will keep growing up along with the Group's business expansion, provides targeted, systematic and forward-looking training for employees, and explores their potential to support the Group's sustainable development. In 2016, we provided our senior management, mid-level management, specialty technicians, and operators with various forms of in-house and external training programs. These programs mainly included: corporate strategy and corporate culture training, basic work skills training, business knowledge training, management skills & leadership training, new employee training, re-designation training, and other various special training sessions, all of which lasted more than 40 hours. As the Group develops, to ensure the constant improvement of team quality, the Group will increase training opportunities for employees and keep checking and improving training courses, with a view to satisfying the requirements for production, operations, and business expansion of the Group.

## Environmental, Social and Governance Report

### 2.4 Labor standards

The Group strictly abides by the relevant national laws and regulations and prohibits the employment of children under 16. An 8-hour work schedule is established. Overtime is on a voluntary basis and employees will receive overtime pay at the rate of 2 to 3 times their normal wage. Employee's overtime work shall be no more than four hours per day, and free meals and appropriate break time are provided. In order to ensure the health and safety of employees, the Group prohibits forced labor and untrained staff from performing dangerous work. In 2016, the Group did not have any cases.

### 2.5 Employee benefits

#### *Comprehensive insurance coverage*

In compliance with the relevant policies and regulations of the local governments, the Group makes requisite contributions for the staff on a monthly basis to fund their basic pension insurance, medical insurance, unemployment insurance, maternity insurance, and industrial injury insurance. Housing fund allowance is also offered to employees according to regulations.

### 2.6 Skill improvement

Subject to employment, professional allowance packages will be given by the Group to employees who hold professional qualifications of junior, middle, and senior levels or above and possess technical skills required by the Group, so as to encourage skill development by self-learning or other means of learning.

### 2.7 Supply chain management

Pursuant to the "Procurement Control Procedures" formulated by the Group, the procurement department of the Group shall deliver our policies, our requirements on environmental and occupational health and safety, and our procurement control procedures to suppliers to ensure their timely understanding of the Group's requirements on environmental and occupational health and safety, pursuant to which, these parties will be able to provide services to the Group.

## Environmental, Social and Governance Report

### 2.8 Product responsibility

In compliance with the “Product Quality Law of the People’s Republic of China”, the Group establishes its internal quality control system (i.e. GB/T 19001-2008/ISO 9001:2008 Standards), under which, the Group has always conducted stringent internal production monitoring, quality assurance inspection and strict testing on its products. The Group’s major products, such as drip tapes, PVC/PE pipelines, filters and pipe fittings, have received quality assurances from Beijing Zhongshui Runke Certification Co., Ltd and obtained certified confirmation certifications for relevant products.

In 2016, to further expand the market for distributing our products, the Group increased advertisement spending for our products, and organized our product presentations, product release conferences, training sessions on promotion and application of water-saving equipment, etc.

In strict compliance with the “Service Control Procedures”, the Group’s sales department will timely communicate with the customers over product quality issues arising from the delivery and use of our products, as part of our presales, sales, and aftersales services provided to our customers. Responsive recalls will be made in accordance with the “Service Control Procedures”, and remedial actions will be taken to minimize the loss of our customers.

### 2.9 Anti-corruption

The Group formulated the “Corruption and Malpractice Reporting System” to clarify anti-corruption responsibilities of the management, intensified supervision on the management team, and advocated the anti-corruption regulations and policies, and created an honest working atmosphere within the Group. With regard to financial management, the Group required its companies to follow Accounting Standards for Business Enterprises to strengthen spot check and audit on key aspects and weak aspects in business operations, improve asset quality and prevent financial risks. In 2016, no corruption case was seen in the Group. Along with the business development, the Group will further improve anti-corruption systems, and continuously intensify supervision so as to provide strong guarantee for the Group’s sustainable development.

### 2.10 Community Investments

The Group is committed to corporate responsibilities by proactively participating in community and charity works. The philosophy of bringing the corporate value into play and giving back to the society is realized through, among other ways, free water-saving products and technical support to local water-stressed areas in Xinjiang, charity donations to underprivileged families, long-term engagement in common development activities with local elementary schools under the Hope Project, and continuous supports to national education. In 2016, The Group has spent RMB20,000 so far on various community works.

# 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, 2016.

## CORPORATE GOVERNANCE PRACTICES

The Group believes that the application of rigorous corporate governance practices can lead to improvement in its accountability and transparency and thus further instill confidence of its shareholders and the public. Throughout the financial year ended 31st December, 2016, 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

As at 31st December, 2016, the Board comprises seven directors (the “**Director(s)**”), including four executive Directors and three independent non-executive Directors. 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 34 to 37 of this annual report.

The presence of three 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 provided and shall continue to provide adequate checks and balances for safeguarding the interests of the Group and its shareholders. The three independent non-executive Directors 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. Save for Mr. Mak King Sau, none of the independent non-executive Directors has served the Group for more than nine years.

The appointment of Mr. Mak King Sau as an independent non-executive Director for over 9 years was subject to a separate resolution approved by shareholders on 10th June, 2016 and the circular of the Company dated 19th April, 2017 had provided the reasons why the Board at the time determined that he is still independent and should be re-elected.

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

## Corporate Governance Report

### Delegation by the Board

The Board is responsible for decision making 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.

The Board Committees (the "**Committees**"), including the remuneration committee ("**Remuneration Committee**"), the nomination committee ("**Nomination Committee**") and the audit committee ("**Audit 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.

### Corporate Governance Functions

The Board has established three committees, namely the Remuneration Committee, Audited Committee and Nomination Committee to oversee various aspects of the Company's affairs. The three committees are provided with sufficient resources to discharge the duties.

The Board is also responsible for performing the corporate governance duties, which include (i) developing and reviewing policies and practices on corporate governance; (ii) reviewing and monitoring the training and continuous professional development of Directors and senior management; (iii) reviewing and monitoring policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring the code of conduct applicable to employees and Directors; and (v) reviewing the Company's compliance with the Code and disclosure in the Corporate Governance Report. For the year ended 31st December, 2016, the Board has reviewed the Company's corporate governance practices and was of the view that such practices were effective.

### Board Meetings and General Meeting

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, four times a year while extraordinary meetings may be held as required. The full Board held seven physical meetings for the financial year ended 31st December, 2016. At least 14 days' notice 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.

## Corporate Governance Report

In addition, the Company holds general meeting to maintain an on-going dialogue with Shareholders. For the year ended 31st December, 2016, the Board held 4 regular meetings, 2 extraordinary meetings and 1 general meeting.

The following are the attendance records of the Board Meetings and general meeting by each Director:

<b>Attendants</b>	<b>Number of meetings attended/Total</b>
<b>Executive Directors</b>	
Chen Lin ( <i>chairman of the Board, hereinafter referred to as the "Chairman"</i> )	7/7
Zhang Qiang	7/7
Li He (appointed on 10th June, 2016)	3/3
Yang Wan Sen (appointed on 10th June, 2016)	3/3
Zhu Jia Ji (retired on 10th June, 2016)	4/4
Shao Mao Xu (retired on 10th June, 2016)	4/4
<b>Independent Non-executive Directors</b>	
Qin Ming	7/7
Yin Feihu	7/7
Mak King Sau	7/7
Cao Jian (retired on 10th June, 2016)	4/4

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 recorded respectively at a 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 the 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 further information. They also have unrestricted access to the advice and services of the Company Secretary, who is responsible for providing Directors with board documentation 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.

## Corporate Governance Report

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 in a physical 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.

All the three Committees 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. Chen Lin 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. The chairman is responsible for ensuring 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.

### **Terms of Appointment and Re-election**

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

### **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. During the year ended 31st December 2016, the Group continuously updated the 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.

## Corporate Governance Report

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 2016 is recorded in the table below.

	Reading materials/in house briefing	Attending seminars/ conferences/forums
<b>Executive Directors</b>		
Chen Lin	✓	✓
Zhang Qiang	✓	✓
Li He (appointed on 10th June, 2016)	✓	✓
Yang Wan Sen (appointed on 10th June, 2016)	✓	✓
Zhu Jia Ji (retired on 10th June, 2016)	✓	✓
Shao Mao Xu (retired on 10th June, 2016)	✓	✓
<b>Independent Non-executive Directors</b>		
Qin Ming	✓	✓
Yin Feihu	✓	✓
Mak King Sau	✓	✓
Cao Jian (retired on 10th June, 2016)	✓	✓

## COMPANY SECRETARY

Under Rule 3.29 of the Listing Rules, Ms. Chow Yuk Lan has confirmed she has received not less than 15 hours of relevant professional training for the year ended 31st December, 2016.

## 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 supervisors of the Company. Following specific enquiry made by the Company, all Directors and supervisors of the Company have confirmed that they have complied with the required standards under the Model Code for the year ended 31st December, 2016.

## Corporate Governance Report

### REMUNERATION COMMITTEE

The chairman of the Remuneration Committee is Mr. Yin Feihu, an independent non-executive Director, Mr. Zhang Qiang, an executive Director and Mr. Qin Ming, being an independent non-executive Director.

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, 2016, the Remuneration Committee held one meeting. The individual attendance records of each member are as follows:

Attendants	Number of Meetings Attended/Total	Percentage
Yin Feihu ( <i>Chairman</i> )	1/1	100%
Zhang Qian	1/1	100%
Qin Ming	1/1	100%
Cao Jian (retired on 10th June, 2016)	1/1	100%

For the year ended 31st December, 2016, 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. Yin Feihu, an independent non-executive Director, and other members include Mr. Chen Lin, being the executive Director and Mr. Qin Ming, being an independent non-executive Director.

## Corporate Governance Report

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. In respect of the policy concerning Board diversity, which was adopted by the Board in September 2013, the Nomination Committee will take into account of the Group's business model and specific needs, and consider, among other things, the educational background, professional and business experience, profile, gender and age diversity of the Board as well as the suitability for the businesses of the Group in its selection of candidates. 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 also evaluate potential candidates by considering factors such as relevant experience, personal ethics and integrity.

For the year ended 31st December, 2016, the Nomination Committee held one meeting. The individual attendance records of each member are as follows:

Attendants	Number of Meetings	
	Attended/Total	Percentage
Yin Feihu ( <i>Chairman</i> )	1/1	100%
Chen Lin	1/1	100%
Qin Ming	1/1	100%
Cao Jian (retired on 10th June, 2016)	1/1	100%
Zhang Qian (resigned on 10th June, 2016)	1/1	100%

During the year ended 31st December 2016, the Nomination Committee reviewed the established policy and procedure for the nomination and appointment of new Directors, and assessed the independence of the independent non-executive Directors. The Nomination Committee, having reviewed the structure, size, composition and diversity of the Board including the background, experience, balance of skills, age and gender of each Director in respect to the Group's business strategy as well as the structure for the rotation of Directors, considered that the existing arrangements were appropriate.

### 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 that give a true and fair view of the financial position of the Group on a going concern basis, and other inside information 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. Qin Ming, and the other members are Mr. Yin Feihu and Mr. Mak King Sau, all being independent non-executive Directors.

## Corporate Governance Report

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, 2016, the Audit Committee held five meetings. The individual attendance records of each member are as follows:

<b>Attendants</b>	<b>Number of Meetings</b>	
	<b>Attended/Total</b>	<b>Percentage</b>
Qin Ming ( <i>Chairman</i> )	5/5	100%
Yin Feihu	5/5	100%
Mak King Sau (appointed on 10th June, 2016)	3/3	100%
Cao Jian (retired on 10th June, 2016)	2/2	100%

During the year ended 31st December, 2016, 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; reviewed the audit fees payable to the external auditors for the year with a recommendation to the Board for approval; and reviewed the external auditors' independence, with a recommendation to the Board for the re-appointment of the current external auditors at the forthcoming annual general meeting (the "AGM") and the Board endorsed the Audit Committee's recommendation on the re-appointment of Pan China Certified Public Accountants LLP ("Pan China") as the external auditors.

The work scope and responsibilities of Pan China are stated in the section entitled "Auditor's Report" in the annual report.

### AUDITORS' REMUNERATION

For the year ended 31st December, 2016, the external auditor of the Company, Pan China, was not engaged in any non-audit services and its fee in respect of the audit services provided are set out below:

	<b>2016</b>	2015
<b>Services rendered</b>	<b>RMB'000</b>	RMB'000
Audit services	<b>650</b>	650

## Corporate Governance Report

### INTERNAL CONTROL AND RISK MANAGEMENT

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, 2016, 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 risk management and 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 the risk management and internal control systems of the Group.

The Board assesses the effectiveness of the risk management and 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.

### DIRECTOR'S RESPONSIBILITY IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for preparing the accounts of the Group. In preparing the accounts for the financial year under review, the Directors have:

- based on a going concern basis;
- selected suitable accounting policies and applied them consistently; and
- made judgments and estimates that were prudent, fair and reasonable.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on page 52 to 56.

## Corporate Governance Report

### 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 AGM of the Company provides an excellent opportunity for the Board to meet and communicate with the shareholders. All Directors make an effort to attend the AGM so that they may answer any questions from the shareholders of the Company.

The Chairman is actively involved in organising the AGM and personally chairs it, so as to ensure that shareholders' views are delivered to the Board. External auditors as well as 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.

## Corporate Governance Report

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:

	<b>For holders of H Shares</b>	<b>For holders of Domestic Shares</b>
Contact party:	The Company's H Share registrar and transfer office	The Company's registered office
Fax No.:	(852) 28611465	(86993) 2623183
Correspondence address:	Level 22, Hopewell Centre 183 Queen's Road East Hong Kong	36, Bei San Dong Road, Shihezi Economic and Technological Development Zone, Shihezi, Xinjiang, the PRC

### AMENDMENTS TO ARTICLES OF ASSOCIATION

On 10th June, 2016, the Company obtained the shareholders approval to amend the Articles of Association of the Company and following services were included in our scope of business: system integration of information engineering; PVC pipelines for drainage systems, sales of e-commerce platforms; consultation, exploration, design, and construction of water conservancy and hydropower projects; and consultation, exploration, design, and construction of municipal sewage systems and road landscaping and greening services.

Save as disclosed above, for the year ended 31st December, 2016, there were no changes to the Articles of Association of the Company.

### 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. Chen Lin**, aged 40, is an executive Director and Chairman of the Board. Mr. Chen graduated from Shihezi University with undergraduate qualifications and obtained a researcher qualifications certificate awarded by the PRC Ministry of Agriculture in October 2016. 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 Holdings, and was appointed as the chairman of the board of Tianye Company in October 2016. Since he joined the Company in August 2010, he has been an executive Director and was appointed as Chairman of the Board on 7 August 2014.

**Mr. Zhang Qiang**, aged 43, is an executive Director and Chief Executive Officer of the Company. Mr. Zhang graduated from the Shihezi University with a master degree in business administration in 2014. He 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 was appointed as Director of Tianye Company in November 2016. Mr. Zhang was appointed as the Chief Executive Officer of the Company in November 2012 and was appointed as an executive Director of the Company in May 2013.

**Mr. Li He**, aged 40, is an executive Director and deputy general manager of the Company. Mr. Li 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. Li was appointed as an executive Directors of the Company in June 2016.

**Mr. Yang Wan Sen**, aged 42, is an executive Director and deputy general manager of the Company. Mr. Yang graduated from the Central Radio and Television University with a bachelor's degree in administrative management in 2013. Mr. Yang was awarded the senior economist qualification certificate from the Human Resources and Social Security Bureau of Xinjiang Production and Construction Corps in January 2015. He joined the Group in September 2001 and has been a deputy general manager of the Company since October 2011. Mr. Yang was appointed as an executive Director of the Company in June 2016.

## Directors, Supervisors and Senior Management

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Qin Ming**, aged 45, is an independent non-executive Director. Mr. Qin graduated from Xinjiang University with a major in law and has obtained qualifications as a registered accountant and a lawyer in PRC. Currently, he works in Tian Yang Law Firm and he is also the legal counsel of Xinjiang Bayi Iron & Steel Co., Ltd. and Xinjiang Tianshan Wool Tex Stock Co., Ltd.. He has over 10 years of experience in legal affairs. Mr. Qin was appointed as an independent non-executive Director of the Company in May 2013.

**Mr. Yin Feihu**, aged 63, is an independent non-executive Director. Mr. Yin graduated from China Agricultural University with a master degree in agricultural extension (MAE) and education background in agriculture, chemical engineering, computer and economic management. Currently, Mr. Yin is research associate with Xinjiang Academy of Agricultural And Reclamation Science, as well as a member of the International Geosphere-Biosphere Programme (IGBP), China National Committee, a director of Soil Science Society of China, managing director of Chinese Society of Plant Nutrition And Fertilizer Sciences, deputy director of National Cotton Processing Engineering Technology Research Center, vice chairman of Xinjiang Academy of Agricultural Sciences, vice chairman of Xinjiang Soil And Fertilizer Association, chairman of the Society of Plant Nutrition And Fertilizer Science, Xinjiang Production and Construction Corps, a doctoral tutor with China Agricultural University. He engaged in agricultural research for more than 30 years. Mr. Yin was appointed as an independent non-executive Director of the Company in May 2013.

**Mr. Mak King Sau**, aged 43, 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 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. Mr. Mak was general manager of Sino-Life (Hong Kong) Limited (a wholly-owned subsidiary of Sino- Life Group Limited) (stock code: 8296) from November 2010 to May 2012. Mr. Mak is also an independent non-executive director of Travel Expert (Asia) Enterprises Limited, a company listed on the Stock Exchange of Hong Kong Limited (stock code: 1235). He was appointed as an independent non-executive Director of the Company since October 2007.

## Directors, Supervisors and Senior Management

### SUPERVISORS

**Ms. Chen Jun**, aged 50, is a supervisor and the Chairman of Supervisory Committee of the Company. Ms. Chen graduated from the Central Communist Party Institution with a major in economic management. She was awarded senior economist qualification certificate in 2015. Ms. Chen joined Tianye Holdings in 1990, and served as deputy party secretary when joining the Group in December 2015. She has more than 20 years of experience in business management. Ms. Chen was appointed as a worker representative supervisor of the Company and Chairman of Supervisory Committee in June 2016.

**Mr. Xu Hongzhen**, aged 40, is a supervisor of the Company. Mr. Xu graduated from Shihezi University with a major in machinery design and manufacturing in 1999, and obtained a master degree in engineering from Beijing University of Technology in 2007. He was awarded senior engineer qualification certificate in 2011. Mr. Xu joined Tianye Holdings in 1999, served as general manager of Shihezi Jiamei Packaging Industrial and Trading Co, Ltd in 2006, and was appointed as the chairman of the company in 2013. He has over 10 years of extensive experience in machinery manufacturing and business management. Mr. Xu was appointed as a supervisor of the Company in June 2016.

**Mr. Wang Jian**, aged 56, is a supervisor of the Company. Mr. Wang graduated from Agricultural College of Shihezi University with a major in agricultural water management in 1983, obtained a master degree in engineering from Xinjiang Agricultural University in 2007, and was engaged as a tutor for master students by Xinjiang Agricultural University in 2010. Mr. Wang received professorial senior engineer qualification certificate in 2006, and obtained qualifications such as lawyer, certified civil engineer and level 1 water conservancy construction engineer in the PRC. In 2012, Mr. Wang was recognized by the State Council as an expert eligible for special allowance and a Corp Elite (兵團英才), while receiving various honors and titles, including “Outstanding Expert with Significant Contributions in the Autonomous Region” (自治區有突出貢獻優秀專家) and “Academic and Technological Leadership of Corps” (兵團學術技術帶頭人). Mr. Wang is currently the vice president of XPCC Surveying and Designing Institute (Group) Co., Ltd. Mr. Wang was appointed as a supervisor of the Company in June 2016.

### QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

**Ms. Chow Yuk Lan**, aged 42, 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 Company 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.

## Directors, Supervisors and Senior Management

### COMPLIANCE OFFICER

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

### SENIOR MANAGEMENT

**Mr. Shao Mao Xu**, aged 57, is a deputy general manager of the Company. 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 Company in March 2002 and has been a deputy general manager of the Company since June 2009. Mr. Shao was an executive Director of the Company during June 2012 to June 2016.

**Mr. Chen Jun**, aged 52, is a deputy general manager of the Company. Mr. Chen 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 Company in 1999 and has been a deputy general manager of the Company since October 2008.

**Mr. Zhu Jia Ji**, aged 53, is a deputy general manager of the Company. 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 Company 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 of the Company during May 2007 to June 2016 and was appointed as a director and deputy general manager of Tianye Company during 2007 to 2014.

**Mr. Huang Jian Jiang**, aged 54, the secretary to the Board of the Company. Mr. Huang graduated from the Central Radio and TV University with a major in administrative management. Mr. Huang joined Tianye Holdings in 1999 and was appointed as head of Asset Management in Tianye Holdings. He has over twenty years of experience in business management and asset management. Mr. Huang was appointed as the secretary to the Board of the Company in March 2016.

**Mr. Li Bao Zhu**, aged 40, chief engineer of the Company. Mr. Li graduated from College of Water Resources and Architectural Engineering of Northwest A & F University with a major in water and soil conservation in 2000 and in 2008, he obtained a master degree in hydraulic engineering from Northwest A & F University. He obtained a senior engineer qualification certificate in 2010. Mr. Li joined Tianye Holdings in 2000 and responsible for planning and design of water saving irrigation project. Mr. Li has over ten years of experience in water saving irrigation project design and implementation and relevant technology research. Mr. Li joined the Company in 2015 and was appointed as chief engineer of the Company in June 2016.

## Directors, Supervisors and Senior Management

### **CHANGE IN INFORMATION OF DIRECTORS**

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of directors of the Company during the year ended 31st December, 2016 is set out below:

Mr. Li He and Mr. Yang Wan Sen, were appointed as executive Directors of the Company on 10th June, 2016.

Mr. Mak King Sau, independent non-executive Director of the Company, was appointed as member of the audit committee with effect from 10th June, 2016.

Mr. Zhu Jia Ji and Mr. Shao Mao Xu retired as executive Directors of the Company on 10th June, 2016.

Mr. Cao Jian, retired as independent non-executive Director of the Company and member of the audit committee, remuneration committee and nomination committee with effect from on 10th June, 2016.

Mr. Zhang Qiang, executive Director of the Company, resigned as member of the nomination committee with effect from on 10th June, 2016.

# 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, 2016.

## **PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The Group is engaged in the design, manufacturing and sales of drip tapes, 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 section 1 of part VII to the consolidated financial statements.

Further discussion and analysis on the relevant businesses stipulated in Schedule 5 of the Hong Kong Companies Ordinance (Cap. 622 of the Laws of Hong Kong), including the discussion on principal risks and uncertainties faced by the Group, future business growth direction and the Group’s environmental policies and performance are set out in the sections headed “Management Discussion and Analysis” and “Environmental, Social and Governance Report”, which forms part of this Report of the Directors, on pages 6 to 16 and 17 to 22 respectively of this annual report.

## **RESULTS AND DIVIDENDS**

The results of the Group for the year ended 31st December, 2016 are set out in the consolidated income statement on page 66 to 68 of this annual report.

The Board does not recommend the payment of any dividend in respect of the year ended 31st December, 2016 (2015: Nil).

## **FIVE-YEAR FINANCIAL STATEMENT**

A summary of the published results of the Group for the last five financial year as set out on page 199 of this annual report. This summary does not form part of the audit report.

## **PROPERTY, PLANT AND EQUIPMENT**

During the year, the Group spent approximately RMB1,434,000 on acquiring new plants and machines, and approximately RMB10,045,000 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 10 to note 11 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 22 of section 1 of part V to the consolidated financial statements.

## Report of the Directors

### 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, 2016, the Company's reserves available for distribution to shareholders represent its retained profits of approximately RMB53,130,000 (2015: retained profits of approximately RMB105,950,000).

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2016, sales to the largest customer and the five largest customers of the Group accounted for approximately 6% and 17% (2015: 5% and 15%) of the total turnover of the Group, respectively. Purchases from the Group's largest supplier and five largest suppliers accounted for approximately 31% and 50% (2015: 47% and 64%) 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. Chen Lin (*chairman of the Board, hereinafter referred to as the "**Chairman**"*)

Mr. Zhang Qiang

Mr. Li He (appointed on 10th June, 2016)

Mr. Yang Wan Sen (appointed on 10th June, 2016)

Mr. Zhu Jia Ji (retired on 10th June, 2016)

Mr. Shao Mao Xu (retired on 10th June, 2016)

#### **Independent non-executive Directors:**

Mr. Yin Feihu

Mr. Qin Ming

Mr. Mak King Sau

Mr. Cao Jian (retired on 10th June, 2016)

## Report of the Directors

### **Supervisors:**

Mr. Xu Hongzhen (appointed on 10th June, 2016)  
Mr. Wang Jian (appointed on 10th June, 2016)  
Ms. Chen Jun (appointed on 10th June, 2016)  
Mr. Han Pan (retired on 10th June, 2016)  
Mr. He Jie (retired on 10th June, 2016)  
Mr. Yang Ming (retired on 10th June, 2016)

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' BIOGRAPHIES**

Biographical details of the Directors and Supervisors are set out on pages 34 to 37.

### **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.

Save 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.

## Report of the Directors

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

As at 31st December, 2016, none of the Directors, supervisors and chief executive of the Company has any interests and short positions 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.

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 TRANSACTION, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE**

Save as disclosed under the paragraph headed “CONNECTED AND RELATED PARTY TRANSACTIONS”, no transaction, arrangement or contract of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a Director and Supervisor 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.

## Report of the Directors

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

### (A) Domestic Shareholders

As at 31st December, 2016, 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	111,721,926 (L)	35.23%	21.50%
	Interest in controlled corporation	202,164,995 (L)	63.75%	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 42.05% of the registered capital of Tianye Company, is deemed to be interested in the 202,164,995 domestic Shares held by Tianye Company.

## Report of the Directors

**(B) H Shareholders**

<b>Name of shareholders</b>	<b>Capacity</b>	<b>Number of H Shares of the Company held</b> (Note 1)	<b>Approximate percentage of the total issued H Shares of the Company</b>	<b>Approximate percentage of the total issued share capital of the Company</b> (Note 2)
Long Thrive Holdings (Notes 3)	Beneficial owner	14,407,000(L)	7.12%	2.77%
Tang Hongjian ("Mr. Tang") (Note 4)	Interest in controlled corporation	14,407,000(L)	7.12%	2.77%
Liu Zhonghui ("Ms. Liu") (Note 5)	Interest of spouse	14,407,000(L)	7.12%	2.77%

## 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 7.12% of the total H Shares in issue of the Company.
4. Long Thrive directly held 14,407,000 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 14,407,000 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 14,407,000 H Shares held by Long Thrive.

Save as disclosed above, as at 31st December, 2016, 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.56 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.

The auditors have confirmed that nothing has come to their attention that caused them to believe that the continuing connected transactions: (1) have not been approved by the Board; (2) were not, in all material respects, in accordance with the pricing policies of the Group; (3) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (4) have exceeded the annual caps.

Details of the related party transactions undertaken by the Group during the year are included in part IX – “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 23rd March, 2015, 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 5th June, 2015 to 31st December, 2017, 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 23rd March, 2015, 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 tape, PVC/PE pipelines and drip assemblies, from time to time for a term from 23rd March, 2015 to 31st December, 2017, 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 23rd May, 2014 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,

## Report of the Directors

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, 2014 to 30th June, 2017 at the rent of RMB1,455,820 per annum (including property management fee);

- lease dated 23rd May, 2014 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, 2014 to 30th June, 2017 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 31st December, 2017 were approved by an ordinary resolution of the annual general meeting of the Company held on 5th June, 2015. The details of these transactions were disclosed in the announcement of the Company dated 23rd March, 2015, and the circular of the Company dated 28th April, 2015.

On 26th August, 2016, Xinjiang Tianye Nanjiang Water Saving Agriculture Co., Ltd (“**Nanjiang Water Saving**”), as the owner, and Taian Installation and Shihezi Taian Construction Company Limited (“**Taian Construction**”), as the contractor, entered into the construction contract (“**Construction Contract**”). Pursuant to the Construction Contract, Nanjiang Water Saving, a wholly-owned subsidiary of the Company, shall appoint Taian Construction, a wholly-owned subsidiary of Tianye Company, the controlling shareholder of the Company, to provide construction contracting services for water saving equipment of construction project of Nanjiang Water Saving at Shache Farm of No. 3 Division.

The contract sum shall be RMB10,032,647.59 and shall be adjusted in respect of the following requirements: (1) the differences in project features, (2) the incomplete items in the bills of quantities and (3) the discrepancy in the construction workload.

On 4th December, 2016, the Company entered into the investment agreement (“**Investment Agreement**”) with Xinjiang Tianye (Group) Limited. (“**Tianye Holdings**”) in relation to the establishment of a joint venture (“**Joint Venture**”). Pursuant to the Investment Agreement, the Joint Venture will engage in the forestation and renewal, greening management, planning, design, construction project implementation and operation and maintenance services of green net construction. Tianye Holdings is the substantial shareholder of the Company and is therefore a connected person of the Company under the Listing Rules.

The registered capital of the Joint Venture is RMB25,000,000, which shall be contributed by its shareholders in cash. The Company will contribute RMB5,000,000 in cash, representing 20% of its registered capital, and Tianye Holdings will contribute RMB20,000,000 in cash, representing 80% of its registered capital.

The entering of the Construction Contract and the Investment Agreement aforesaid constituted connected transactions under Chapter 14A of the Listing Rules.

## Report of the Directors

In respect of each of the related party transactions as listed in part IX — “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, 2016, 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.

### **DIRECTORS’ AND SENIOR MANAGEMENT’S EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS**

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.

Details of the emoluments of the Directors and Supervisors and remuneration of the five highest paid Individual of the Company for the year are set out in note 4 to note 5 of section II of part IX to the consolidated financial statements in this annual report.

For each of the year 2015 and 2016, senior management of the Company comprises 5 individuals. The emolument of each of the senior management fell within RMB1,000,000.

### **CORPORATE GOVERNANCE**

A report on the principal corporate governance practices adopted by the Company is set out on pages 23 to 33 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.

## Report of the Directors

### **MANAGEMENT CONTRACTS**

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year under review.

### **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, 2016.

### **SHARE OPTION SCHEME**

The Company has not adopted any share option scheme.

### **PERMITTED INDEMNITY PROVISION**

During the year ended 31st December, 2016, subject to applicable laws, the Company has taken out and maintained appropriate directors, supervisors and senior management liability insurance coverage against the liabilities that may be incurred by the Directors, Supervisors and senior management of the Company upon executing and performing their duties.

### **CHARGE OF ASSETS**

As at 31st December, 2016, the Group did not have any assets under charged or guarantee.

### **CHARITABLE DONATIONS**

During the year ended 31st December, 2016, the total charitable donations and other donations of the Group amounted to approximately RMB20,000 (2015 : 5,000).

### **COMPLIANCE WITH LAWS AND REGULATIONS**

During the year ended 31st December, 2016, to the knowledge of the Company, the Group had complied with the relevant laws and regulations that have a material impact on the business of the Group in all material aspects and there were no circumstances of material breach or non-compliance of applicable laws and regulations.

### **SUFFICIENCY OF PUBLIC FLOAT**

The Company has maintained a sufficient public float throughout the year ended 31st December, 2016.

## Report of the Directors

### EVENT AFTER THE REPORTING PERIOD

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

### AUDIT COMMITTEE

The audit committee of the Company reviewed the Group's consolidated annual result for the year ended 31st December, 2016, including the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters as well as the audited financial statements for the year ended 31st December, 2016 with the management.

### AUDITOR

Pan China Certified Public Accountants LLP ("**Pan China**") will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

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. Chen Lin**

*Chairman*

Xinjiang, the PRC  
31st March, 2017

# Report of the Supervisory Committee

To: All Shareholders

During the year ended 31st December, 2016 (“**Year 2016**”), the Supervisory Committee (the “**Supervisory Committee**” or the “**Supervisors**”) of 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 and the benefits of the staff of the Company.

In Year 2016, the Supervisors reviewed the operations of the Company and major issues, attended the meetings of 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 2016 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 2016 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 opinion that: the agricultural and water saving irrigation industry in China still has substantial development prospect. The influence from the economic growth slow-down and over competition within the industry will affect the development of the industry temporarily. We remain fully confident in the future prospects of the Company.

By order of the Supervisory Committee



**Chen Jun**

*Chairman of the Supervisory Committee*

Xinjiang, the PRC  
31st March, 2017

# Auditors' Report

Pan-China Audit [2017] No. 3-273

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

## I. AUDIT OPINION

We have audited the financial statements of Xinjiang Tianye Water Saving Irrigation System Company Limited (hereinafter referred to as "Tianye Water Saving Company"), which comprise the consolidated and the Parent Company's balance sheets as at 31st December, 2016, the consolidated and the Parent Company's income statement, the consolidated and the Parent Company's statement of cash flows, the consolidated and the Parent Company's statement of changes in equity of shareholders for the year 2016, as well as the notes to the financial statements.

In our opinion, the accompanying financial statements were prepared in accordance with the Accounting Standards for Business Enterprises (ASBE) in all material aspects and give a true and fair view of the consolidated and the Parent Company's financial position of Tianye Water Saving Company as at 31st December 2016 and of its consolidated and the Parent Company's operating results and cash flows for 2016.

## II. BASIS OF OPINIONS

We have conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Our responsibilities under those standards are further described in "The Responsibilities of Certified Public Accountants for the Audit of the Financial Statements" as contained in the Auditors' Report. We are independent of Tianye Water Saving Company in accordance with the Ethical Codes of Chinese Certified Public Accountants, and we have fulfilled our other responsibilities under the Ethical Codes. We believe that the audit evidence obtained from the audit process is sufficient and appropriate to provide a basis for our opinion.

## III. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current period. These matters were addressed in the context of our audit of the financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

**Estimation on bad debt provisions for receivables due from Xinjiang Aral Tiannong Water Saving Irrigation Co., Ltd. is the critical matter identified by us during our audit****(I) Details**

As described in note XII(III) to the financial statement of Tianye Water Saving Company, Xinjiang Aral Tiannong Water Saving Irrigation Co, Ltd\* (hereinafter referred to as "Aral Water Saving"), a subsidiary, has been in liquidation since 31st May, 2013 in accordance with the Civil Judgment (2012) Amin Chu Zi NO. 605 issued by the People's Court of the Aral Reclamation Area of the Xinjiang Production & Construction Corps. The shareholders of the Company formed a liquidation group to take over Aral Water Saving for liquidating matters. Since then, Aral Water Saving is no longer incorporated into the financial statements of Tianye Water Saving Company. As of 31st December, 2016, total receivables of RMB14.9962 million from Aral Water Saving was recognized in the consolidated financial statement. Currently, the liquidation work was underway. As Tianye Water Saving Company expects Aral Water Saving can make up for the losses upon liquidation, no bad debt provisions have been made on the receivables mentioned above. In consideration of the large amount and significant accounting estimation involved in this matter, we regard it one of the key audit matters.

**(II) Application for auditing**

For the purposes of conducting comprehensive evaluation on the rationality of estimation made by Tianye Water Saving Company over bad debt provisions for receivables from Aral Water Saving, we understood and investigated the latest financial data of Aral Water Saving so obtained, and conducted an independent analysis over the solvency of Aral Water Saving after liquidation.

**IV. OTHER INFORMATION**

The management of Tianye Water Saving Company (hereinafter referred to as the "management") is responsible for the other information which comprises all the information in the annual report other than the financial statements and this auditors' report.

Our audit opinion on the financial statements does not cover the other information nor do we express any form of assurance over the conclusion thereon.

Combining with our audit to the financial statements, we are responsible for reading the other information, over the course of which, we considered if there is significant inconsistency or there is likely significant misstatement between the other information and the financial statements or the information we obtained during the audit.

## Auditors' Report

Based on the work so performed, we shall report if we ascertained any significant misstatement as contained in the other information, in which case, we find nothing necessary to be reported.

### **V. RESPONSIBILITIES OF THE MANAGEMENT AND GOVERNING BODIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the ASBE, as well as designing, implementing and maintaining such necessary internal control that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing Tianye Water Saving Company's ability to continue as a going concern, disclosing the matters related to the going concern basis (if applicable) and using the going concern basis of accounting unless the management either intends to liquidate Tianye Water Saving Company or to cease operations, or have no realistic alternative but to do so.

The governing bodies of Tianye Water Saving Company (hereinafter referred to the "governing bodies") are responsible for overseeing the financial reporting process of Tianye Water Saving Company.

### **VI. RESPONSIBILITIES OF CERTIFIED PUBLIC ACCOUNTANTS FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are generally considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these consolidated financial statements.

As part of an audit in accordance with the auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also performed the following work:

- (l) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

## Auditors' Report

- (II) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing efficient opinion on the effectiveness of the internal control.
- (III) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- (IV) Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of Tianye Water Saving Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause Tianye Water Saving Company to cease to continue as a going concern.
- (V) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (VI) Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within Tianye Water Saving Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicated with the governing bodies regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that they identify during the audit.

We also provided the governing bodies with a statement that we had complied with relevant ethical requirements regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence.

## Auditors' Report

From the matters we had discussed with the governing bodies, we confirmed which matters were the most important to the audit of the financial statements for the current period and thus constituted the key audit matters. We set out these matters in the auditors' report. Unless the disclosure of these matters are forbidden by the laws and regulations, or, in rare cases, if it is reasonably expected that the negative impacts caused by discussing certain matters in the auditors' report would be larger than the benefits for public interest, We shall not disclose the matters in the auditors' report under such circumstances.

Pan-China Certified Public  
Accountants LLP

Certified Public  
Accountant:  
(Project Partner)



Zhu Zhongwei

Certified Public  
Accountant:



Ding Sujun

Hangzhou, the People's Republic of China

31st March, 2017

# Consolidated Balance Sheet

31st December, 2016

AC01

Prepared by: Xinjiang Tianye Water Saving Irrigation System Company Limited

Expressed in RMB

Assets	Notes	Closing balance	Opening balance
<b>Current assets:</b>			
Cash	1	<b>153,915,653.26</b>	119,409,562.95
Security deposits for settlement			
Interbank lending to banks and other financial institutions			
“Financial assets at FVTPL for the current period”			
Derivative financial assets			
Bills receivables	2	<b>1,400,000.00</b>	1,230,000.00
Receivables	3	<b>122,680,169.02</b>	89,930,937.59
Prepayments	4	<b>10,637,929.21</b>	24,692,728.93
Premium receivables			
Due from reinsurers			
Reinsurance contract reserve receivables			
Interests receivables			
Dividend receivables			
Other receivables	5	<b>24,524,723.50</b>	25,511,819.43
Financial assets purchased to resell			
Inventories	6	<b>474,709,231.54</b>	565,701,953.06
Assets classified as held-for-trading			
Non-current assets due within one year			
Other current assets	7	<b>6,003,724.89</b>	2,296,120.01
<b>Total current assets</b>		<b>793,871,431.42</b>	828,773,121.97

## Consolidated Balance Sheet

31st December, 2016

Assets	Notes	Closing balance	Opening balance
<b>Non-current assets:</b>			
Entrusted loans and advance extended			
Available-for-sale financial assets			
Held-to-maturity investment			
Long-term receivables			
Long-term equity investments	8	<b>2,767,059.77</b>	2,801,090.14
Investment properties	9		8,135,753.19
Fixed assets	10	<b>157,803,470.78</b>	155,316,428.77
Construction in progress	11	<b>14,956,003.12</b>	21,897,634.04
Construction materials			
Fixed assets for disposal			
Biological assets for production			
Oil and gas assets			
Intangible assets	12	<b>12,624,724.14</b>	13,191,307.26
Development expenses			
Goodwill			
Long-term deferred expenses	13	<b>1,107,866.40</b>	999,163.23
Deferred income tax assets	14	<b>175,137.33</b>	1,317,719.92
Other non-current assets			
Total non-current assets		<b>189,434,261.54</b>	203,659,096.55
Total assets		<b>983,305,692.96</b>	1,032,432,218.52

## Consolidated Balance Sheet

31st December, 2016

“Liabilities and owners’ equity (or shareholders’ equity)”	Notes	Closing balance	Opening balance
Current liabilities:			
Short-term borrowings			
Loans from central bank			
Deposit taking from customers and placement from banks and other financial institutions			
Interbank borrowing funds			
“Financial liabilities at FVTPL for the current period”	15		379,489.65
Derivative financial liabilities			
Bills payables			
Trade payables	16	<b>187,472,303.28</b>	209,249,563.31
Receipts in advance	17	<b>88,621,576.20</b>	66,392,456.70
Sale and buy-back financial assets			
Fees and commission payables			
Employee remuneration payables	18	<b>7,318,025.13</b>	6,589,881.94
Tax and levy payables	19	<b>836,711.13</b>	2,893,787.70
Interest payables			
Dividend payables			
Other payables	20	<b>25,775,682.78</b>	14,389,937.23
Amounts due to reinsurers			
Provision for insurance contracts			
Customer brokerage deposits			
Securities underwriting brokerage deposits			
Liabilities classified as held-for-trading			
Non-current liabilities due within one year			
Other current liabilities			
Total current liabilities		<b>310,024,298.52</b>	299,895,116.53

## Consolidated Balance Sheet

31st December, 2016

“Liabilities and owners’ equity (or shareholders’ equity)”	Notes	Closing balance	Opening balance
<b>Non-current liabilities:</b>			
Long-term borrowings			
Bond payables			
Including: preference shares			
perpetual bonds			
Long-term payables			
Long-term employee remuneration payables			
Special payables			
Provisions			
Deferred income	21	<b>8,928,621.82</b>	9,728,621.82
Deferred income tax liabilities			
Other non-current liabilities			
<hr/>			
Total non-current liabilities		<b>8,928,621.82</b>	9,728,621.82
<hr/>			
Total liabilities		<b>318,952,920.34</b>	309,623,738.35

## Consolidated Balance Sheet

31st December, 2016

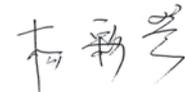
“Liabilities and owners’ equity (or shareholders’ equity)”	Notes	Closing balance	Opening balance
<b>Owners’ equity (or shareholders’ equity):</b>			
Paid-in capital (or share capital)	22	<b>519,521,560.00</b>	519,521,560.00
Other equity instruments			
Including: preference shares			
perpetual bonds			
Capital reserve	23	<b>15,372,472.17</b>	15,372,472.17
Less: treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve	24	<b>34,724,097.27</b>	34,724,097.27
General risk provisions			
Undistributed profit	25	<b>83,732,561.06</b>	141,071,178.55
Total owners’ equity attributable to Parent Company		<b>653,350,690.50</b>	710,689,307.99
Minority interest		<b>11,002,082.12</b>	12,119,172.18
Total owners’ equity		<b>664,352,772.62</b>	722,808,480.17
<b>Total liabilities and owners’ equity</b>		<b>983,305,692.96</b>	1,032,432,218.52

Legal representative:

Responsible person for accounting:

Responsible person for accountant:





# Balance Sheet of the Parent Company

31st December, 2016

AC01

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

Assets	Notes	Closing balance	Opening balance
<b>Current assets:</b>			
Cash		<b>115,335,796.44</b>	91,106,251.01
“Financial assets at FVTPL for the current period”			
Derivative financial assets			
Bills receivables		<b>50,000.00</b>	
Receivables	1	<b>49,712,591.70</b>	63,610,508.24
Prepayments		<b>8,192,366.60</b>	13,252,236.28
Interests receivables			
Dividend receivables			
Other receivables	2	<b>78,122,020.70</b>	143,701,673.64
Inventories		<b>261,233,635.28</b>	311,470,003.21
Assets classified as held-for-trading			
Non-current assets due within one year			
Other current assets		<b>1,556,324.46</b>	
Total current assets		<b>514,202,735.18</b>	623,140,672.38

## Balance Sheet of the Parent Company

31st December, 2016

Assets	Notes	Closing balance	Opening balance
<b>Non-current assets:</b>			
Available-for-sale financial assets			
Held-to-maturity investment			
Long-term receivables			
Long-term equity investments	3	<b>150,061,500.24</b>	134,495,530.61
Investment properties			8,135,753.19
Fixed assets		<b>95,886,117.16</b>	92,777,772.74
Construction in progress		<b>9,292,586.39</b>	21,861,634.04
Construction materials			
Fixed assets for disposal			
Biological assets for production			
Oil and gas assets			
Intangible assets		<b>6,404,345.68</b>	6,588,738.88
Development expenses			
Goodwill			
Long-term deferred expenses		<b>1,035,071.15</b>	834,592.39
Deferred income tax assets			957,400.88
Other non-current assets			
Total non-current assets		<b>262,679,620.62</b>	265,651,422.73
Total assets		<b>776,882,355.80</b>	888,792,095.11

## Balance Sheet of the Parent Company

31st December, 2016

Liabilities and owners' equity	Note	Closing balance	Opening balance
<b>Current liabilities:</b>			
Short-term borrowings			
“Financial liabilities at FVTPL for the current period”			379,489.65
Derivative financial liabilities			
Bills payables			
Trade payables		<b>90,700,370.37</b>	170,086,313.53
Receipts in advance		<b>3,979,245.73</b>	10,208,110.27
Employee remuneration payables		<b>4,911,368.65</b>	4,959,536.20
Tax and levy payables		<b>71,291.01</b>	2,371,534.01
Interest payables			
Dividend payables			
Other payables		<b>42,437,323.67</b>	12,387,631.11
Liabilities classified as held-for-trading			
Non-current liabilities due within one year			
Other current liabilities			
<b>Total current liabilities</b>		<b>142,099,599.43</b>	200,392,614.77
<b>Non-current liabilities:</b>			
Long-term borrowings			
Bond payables			
Including: preference shares			
perpetual bonds			
Long-term payables			
Long-term employee remuneration payables			
Special payables			
Provisions			
Deferred income		<b>8,928,621.82</b>	9,728,621.82
Deferred income tax liabilities			
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>8,928,621.82</b>	9,728,621.82
<b>Total liabilities</b>		<b>151,028,221.25</b>	210,121,236.59

## Balance Sheet of the Parent Company

31st December, 2016

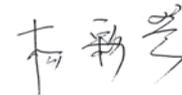
Liabilities and owners' equity	Note	Closing balance	Opening balance
<b>Owners' equity (or shareholders' equity):</b>			
Paid-in capital (or share capital)		<b>519,521,560.00</b>	519,521,560.00
Other equity instruments			
Including: preference shares			
perpetual bonds			
Capital reserve		<b>18,474,739.46</b>	18,474,739.46
Less: treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve		<b>34,724,097.27</b>	34,724,097.27
Undistributed profit		<b>53,133,737.82</b>	105,950,461.79
<hr/>			
Total owners' equity		<b>625,854,134.55</b>	678,670,858.52
<hr/>			
Total liabilities and owners' equity		<b>776,882,355.80</b>	888,792,095.11

Legal representative:

Responsible person for accounting:

Responsible person for accountant:





# Consolidated Income Statement

2016

AC02

Prepared by: Xinjiang Tianye Water Saving Irrigation System Company Limited

Expressed in RMB

Item	Notes	Current period	Corresponding period last year
<b>I. Total operating income</b>		<b>671,401,919.12</b>	667,448,233.21
Including: Operating income	1	<b>671,401,919.12</b>	667,448,233.21
Interest income			
Premium earned			
Fees and commission income			
<b>II. Total operating cost</b>		<b>737,060,016.75</b>	684,576,617.83
Including: Operating costs	1	<b>630,786,107.74</b>	608,638,571.23
Interest expenses			
Fees and commission expenses			
Refund of insurance premiums			
Net payments for insurance claims			
Net provision for insurance contracts			
Bond insurance expenses			
Reinsurance costs			
Business taxes and surcharges	2	<b>4,724,211.98</b>	2,032,750.09
Distribution costs	3	<b>44,353,233.18</b>	41,672,153.67
Administrative expenses	4	<b>32,042,523.56</b>	25,291,958.03
Finance costs	5	<b>-373,630.31</b>	-255,272.97
Assets impairment loss	6	<b>25,527,570.60</b>	7,196,457.78
Add: Gain on changes in fair value (loss is denoted as "-")	7	<b>379,489.65</b>	-379,489.65
Net exposure to hedging gains and losses (loss is denoted as "-")			
Investment income (loss is denoted as "-")	8	<b>2,797,442.09</b>	5,537,650.93
Including: Investment income from associates and joint venture		<b>-34,030.37</b>	1,090.14
Exchange gain (loss is denoted as "-")			

## Consolidated Income Statement

2016

Item	Notes	Current period	Corresponding period last year
<b>III. Operating profits (loss is denoted as “-”)</b>		<b>-62,481,165.89</b>	-11,970,223.34
Add: Non-operating income	9	<b>3,194,184.38</b>	6,199,371.94
Including: Gain on disposal of non-current assets		<b>140,529.83</b>	415.58
Less: Non-operating expenses	10	<b>163,696.74</b>	501,561.35
Including: Loss from disposal of non-current assets			994.90
<b>IV. Total profits (total losses are denoted as “-”)</b>		<b>-59,450,678.25</b>	-6,272,412.75
Less: Income tax expenses	11	<b>3,402,930.25</b>	1,221,777.91
<b>V. Net profit (net loss is denoted as “-”)</b>		<b>-62,853,608.50</b>	-7,494,190.66
Net profit attributable to owners of Parent Company		<b>-57,338,617.49</b>	-6,793,864.99
Minority interest		<b>-5,514,991.01</b>	-700,325.67

## Consolidated Income Statement

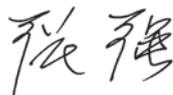
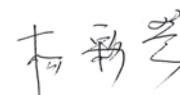
2016

Item	Notes	Current period	Corresponding period last year
<b>VI. Net other comprehensive income after tax</b>			
Net other comprehensive income after tax attributable to owners of Parent Company			
(I) Other comprehensive income that will not be reclassified to profit or loss			
1. Remeasurement of changes in net liabilities or net assets under defined benefit schemes			
“2.Share of other comprehensive income of investees that will not be reclassified to profit or loss under equity method”			
(II) Other comprehensive income that will be reclassified to profit or loss			
“1.Share of other comprehensive income of investees that will be reclassified to profit or loss under equity method”			
2. Gain or loss on changes in fair value of available-for-sale financial assets			
3. Gain or loss on reclassification of held-to-maturity investment to available-for-sale financial assets			
4. Effective hedging portion of gains (losses) arising from cash flow hedging instruments			
5. Exchange differences arising from translation of foreign currency denominated financial statements			
6. Others			
Net other comprehensive income attributable to minority interest after tax			
<b>VII. Total comprehensive income</b>		<b>-62,853,608.50</b>	-7,494,190.66
Total comprehensive income attributable to owners of Parent Company		<b>-57,338,617.49</b>	-6,793,864.99
Total consolidated income attributable to minority interest		<b>-5,514,991.01</b>	-700,325.67
<b>VIII. Earnings per share:</b>			
(1) Basic earnings per share (RMB/share)		<b>-0.11</b>	-0.01
(2) Diluted earnings per share (RMB/share)		<b>-0.11</b>	-0.01

Legal representative:

Responsible person for accounting:

Responsible person for accountant:

# Income Statement of the Parent Company

2016

AC02

Prepared by: Xinjiang Tianye Water Saving Irrigation System Company Limited

Expressed in RMB

Item	Notes	Current period	Corresponding period last year
<b>I. Operating income</b>	1	<b>370,683,439.61</b>	491,346,636.03
Less: Operating costs	1	<b>358,619,312.02</b>	468,760,288.67
Business taxes and surcharges		<b>1,099,940.26</b>	814,378.75
Distribution costs		<b>21,339,468.60</b>	21,073,424.34
Administrative expenses		<b>21,148,788.10</b>	16,377,658.06
Finance costs		<b>-328,496.51</b>	-219,225.30
Assets impairment loss		<b>26,998,562.36</b>	5,932,802.15
Add: Gain on changes in fair value (loss is denoted as "-")		<b>379,489.65</b>	-379,489.65
Net exposure to hedging gains and losses (loss is denoted as "-")			
Investment income (loss is denoted as "-")	2	<b>3,513,435.89</b>	5,517,528.88
Including: investment income from associates and joint venture		<b>-34,030.37</b>	1,090.14
<b>II. Operating profits (loss is denoted as "-")</b>		<b>-54,301,209.68</b>	-16,254,651.41
Add: Non-operating income		<b>3,082,281.99</b>	6,050,990.18
Including: gain on disposal of non-current assets		<b>140,529.83</b>	
Less: Non-operating expenses		<b>60,387.64</b>	199,630.00
Including: Loss from disposal of non-current assets			
<b>III. Total profits (total losses are denoted as "-")</b>		<b>-51,279,315.33</b>	-10,403,291.23
Less: Income tax expenses		<b>1,537,408.64</b>	624,780.71

## Income Statement of the Parent Company

2016

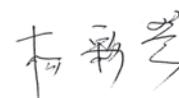
Item	Notes	Current period	Corresponding period last year
<b>IV. Net profits (net loss is denoted as "-")</b>		<b>-52,816,723.97</b>	-11,028,071.94
<b>V. Net other comprehensive income after tax</b>			
(I) Other comprehensive income that will not be reclassified to profit or loss			
1. Remeasurement of changes in net liabilities or net assets under defined benefit schemes			
"2. Share of other comprehensive income of investees that will not be reclassified to profit or loss under equity method"			
(II) Other comprehensive income that will be reclassified to profit or loss			
"1. Share of other comprehensive income of investees that will be reclassified to profit or loss under equity method"			
2. Gain or loss on changes in fair value of available-for-sale financial assets			
3. Gain or loss on reclassification of held-to-maturity investment to available-for-sale financial assets			
4. Effective hedging portion of gains (losses) arising from cash flow hedging instruments			
5. Exchange differences arising from translation of foreign currency denominated financial statements			
6. Others			
<b>VI. Total comprehensive income</b>		<b>-52,816,723.97</b>	-11,028,071.94
<b>VII. Earnings per share:</b>			
(1) Basic earnings per share			
(2) Diluted earnings per share			

Legal representative:

Responsible person for accounting:

Responsible person for accountant:





# Consolidated Cash Flows Statement

2016

AC03

Prepared by: Xinjiang Tianye Water Saving Irrigation System Company Limited

Expressed in RMB

Item	Note	Current period	Corresponding period last year
<b>I. Cash flow generated from operating activities:</b>			
Cash received from sale of goods and rendering of services		<b>731,831,208.02</b>	770,480,267.11
Net increase in deposit taking from customers and placement from banks and other financial institutions			
Net increase in loans from central bank			
Net increase in funds borrowed from other financial institutions			
Cash received from premiums on direct insurance contracts			
Net cash received from reinsurance operation			
Net increase in insured's deposits and investments			
Net increase in disposal of financial assets at FVTPL for the current period			
Cash received for interest, fees and commissions			
Net increase in placements from banks and other financial institutions			
Net increase in funds from repurchases			
Refund of taxes and levies received			
Other cash received relating to operating activities	1	<b>12,748,974.63</b>	5,014,229.32
<hr/>			
Sub-total of cash inflow from operating activities		<b>744,980,182.65</b>	775,494,496.13
<hr/>			

## Consolidated Cash Flows Statement

2016

Item	Note	Current period	Corresponding period last year
Cash paid for purchase of goods and services received		<b>533,692,879.09</b>	608,594,097.13
Net increase in customers' loans and advance			
Net increase in central bank and interbank placement			
Cash paid for claim settlements on direct insurance contracts			
Cash paid for interest, fees and commissions			
Cash paid for policyholder dividends			
Cash paid to and on behalf of employees		<b>73,772,684.54</b>	89,297,921.34
Payments of all types of taxes and levies		<b>33,448,806.32</b>	18,258,754.59
Other cash paid relating to operating activities	2	<b>65,686,803.28</b>	35,940,869.09
<hr/>			
Sub-total of cash outflow from operating activities		<b>706,601,173.23</b>	752,091,642.15
<hr/>			
Net cash flow generated from operating activities		<b>37,979,009.42</b>	23,402,854.28
<hr/>			
<b>II. Cash flow generated from investment activities:</b>			
Cash received from recovery of investments			60,132,398.72
Cash received from returns on investments		<b>2,840,352.63</b>	5,513,775.57
Net cash recovered from disposal of fixed assets, intangible assets and other long-term assets			5,154.45
Net cash received from disposal of subsidiaries and other business units		<b>1,040.21</b>	
Other cash received relating to investment activities		<b>10,400,000.00</b>	40,000,000.00
<hr/>			
Sub-total of cash inflow from investment activities		<b>13,241,392.84</b>	105,651,328.74
<hr/>			

## Consolidated Cash Flows Statement

2016

Item	Note	Current period	Corresponding period last year
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		11,479,269.40	16,240,783.40
Cash paid for investments			62,932,398.72
Net increase in pledged loans			
Net cash paid for acquiring subsidiaries and other business units			
Other cash paid relating to investment activities		10,000,000.00	41,469,441.05
Sub-total of cash outflow from investment activities		21,479,269.40	120,642,623.17
Net cash flow generated from investment activities		-8,237,876.56	-14,991,294.43
<b>III. Cash flow generated from financing activities:</b>			
Cash received from capital contribution		4,400,000.00	
Including: cash received by subsidiaries from capital contribution of minority interest		4,400,000.00	
Cash received from loans obtained			
Cash received from bond issuance			
Other cash received relating to financing activities			
Sub-total of cash inflow from financing activities		4,400,000.00	
Cash paid for debt services			
Cash paid for distribution of dividends, profit or interest expenses			
Including: dividends and profit payable by subsidiaries to minority interest			
Other cash paid relating to financing activities			
Sub-total of cash outflow from financing activities			
Net cash flow generated from financing activities		4,400,000.00	

## Consolidated Cash Flows Statement

2016

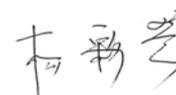
Item	Note	Current period	Corresponding period last year
<b>IV. Effect of changes in foreign exchange rate on cash and cash equivalents</b>		<b>2,497.17</b>	1,024.09
<b>V. Net increase in cash and cash equivalents</b>		<b>34,143,630.03</b>	8,412,583.94
Add: balance of cash and cash equivalents at the beginning of the period		<b>118,301,053.30</b>	109,888,469.36
<b>VI. Balance of cash and cash equivalents at the end of the period</b>		<b>152,444,683.33</b>	118,301,053.30

Legal representative:

Responsible person for accounting:

Responsible person for accountant:





# Cash Flows Statement of the Parent Company

2016

AC03

Prepared by: Xinjiang Tianye Water Saving Irrigation System Company Limited

Expressed in RMB

Item	Note	Current period	Corresponding period last year
<b>I. Cash flow generated from operating activities:</b>			
Cash received from sale of goods and rendering of services		<b>408,194,377.28</b>	528,898,782.67
Refund of taxes and levies received			
Other cash received relating to operating activities		<b>134,421,829.64</b>	648,876.80
Sub-total of cash inflow from operating activities		<b>542,616,206.92</b>	529,547,659.47
Cash paid for purchase of goods and services received		<b>384,307,210.60</b>	421,328,289.35
Cash paid to and on behalf of employees		<b>57,963,409.02</b>	63,778,467.34
Payments of all types of taxes and levies		<b>15,274,120.85</b>	9,256,356.75
Other cash paid relating to operating activities		<b>37,702,621.90</b>	15,640,667.00
Sub-total of cash outflow from operating activities		<b>495,247,362.37</b>	510,003,780.44
Net cash flow generated from operating activities		<b>47,368,844.55</b>	19,543,879.03

## Cash Flows Statement of the Parent Company

2016

Item	Note	Current period	Corresponding period last year
<b>II. Cash flow generated from investment activities:</b>			
Cash received from recovery of investments			60,132,398.72
Cash received from returns on investments		<b>2,840,352.63</b>	5,513,775.57
Net cash recovered from disposal of fixed assets, intangible assets and other long-term assets			
Net cash received from disposal of subsidiaries and other business units			
Other cash received relating to investment activities		<b>10,400,000.00</b>	40,000,000.00
<hr/>			
Sub-total cash inflow from investment activities		<b>13,240,352.63</b>	105,646,174.29
<hr/>			
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		<b>5,047,887.20</b>	13,569,598.02
Cash paid for investments			62,932,398.72
Net cash paid for acquiring subsidiaries and other business units		<b>21,600,000.00</b>	
Other cash paid relating to investment activities		<b>10,000,000.00</b>	41,469,441.05
<hr/>			
Sub-total of cash outflow from investment activities		<b>36,647,887.20</b>	117,971,437.79
<hr/>			
Net cash flow generated from investment activities		<b>-23,407,534.57</b>	-12,325,263.50

## Cash Flows Statement of the Parent Company

2016

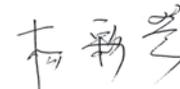
Item	Note	Current period	Corresponding period last year
<b>III. Cash flow generated from financing activities:</b>			
Cash received from capital contribution			
Cash received from loans obtained			
Other cash received relating to financing activities			
Sub-total of cash inflow from financing activities			
Cash paid for debt services			
Cash paid for distribution of dividends, profit or interest expenses			
Other cash paid relating to financing activities			
Sub-total of cash outflow from financing activities			
Net cash flow generated from financing activities			
<b>IV. Effect of changes in foreign exchange rate on cash and cash equivalents</b>		<b>2,497.17</b>	1,024.09
<b>V. Net increase in cash and cash equivalents</b>		<b>23,963,807.15</b>	7,219,639.62
Add: balance of cash and cash equivalents at the beginning of the period		<b>90,272,741.36</b>	83,053,101.74
<b>VI. Balance of cash and cash equivalents at the end of the period</b>		<b>114,236,548.51</b>	90,272,741.36

Legal representative:

Responsible person for accounting:

Responsible person for accountant:





# Consolidated Statement of Changes in Owners' Equity

2016

AC04

Prepared by: Xinjiang Tianye Water Saving Irrigation System Company Limited

Expressed in RMB

Item	Paid-in capital (or share capital)	Other equity instruments			Owners' equity attributable to the Company					General risk reserve	Undistributed profit	Others	Minority interest	Total owners' equity	
		Preference shares	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve						
<b>I. Closing balance of previous year</b>	519,521,560.00				15,372,472.17					34,724,097.27		141,071,178.55		12,119,172.18	722,808,480.17
Add: changes in accounting policies															
correction of errors of previous periods															
business combination under common control															
Others															
<b>II. Opening balance of the year</b>	519,521,560.00				15,372,472.17					34,724,097.27		141,071,178.55		12,119,172.18	722,808,480.17
<b>III. Increase/decrease in the current period (decrease is denoted as "-")</b>															
(I) Total comprehensive income												-57,338,617.49		-5,517,090.06	-62,855,707.55
(II) Capital contribution and reduction by owners												-57,338,617.49		-5,514,991.01	-62,853,608.50
1. Capital contribution by owners														4,400,000.00	4,400,000.00
2. Capital contribution by holders of other equity instruments														4,400,000.00	4,400,000.00
3. Amount of share-based payment included in owners' equity															
4. Others															
(III) Profit appropriation														-2,099.05	-2,099.05
1. Transfer to surplus reserve															
2. Transfer to general risk reserve															
3. Appropriation to owners (or shareholders)															
4. Others														-2,099.05	-2,099.05
(IV) Internal transfer of owners' equity															
1. Capitalization of capital reserve to capital (or share capital)															
2. Capitalization of surplus reserve to capital (or share capital)															
3. Surplus reserve for making up losses															
4. Others														-2,099.05	-2,099.05
(V) Special reserve															
1. Transfer for the period															
2. Utilized during the period															
(VI) Others															
<b>IV. Closing balance for the period</b>	519,521,560.00				15,372,472.17					34,724,097.27		83,732,561.06		11,002,082.12	664,352,772.82

Item	Paid-in capital (or share capital)	Other equity instruments			Owners' equity attributable to the Company					General risk reserve	Undistributed profit	Others	Minority interest	Total owners' equity	
		Preference shares	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve						
<b>I. Closing balance of previous year</b>	519,521,560.00				15,372,472.17					34,724,097.27		147,865,043.54		14,319,335.96	731,802,508.94
Add: changes in accounting policies															
correction of errors of previous periods															
business combination under common control															
Others															
<b>II. Opening balance of the year</b>	519,521,560.00				15,372,472.17					34,724,097.27		147,865,043.54		14,319,335.96	731,802,508.94
<b>III. Increase/decrease in the current period (decrease is denoted as "-")</b>															
(I) Total comprehensive income												-6,793,864.99		-2,200,163.78	-8,994,028.77
(II) Capital contribution and reduction by owners												-6,793,864.99		-700,325.67	-7,494,190.66
1. Capital contribution by owners															
2. Capital contribution by holders of other equity instruments															
3. Amount of share-based payment included in owners' equity															
4. Others															
(III) Profit appropriation														-1,499,838.11	-1,499,838.11
1. Transfer to surplus reserve															
2. Transfer to general risk reserve															
3. Appropriation to owners (or shareholders)															
4. Others														-1,499,838.11	-1,499,838.11
(IV) Internal transfer of owners' equity															
1. Capitalization of capital reserve to capital (or share capital)															
2. Capitalization of surplus reserve to capital (or share capital)															
3. Surplus reserve for making up losses															
4. Others															
(V) Special reserve															
1. Transfer for the period															
2. Utilized during the period															
(VI) Others															
<b>IV. Closing balance for the period</b>	519,521,560.00				15,372,472.17					34,724,097.27		141,071,178.55		12,119,172.18	722,808,480.17

Legal representative:

Responsible person for accounting:

Responsible person for accountant:





# Statement of Changes in Owners' Equity of the Parent Company

2016

AC04

Prepared by: Xinjiang Tianye Water Saving Irrigation System Company Limited

Expressed in RMB

Item	Paid-in capital (or share capital)	Other equity instruments			Capital reserve	Opening Balance Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Total owners' equity
		Preference shares	Perpetual bonds	Others							
<b>I. Closing balance of previous year</b>	519,521,560.00				18,474,739.46				34,724,097.27	105,950,461.79	678,670,858.52
Add: changes in accounting policies correction of errors of previous periods Others											
<b>II. Opening balance of the year</b>	519,521,560.00				18,474,739.46				34,724,097.27	105,950,461.79	678,670,858.52
<b>III. Increase/decrease in the current period (decrease is denoted as "-")</b>											
(I) Total comprehensive income										-52,816,723.97	-52,816,723.97
(II) Capital contribution and reduction by owners										-52,816,723.97	-52,816,723.97
1. Capital contribution by owners											
2. Capital contribution by holders of other equity instruments											
3. Amount of share-based payment included in owners' equity											
4. Others											
(III) Profit appropriation											
1. Transfer to surplus reserve											
2. Appropriation to owners (or shareholders)											
3. Others											
(IV) Internal transfer of owners' equity											
1. Capitalization of capital reserve to capital (or share capital)											
2. Capitalization of surplus reserve to capital (or share capital)											
3. Surplus reserve for making up losses											
4. Others											
(V) Special reserve											
1. Transfer for the period											
2. Utilized during the period											
(VI) Others											
<b>IV. Closing balance for the period</b>	519,521,560.00				18,474,739.46				34,724,097.27	53,133,737.82	625,854,134.55

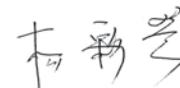
Item	Paid-in capital (or share capital)	Other equity instruments			Capital reserve	Corresponding period of last year		Special reserve	Surplus reserve	Undistributed profit	Total owners' equity
		Preference shares	Perpetual bonds	Others		Less: treasury shares	Other comprehensive income				
<b>I. Closing balance of previous year</b>	519,521,560.00				18,474,739.46				34,724,097.27	116,978,533.73	669,698,930.46
Add: changes in accounting policies correction of errors of previous periods Others											
<b>II. Opening balance of the year</b>	519,521,560.00				18,474,739.46				34,724,097.27	116,978,533.73	669,698,930.46
<b>III. Increase/decrease in the current period (decrease is denoted as "-")</b>											
(I) Total comprehensive income										-11,028,071.94	-11,028,071.94
(II) Capital contribution and reduction by owners										-11,028,071.94	-11,028,071.94
1. Capital contribution by owners											
2. Capital contribution by holders of other equity instruments											
3. Amount of share-based payment included in owners' equity											
4. Others											
(III) Profit appropriation											
1. Transfer to surplus reserve											
2. Appropriation to owners (or shareholders)											
3. Others											
(IV) Internal transfer of owners' equity											
1. Capitalization of capital reserve to capital (or share capital)											
2. Capitalization of surplus reserve to capital (or share capital)											
3. Surplus reserve for making up losses											
4. Others											
(V) Special reserve											
1. Transfer for the period											
2. Utilized during the period											
(VI) Others											
<b>IV. Closing balance for the period</b>	519,521,560.00				18,474,739.46				34,724,097.27	105,950,461.79	678,670,858.52

Legal representative:

Responsible person for accounting:

Responsible person for accountant:





# Notes to Financial Statements

2016

Expressed in RMB

## I. BASIC INFORMATION ON THE COMPANY

Xinjiang Tianye Water Saving Irrigation System Company Limited (hereinafter referred to as the “Company”) was co-founded by the joint investment from Xinjiang Tianye Company Limited and Xinjiang Shihezi Yunfa Investment Company Limited (新疆石河子運發投資有限責任公司). It was registered with the Administration for Industry & Commerce of Xinjiang Uygur Autonomous Region on 27th December, 1999, and is headquartered in Shihezi City, Xinjiang Uygur Autonomous Region. The creditability code of its Business License of Enterprise Legal Person is 91650000757655578C and its registered capital is RMB519,521,560.00, comprising 519,521,560 shares of RMB1 each in aggregate, of which 317,121,560 are domestic shares held by legal persons and 202,400,000 are overseas H shares. The Company transferred its share listing from the Growth Enterprise Market (“GEM”) of the Stock Exchange to the Main Board of the Hong Kong Stock Exchange on 24th January, 2008, with its Stock Code changed from 8280 to 0840.

The Company operates in the plastic product manufacturing industry. Its business scope mainly covers production and sale of PVC materials for water supply pipes, PE piping materials and accessories, pressure compensatory drip tapes, labyrinth-style drip tapes, embedded-style drip tapes, agricultural tapes and drippers.

These financial statements had been approved by the 6th meeting of the 5th session of the Board on 31st March, 2017 for publication.

The Company included 10 subsidiaries, namely, Gansu Tianye Water Saving Device Co., Ltd (hereinafter referred to as “Gansu Tianye”), Hami Tianye Hongxing Water Saving Irrigation Co., Ltd\* (hereinafter referred to as “Hami Tianye”), Kuitun Tiantun Water Saving Co., Ltd\* (hereinafter referred to as “Kuitun Water Saving”), Akesu Tianye Water Saving Co., Ltd\* (hereinafter referred to as “Akesu Tianye”), Shihezi Tiancheng Water Saving Device Co., Ltd (hereinafter referred to as “Tiancheng Water Saving”), Liaoning Tianye Water Saving Irrigation Co., Ltd\* (hereinafter referred to as “Liaoning Tianye”), Shihezi Tianye Material Recycling Co., Ltd\* (hereinafter referred to as “Shihezi Tianye”), Xinjiang Tianye Nanjiang Water Saving Agriculture Co., Ltd\* (hereinafter referred to as “Nanjiang Water Saving”), Zhongxinnong Modern Water Saving Technology Company Limited\* (hereinafter referred to as “Zhongxinnong Water Saving”) and Xinjiang Tianye Wisdom Agriculture Technology Company Limited\* (hereinafter referred to as “Wisdom Agriculture”) into the consolidated financial statements for the period. For details, please refer to the change in the scope of consolidation and information on interests in other entities as set forth in the notes to these financial statements.

## Notes to Financial Statements

2016

**II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS****(I) Basis of preparation**

The Company's financial statements have been prepared on a going concern basis.

**(II) Abilities to continue as a going concern**

There is no event or circumstance of the Company which casts material doubts to the going concern assumption for the 12 months from the end of the reporting period.

**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES****(I) Statement of compliance with the Accounting Standards for Business Enterprises**

The financial statements prepared by the Company are in accordance with the requirements of the Accounting Standards for Business Enterprises ("ASBE"), and gives a true and complete view on information including the financial position, the operating results and cash flows of the Company.

**(II) Accounting Period**

An accounting year runs with the Gregorian calendar which lasts from 1st January to 31 December.

**(III) Operating cycle**

The Company operates on a relatively short operating cycle, which classifies the liquidity of assets and liabilities by a 12-months standard.

**(IV) Functional currency**

Renminbi is being adopted as the functional currency.

## Notes to Financial Statements

2016

**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(V) Accounting treatment for business combinations under and not under common control****1. Accounting treatment for business combinations under common control**

Assets and liabilities obtained by the Company in business combinations are measured at the carrying amounts attributable to the combined party as recorded in the consolidated financial statement of the ultimate controlling party at the date of the combination. The difference between the carrying amount of owners' equity attributable to the combined party as recorded in the consolidated financial statements of the ultimate controlling party and the carrying amount of the consideration paid for the combination or the aggregate nominal values of the shares issued is adjusted against the capital reserve of the Company. If the capital reserve is insufficient to offset the difference, any excess is adjusted against retained earnings.

**2. Accounting treatment for business combinations not under common control**

The excess of the cost of combination over the fair value of the attributable net identifiable assets of the acquiree acquired in the combination at the combination date is recognized as goodwill. Where the cost of combination is less than the fair value of the attributable net identifiable assets of the acquiree, the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities of the acquiree acquired and of the cost of combination shall be reassess first. If the cost of combination is still less than the fair value of the acquiree's identifiable net assets acquired in the combination upon reassessment, the difference is included in profit or loss for the current period.

**(VI) Preparation basis of the consolidated financial statements**

The Company includes all subsidiaries under its control in the consolidation scope of the consolidated financial statements, which are prepared by the Company pursuant to ASBE No. 33 — Consolidated financial statements based on the financial statements of the Company and its subsidiaries and other relevant information.

## Notes to Financial Statements

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**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(VII) Recognition criteria of cash and cash equivalents**

Cash presented in the Statement of Cash Flows refers to 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.

**(VIII) Translation of operation denominated in foreign currency**

Upon initial recognition, a transaction denominated in foreign currency is translated into Renminbi amounts using the spot exchange rate at the date of transaction. At the balance sheet date, monetary items denominated in foreign currency are translated using the spot exchange rate at the balance sheet date. Exchange differences arising from difference in exchange rates, except exchange differences in relation to the principle of and interest on specific-purpose borrowings denominated in foreign currency for the acquisition and construction of assets that qualify for capitalization, are recognized in profit or loss for the current period. Non-monetary items denominated in foreign currency that are measured at historical cost remain translated at the spot exchange rate at the dates of the transactions without changing its RMB denomination. Non-monetary items denominated in foreign currency that are measured at fair value are translated using the spot exchange rate as at the date of determination of the fair value. The differences are included in profit or loss or other comprehensive income for the current period.

**(IX) Financial instrument****1. Classification of financial assets and financial liabilities**

Financial assets are classified into the following four categories at initial recognition: financial assets at FVTPL for the current period (including financial assets held for trading and financial assets designated as at FVTPL for the current period at initial recognition), held-to-maturity investments, loans and receivables and available-for-sale financial assets.

Financial liabilities are classified into the following two categories at initial recognition: financial liabilities at FVTPL for the current period (including financial liabilities held for trading and financial liabilities designated as at FVTPL for the current period at initial recognition) and other financial liabilities.

## Notes to Financial Statements

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**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(IX) Financial instrument** *(continued)***2. Basis of recognition, measurement and conditions of 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 a financial instrument. Financial assets or financial liabilities are measured at fair value upon initial recognition. For financial assets or financial liabilities at FVTPL for the current period, the relevant transaction costs are directly included in profit or loss for the current period; for other categories of financial assets or financial liabilities, the relevant transaction costs are included in their initial recognition amount.

Financial assets are subsequently measured at fair value without deducting the transaction costs that may incur by the disposal thereof in the future, except the following circumstances: (1) held-to-maturity investments and loans and receivables are measured at amortized cost using the effective interest method; and (2) equity instrument investments not quoted in an active market and for which fair value cannot be measured reliably and derivative financial assets linked to and settled by delivery of such equity instruments are measured at cost.

Financial liabilities are subsequently measured at amortized cost using the effective interest method, except the following circumstances: (1) financial liabilities at FVTPL for the current period are measured at fair value, without deducting the transaction costs that may incur by the settlement thereof in the future; (2) derivative financial liabilities linked to and settled by delivery of equity instruments that are not quoted in an active market and the fair value of which cannot be measured reliably are measured at cost; and (3) a financial guarantee contract that is not a financial liability designated as at FVTPL for the current period or a loan commitment for loans to be extended at a below market interest rate which is not designated as at FVTPL for the current period, after initial recognition, are subsequently measured at the higher of: 1) the amount determined under ASBE No. 13—Contingencies; and 2) the balance of initial recognized amount less accumulated amortization determined according to the principals under ASBE No. 14 — Revenue.

**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(IX) Financial instrument** *(continued)***2. Basis of recognition, measurement and conditions of derecognition of financial assets and financial liabilities** *(continued)*

Gains or losses arising from changes in fair value of financial assets or financial liabilities, except for those related to hedging, are treated by the following methods: (1) gains or losses arising from changes in fair value of financial assets or financial liabilities at FVTPL for the current period are included in gains from changes in fair value. Interests or cash dividends received during the holding period of such assets are recognized as investment income. On disposal, the difference between the proceeds actually received and the initial cost is recognized as gain on investment and the gain from changes in fair value is adjusted accordingly. (2) Changes in fair value of available-for-sale financial assets are included in other comprehensive income. Interests during the holding period of such assets as calculated under the effective interest method, are included in gain on investment. Cash dividends from available-for-sale equity instrument investments are included in gain on investment as the investee declares the distribution of dividends. On disposal, the difference between the proceeds actually received and the carrying amount less the accumulated changes in fair value, which directly included in other comprehensive income previously, is recognized as gain on investment.

A financial asset is derecognized when the contractual rights to receive cash flows from the financial asset have been terminated, or substantially all the risks and rewards associated with the ownership of the financial asset have been transferred. A financial liability is derecognized in whole or in part accordingly when the present obligations are discharged in whole or in part.

## Notes to Financial Statements

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**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(IX) Financial instrument** *(continued)***3. Recognition and measurement of transfer of financial assets**

A financial asset is derecognized when the Company has transferred substantially all the risks and rewards associated with the ownership of a financial asset to the transferee. A transferred financial asset will remain recognized if the Company retains substantially all the risks and rewards associated with the ownership of a financial asset, with the consideration received recognized as a financial liability. Where the Company has neither transferred nor retained substantially all the risks and rewards associated with the ownership of the financial asset, it may either (1) derecognize the financial asset if control of the financial asset has not been retained; (2) recognize the financial asset to the extent of its continuing involvement in the transferred financial asset and recognize associated liability accordingly if control has been retained.

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, the difference between (1) the carrying amount of the financial asset transferred; and (2) the sum of the consideration received from the transfer and cumulative changes in fair value previously included in owners' equity, is recognized in profit or loss for the current period. If a partial transfer of a financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that subject to and the part not subject to derecognition, in proportion to the respective fair values of those parts. The difference between (1) the carrying amount of the part derecognized; and (2) the sum of the consideration of the part derecognized and the cumulative changes in fair value for the part derecognized which has been previously included in owners' equity, is included in profit or loss.

**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(IX) Financial instrument** *(continued)***4. Determination of fair value of financial assets and financial liabilities**

The Company adopts valuation techniques that are appropriate under the circumstances and supported by sufficient data and other information available to determine the fair value of the relevant financial assets and financial liabilities. The Company classifies the inputs used by the valuation techniques into the following hierarchies, and applies in the following sequence:

- (1) Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the date of measurement;
- (2) Level 2 inputs are direct or indirect observable inputs for the relevant asset or liability other than Level 1 inputs, including: quoted price for similar assets or liabilities in an active market; quoted price for the same or similar assets or liabilities in an inactive market; other observable inputs excluding quoted price, such as interest rates and yield curves observable at commonly quoted intervals; inputs that are evidenced in market, etc.
- (3) Level 3 inputs are unobservable inputs for the relevant asset or liability, including (among others) interest rates, stock volatility, future cash flows from the disposal obligations assumed in a business combination, financial forecast using internal data that are not directly observable or can not verified by observable market data.

**5. Impairment test and provision for impairment for financial assets**

- (1) The carrying amount of a financial asset, other than financial assets at FVTPL for the current period, is reviewed at the balance sheet dates. Provision for impairment is made when there is objective evidence indicating that such financial asset is impaired.

## Notes to Financial Statements

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**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(IX) Financial instrument** *(continued)***5. Impairment test and provision for impairment for financial assets** *(continued)*

- (2) For a held-to-maturity investment or loan and receivable that is individually significant, the financial asset is separated at first and tested individually for impairment; for a financial asset that is individually insignificant, the asset is tested individually for impairment or includes in a group of financial assets with similar credit risk characteristics and collectively tested for impairment. Where a financial asset (including financial assets individually significant or insignificant) is determined to be not impaired in an individual impairment test, it will be included in a group of financial assets with similar credit risk characteristics and reassessed for impairment. If the result of the impairment test indicates that the financial asset is impaired, an impairment loss is recognized at the excess of its carrying amount over the present value of estimated future cash flows.
- (3) Available-for-sale financial assets
  - 1) Objective evidence indicating that an investment in the available-for-sale debt instrument is impaired include:
    1. The debtor is suffered from significant financial difficulties;
    2. Breach of terms of a contract by the debtor, such as default or overdue in interest or principle payments;
    3. The Company, for economic or legal considerations grants a concession to the debtor with financial difficulty;
    4. It becomes probable that the debtor will enter into bankruptcy or other financial reorganizations;
    5. The debt instrument could not be traded on an active market continuously as the debtor is subject to significant financial difficulties;
    6. Other circumstances indicating that the debt instrument is impaired.

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**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(IX) Financial instrument** *(continued)***5. Impairment test and provision for impairment for financial assets** *(continued)*(3) Available-for-sale financial assets *(continued)*

- 2) Objective evidence indicating that an investment in the available-for-sale equity instrument is impaired includes a significant or prolonged decline in the fair value of the investment in the equity instrument, and a significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the investee operates, and indicates that the cost of the investment in the equity instrument may not be recovered.

The Company reviews each investment in available-for-sale equity instruments individually at each balance sheet date. For the equity instrument investment measured at fair value, if the fair value declines by over 50% (including 50%) of its cost or declines to below its cost for more than 12 months (including 12-months), it indicates that it is impaired; if the fair value declines by more than 20% (including 20%) but less than 50% of its cost, or declines to below its cost for more than 6 months (including 6 months) but not more than 12 months, the Company will take other relevant factors into consideration, such as price fluctuations to determine whether it is impaired. For the equity instrument investment measured at cost, the Company will take into consideration whether there is any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the investee operates, and indicates that the cost of the investment in the equity instrument may not be recovered, to determine whether it is impaired.

If an available-for-sale financial assets measured at fair value is impaired, the cumulative losses arising from the decline in fair value that had been included directly in other comprehensive income are transferred out into impairment loss. For an available-for-sale debt instrument investment for which impairment losses have been recognized, if its fair value subsequently increases and the increase can be objectively related to an event subsequent to the recognition of the previous impairment losses, the previously recognized impairment losses are released and included into profit or loss for the current period. For an available-for-sale equity instrument investment on which impairment losses have been recognized, the subsequent increase in its fair value is recognized directly in other comprehensive income.

## Notes to Financial Statements

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**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(IX) Financial instrument** *(continued)***5. Impairment test and provision for impairment for financial assets** *(continued)*(3) Available-for-sale financial assets *(continued)*

If an equity instrument investment measured at cost is impaired, an impairment loss is recognized at the excess of the carrying amount of such instruments investment over the present value of future cash flows discounted at the prevailing market yield for similar financial assets, and included in profit or loss for the current period; the recognized impairment loss shall not be reversed.

**(X) Receivables****1. Individually significant receivables for which bad-debt provision is separately made**

Basis or monetary criteria for determination of an individually significant amount	The account receivable whose amount is above RMB1 million (including) or accounting for more than 10% of the book balance of the account receivables
Method of provision for bad debts that are individually significant and for which bad-debt provision is individually made	Tested individually for impairment, provision for bad-debts is made according to the difference between the present value of its future cash flows and its carrying amount.

**2. Receivables for which bad-debt provision is made in groups with similar credit risk characteristics**(1) *Specific groups and method of provision for bad debt*

Method of provision for bad debt on similar credit risk characteristics

Aging analysis method group	Aging analysis method
Amounts due from related parties of the controlling shareholder and any of its subsidiaries, security deposit receivables for state land treatment project and government procurement project	If no impairment occurred after group testing, no bad debt provision will be made.

## Notes to Financial Statements

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**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(X) Receivables** *(continued)***2. Receivables for which bad-debt provision is made in groups with similar credit risk characteristics** *(continued)**(2) Aging analysis method*

Age	Receivables Percentage of provision (%)	Other receivables Percentage of provision (%)
Within 1 year (inclusive, same rule applies below)	1.00	1.00
1-2 years	50.00	50.00
Over 2 years	100.00	100.00

**3. Individually insignificant receivables for which bad-debt provision is separately made**

Reason for making individual bad-debt provision	Whether there are obvious differences between the present value of future cash flows of receivables and the present value of future cash flows of receivable portfolios with similar credit risk characteristics.
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Method of provision for bad debts	Tested individually for impairment, provision for bad-debts is made according to the difference between the present value of its future cash flows and its carrying amount.
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For other receivables such as bills receivables, interests receivables, and long-term receivables, bad-debt provision is made according to the difference between the present value of its future cash flows and its carrying amount.

## Notes to Financial Statements

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### III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

#### (XI) Inventories

##### 1. Classifications of inventories

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

##### 2. Cost of inventories transferred out

Cost of inventories transferred out is determined using the weighted average method at the end of each month.

##### 3. Basis for determination of net realizable value of inventories

At the balance sheet date, the Company's inventories are measured at the lower of cost and net realizable value. Provision for impairment is made for the excess of the cost over the net realizable value of an individual inventory. For inventories for immediate sale, net realizable value is determined as the estimated selling price of the inventories less the estimated costs of sales and relevant taxes and levies in the ordinary course of business. For inventories that require processing, net realizable value is determined as the amount of the estimated selling price of the finished goods produced less the estimated costs to completion, the estimated costs of sales and relevant taxes and levies in the ordinary course of business. At the balance sheet date, where part of an inventory item is subject to an agreed contractual price while the remainder is not, their net realizable values are determined separately and compared with their respective costs to determine the amount of provision for impairment made or released.

##### 4. Inventory system

Our inventory taking system is a perpetual inventory system.

**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(XI) Inventories** *(continued)***5. Amortization methods for low-value consumables and packaging materials***(1) Low-value consumables*

One-off amortization method shall apply.

*(2) Packaging materials*

One-off amortization method shall apply.

**(XII) Long-term equity investment****1. Determination of joint control or significant influence**

Joint control is determined as the common control over an arrangement according to a related agreement, where the decisions on the activities relating to the arrangement require the unanimous consent of the participating parties sharing the control. Significant influence is determined as the power to participate in the decisions governing the financial and operating policies of the investee but is not able to exercise control or exercise common control with other participating parties over those policies.

## Notes to Financial Statements

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**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(XII) Long-term equity investment** *(continued)***2. Determination of investment cost**

- (1) The initial investment cost of a long-term equity investment obtained through a business combination under common control is the carrying amount of owners' equity attributable to the combined party in the consolidated financial statements of the ultimate controlling party at the date of combination, if the consideration from the combining party 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 amount of the consideration paid for the combination or the aggregate nominal values of the shares issued is adjusted against the capital reserve. If the capital reserve is insufficient to offset the difference, any excess is adjusted against the retained earnings.

A long-term equity investment derived from a business combination under common control which achieved by phases through multiple transactions, is determined whether it constitutes a "Package Deal" or not. If it constitutes a "Package Deal", the Company conducts accounting treatment for all transactions as if it is a transaction that obtained control. If a long-term equity investment does not constitute a "Package Deal", its initial investment cost is determined as the carrying amount of the net asset attributable to the combined party as recorded in the consolidated financial statements of the ultimate controlling party upon combination at the combination date. The difference between the initial investment cost of the long-term equity investment at combination date and the sum of the carrying amount of the long-term equity investment before combination and the carrying amount of new consideration paid for obtaining further shares at combination date is adjusted against the capital reserve. If the capital reserve is insufficient to offset the difference, any excess is adjusted against the retained earnings.

**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(XII) Long-term equity investment** *(continued)***2. Determination of investment cost** *(continued)*

- (2) For a long-term equity investment derived from a business combination not under common control, the initial investment cost is the fair value of the consideration paid for the combination at the acquisition date.

For a long-term equity investment derived from a business combination not under common control which achieved by phases through multiple transactions, the relevant accounting treatments are conducted separately in individual financial statements and the consolidated financial statements:

- 1) In the individual financial statements, the carrying amount of equity investments originally held is extended by the addition of new investment costs as the initial investment cost and accounted for under the cost method instead.
- 2) In the consolidated financial statements, it is determined whether it constitutes a “Package Deal” or not. If it constitutes a “Package Deal”, the Company conducts accounting treatment for all transactions as if it is a transaction that obtained control. If a long-term equity investment does not constitute a “Package Deal”, the equity in the acquiree held before the acquisition date is remeasured at fair value of the equity on the acquisition date. The difference between the fair value and the carrying amount is included in gain on investment for the current period. If other comprehensive income as accounted for under the equity method is involved in the equity in the acquiree held prior to the acquisition date, the relevant comprehensive income shall be stated as the gain for the current period of the acquisition date. However, it excludes the other comprehensive income due to the remeasurement of changes in net liability or net asset of defined benefit scheme by the investee.

## Notes to Financial Statements

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**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(XII) Long-term equity investment** *(continued)***2. Determination of investment cost** *(continued)*(2) *(continued)*

- 3) For a long-term equity investment derived otherwise than by a business combination, if it is acquired by cash payment, its initial investment cost is the effective acquisition consideration paid; if the investment is acquired by issuance of equity securities, its initial investment cost is the fair value of the equity securities issued; if it is acquired by debt restructuring, its initial investment cost is determined in accordance with ASBE No. 12 — Debt Restructuring; if it is acquired by non-monetary assets exchange, its initial investment cost is determined in accordance with ASBE No. 7 — Non-monetary Assets Exchange.

**3. Subsequent measurement and recognition of profit or loss**

A long-term equity investment with control over the investee is accounted for under the cost method. A long-term equity investment in associates and joint ventures are accounted for under the equity method.

**4. Accounting treatment of a disposal of investment in a subsidiary through multiple transactions until the control on the investee has been lost**(1) *Individual financial statements*

For the equity interest being disposed of, the difference between its carrying amount and actual proceeds obtained is included in profit or loss for the period. For the remaining equity interest, if it still exercises significant influence on or, in conjunction with other parties, has a joint control in the investee, it is accounted for using the equity method instead; or it is recognized as available-for-sale financial assets and accounted for in accordance with ASBE No. 22 — Recognition and Measurement of Financial Instrument if it can no longer exercise control, joint control or significant influence on the investee.

## Notes to Financial Statements

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**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(XII) Long-term equity investment** *(continued)***4. Accounting treatment of a disposal of investment in a subsidiary through multiple transactions until the control on the investee has been lost** *(continued)**(2) Consolidated financial statements*

- 1) Disposal of investments in a subsidiary through multiple transactions until the control on the investee has been lost, which does not constitute a “Package Deal”

Prior to the loss of control, the differences between the proceeds from the disposal and the subsidiary's net assets attributable to the disposed long-term equity investment since acquisition date or combination date are adjusted against the capital reserve (capital premium). If the capital reserve is insufficient to offset the difference, any excess is adjusted against the retained earnings.

When the control over the former subsidiary is lost, the remaining equity interest is remeasured at its fair value at the date when control over the subsidiary has been lost. The different between the sum of consideration received from the disposal of the equity interest and the fair value of the remaining equity interest less the net assets in the former subsidiary as calculated by the previous percentage of shareholding since acquisition date or combination date is included in investment income during the current period in which the control on the investee was lost, and write down the goodwill accordingly. Other comprehensive income associated with the investment in equity interest in the former subsidiary is transferred to gain on investment when the control on the investee was lost.

- 2) Disposal of investment in a subsidiary through multiple transactions until the control on the investee has been lost, which constitutes a “Package Deal”

All transactions are collectively accounted for as a transaction for the disposal of a subsidiary in which the control on the investee is lost. Nonetheless, prior to the loss of control, the difference between each of the amounts of the disposal proceeds and the corresponding amounts of the subsidiary's net assets attributable to the investment being disposed of is recognized as other comprehensive income in the consolidated financial statements, and is transferred collectively to profit or loss during the period when the control on the investee has been lost.

## Notes to Financial Statements

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**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(XIII) Investment properties**

- Investment properties include land use rights leased out, land use rights held for appreciation and sale, and buildings leased out.
- Investment properties are initially measured at cost and subsequently measured by the cost model, and depreciated or amortized using the same method as fixed assets and intangible assets.

**(XIV) Fixed assets****1. Recognition conditions for fixed assets**

Fixed assets represent the tangible assets held for production of goods or supply of services, lease or operation and administrative purposes with useful lives over one accounting year. Fixed assets are recognized when they simultaneously satisfy the conditions that it is probable that its economic benefits may flow to the Company and the cost can be measured reliably.

**2. Depreciation methods of different categories of fixed assets**

Category	Depreciation method	Depreciation period (years)	Residual value rate (%)	Annual depreciation rate (%)
Buildings and structures	Straight-line-method	8–40	3.00–5.00	2.38–12.13
Machinery and equipment	Straight-line-method	5–14	3.00–5.00	6.79–19.40
Motor vehicles	Straight-line-method	5–10	3.00–5.00	9.50–19.40
Office and other equipment	Straight-line-method	5–14	3.00–5.00	6.79–19.40

## Notes to Financial Statements

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**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(XV) Construction in progress**

1. Construction in progress is recognized when the inflow of economic benefits is probable and the cost can be reliably measured, and is measured at the actual cost for construction of such asset incurred until it is ready for intended use. Construction in progress is transferred into fixed assets at its actual cost when it is ready for its intended use.
2. For those ready for intended use but have not completed the final completion audit, the asset is transferred into fixed assets based on the estimated value. After the completion of the final completion audit, the Company makes adjustment to the previous estimated value on the basis of the actual cost, but will not adjust the depreciation retrospectively.

**(XVI) Borrowing costs****1. Principle for recognition of capitalization of borrowing costs**

Borrowing costs incurred by the Company directly attributable to the acquisition, construction or origination of assets qualified for capitalization are capitalized as the cost of such assets. Other borrowing costs are recognized as expense and charged to profit or loss for the current period as incurred.

**2. Period for borrowing costs capitalization**

- (1) Borrowing costs begin to capitalize when all of the following conditions are met 1) capital expenditures have been incurred, 2) borrowing costs have been incurred, and 3) 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 is suspended if 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 recognized as expenses for the current period until the acquisition, construction or production activities resume.
- (3) The capitalization of borrowing costs ceases when the assets qualified for capitalization have been acquired, constructed or produced and are ready for their intended use or sale.

## Notes to Financial Statements

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**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(XVI) Borrowing costs** *(continued)***3. Capitalization rate and capitalized amount of borrowing costs**

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

**(XVII) Intangible assets**

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

Item	Amortization period (years)
Land use rights	50
Patents	10

## Notes to Financial Statements

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**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(XVII) Intangible assets** *(continued)*

3. Expenditure incurred during the research stage of internal research and development projects is included in profit or loss for the current period as incurred. Expenditure incurred during the development stage of internal research and development projects that satisfy the following conditions are recognized as intangible assets: (1) it is technically feasible to complete the intangible asset so that it will be available for use or sale; (2) has the intention to complete the intangible asset and use or sell it; (3) how the intangible asset will generate economic benefits, including the evidence indicating that market exist for the products using the intangible asset to produce or the intangible asset itself has a market; if the intangible asset is for internal use, the evidence indicating its usability; (4) the availability of adequate technical, financial and other resources to support the completion of the development and the ability to use or sell the intangible assets; and (5) the expenditure attributable to the development stage of the intangible asset can be reliably measured.

Specific criteria for dividing expenditure incurred during the research stage and development stage of internal research and development projects:

An internal research and development project of the Company, from early research to mature application, is divided into research stage and development stage, specifically, into such stages as research, feasibility studies, project establishing, preliminary studies (including formulation and process design, equipment selection, development of technical standards, etc.), bench-scale testing, pilot testing, and trial-producing. The Company takes bench-scale testing as the basis for dividing the research stage and development stage.

## Notes to Financial Statements

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### III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

#### **(XVIII) Impairment of part of long-term assets**

For long-term assets such as long-term equity investments, investment properties measured by the cost model, fixed assets, construction in progress, and intangible assets with limited useful lives, the Company estimates its recoverable amount when there is evidence at the balance sheet date that the intangible assets are impaired. Goodwill arising from a business combination and an intangible asset with an indefinite useful life shall be subject to an impairment test, irrespective of whether there is any indication of impairment. The Company conducts impairment test on goodwill together with the related asset group or asset group portfolio.

If the recoverable amount of such long-term assets is less than its carrying amount, a provision for asset impairment is made at the difference and included in profit or loss for the current period.

#### **(XIX) Long-term deferred expenses**

Long-term deferred expenses are accounted for in respect of various expenses which have been incurred but with an amortization period of more than one year (excluding one year). Long-term deferred expenses are measured at actual amount and amortized evenly over the beneficial or required period. If the Long-term deferred expenses are no longer beneficial to the subsequent accounting periods, the full unamortized balance is then transferred to profit or loss for the current period.

#### **(XX) Employee Remuneration**

- 1. Employee Remuneration consists of short-term remuneration, post-employment benefits, termination benefits and other long-term employee benefits.**
- 2. Accounting treatment for short-term remuneration**

Short-term remuneration actually incurred is recognized as liabilities and included in profit or loss for the current period or cost of related assets during the accounting period in which an employee renders services to the Company.

**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(XX) Employee Remuneration** *(continued)***3. Accounting treatment for post-employment benefits**

Post-employment benefits are classified into a defined contribution scheme and a defined benefit scheme:

- (1) The contributions payable as calculated according to the defined contribution scheme are recognized during the accounting period in which the employee renders services to the Company as liabilities and are included in profit or loss for the current period or cost of relevant assets.
- (2) Accounting treatment for the defined benefit scheme normally includes the following steps:
  - 1) The obligations arising from the defined benefit scheme are measured by using the projected unit credit method to estimate the relevant demographic statistical variables and financial variables with unbiased and consistent actuarial assumptions, and the period in which the obligations incurred is determined accordingly. Whereas the obligations arising from the defined benefit scheme are discounted to determine the present value and service costs for the defined benefit scheme;
  - 2) For the defined benefit scheme which has assets, the deficits or surplus arrived by netting off the fair value of assets of the defined benefit scheme from the present value of the defined benefit scheme are recognized as a net liability or net asset of a defined benefit scheme. Where the defined benefit scheme has surplus, the net asset of the defined benefit scheme is measured at the lower of the surplus or maximum assets limit of the defined benefit scheme.
  - 3) At the end of the period, employee remuneration costs arising from the defined benefit scheme are recognized as three elements, namely, service costs, net interest of net liabilities or net assets of the defined benefit scheme and changes arising from re-measurement of net liabilities or net assets of the defined benefit scheme. In which, the service costs and net interest of net liabilities or net assets of the defined benefit scheme are included in profit or loss for the current period or costs of relevant assets, changes arising from re-measurement of net liabilities or net assets of the defined benefit scheme are included in other comprehensive income. These amounts recognized in other comprehensive income are irreversible to profit or loss in subsequent accounting period, but is transferrable within equity.

## Notes to Financial Statements

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**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(XX) Employee Remuneration** *(continued)***4. Accounting treatment for termination benefits**

For termination benefits provided to employees, employee remuneration liabilities incurred by termination benefits are recognized at the earlier date of the following and charged from profit or loss for the current period: (1) when the Company may not unilaterally revoke the termination benefits provided pursuant to a labour relationship dismissal scheme or redundancy proposal; (2) the Company recognizes the costs or expenses related to a reorganization involving the payment of termination benefit.

**5. Accounting treatment for other long-term employee benefits**

Where other long-term benefits provided to employees satisfy the conditions of the defined contribution scheme, the accounting treatment is applied for such benefits according to the relevant requirements of the defined contribution scheme. Other long-term benefits other than this are treated according to the relevant requirements of the defined benefit scheme. In order to simplify the related accounting treatments, the Company recognizes the costs of employee remuneration arising thereof as service costs, the total net amount including net interest of net liabilities or net assets of other long-term employee benefits and changes arising from re-measurement of net liabilities or net assets of other long-term employee benefits is charged from profit or loss for the current period or cost of related assets.

**(XXI) Provision**

1. Provision is recognized when contingencies such as provision of external guarantees, litigation, quality assurance and loss-making contracts become a present obligation of the Company, and it is probable that an outflow of economic benefits from the Company is required to discharge the obligation and the amount of the obligation can be reliably estimated.
2. Provisions are initially measured on the basis of the best estimate of the expenses required to discharge the relevant present obligation, and the carrying amount of the provision on the balance sheet date is reassessed.

### III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

#### (XXII) Revenue

##### 1. Principles of revenue recognition

###### (1) *Sale of goods*

Revenue from sale of goods is recognized when the following conditions are met

- 1) substantial risks and rewards of ownership have been transferred to the buyer;
- 2) the Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- 3) the amount of revenue can be measured reliably;
- 4) the relevant economic benefits are likely to flow into the Company; and
- 5) related costs incurred or to be incurred can be measured reliably.

###### (2) *Rendering of services*

At the balance sheet date, when results of the transactions involving the rendering of services could be estimated reliably (which satisfy all of the followings: the amount of revenue can be measured reliably, it is probable that relevant economic benefits will flow to the Company, the percentage of construction work can be reliably determined and cost incurred or to be incurred can be measured reliably), revenue from rendering of services is recognized according to the percentage of completion method. The percentage of completion of services rendered is based on the percentage costs incurred to the total estimated costs. When results of the transactions involving the rendering of services could not be measured reliably at the balance sheet date, revenue from rendering of services is recognized as the service cost incurred and carried forward the same amount of service cost if the costs of services rendered are expected to be compensated, if the costs of services rendered are not expected to be compensated, the service costs incurred is not recognized and such costs are charged to the profit or loss for the current period.

###### (3) *Transfer of assets use rights*

Revenue from transfer of assets use rights is recognized when it is probable that relevant economic benefits will 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 cash is used by others and the effective interest rate. Income from usage fee is recognized according to timing and method of charge as agreed under the relevant contracts or agreements.

## Notes to Financial Statements

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**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(XXII) Revenue** *(continued)***1. Principles of revenue recognition** *(continued)**(4) Construction contracts*

- 1) Revenue and cost of construction contract are recognized by percentage of completion if the results of the contract could be reliably estimated at the balance sheet date, otherwise revenue is recognized as the actual recoverable contract cost with the contract cost recognized as contract expense for the period in which it is incurred if such cost is recoverable, or immediately recognized as contract expense as incurred without recognizing the revenue of the contract if such cost is irrecoverable.
- 2) The results of the fixed price construction contracts can be reliably estimated if all of the following conditions are met: it is probable that the total revenue of the contracts are reliably measured, the economic benefits associated with the contracts will flow to the Company, the contract costs actually incurred could be distinguished and reliably measured, and the progress of completion of the contracts and further costs required for completing the contracts can be reliably measured. The results of the cost-plus contract can be reliably estimated if all of the following conditions are met: it is probable that the economic benefits associated with the contracts will flow to the Company and the contract cost actually incurred could be distinguished and reliably measured.
- 3) The progress of completion is determined by the proportion of the contract costs incurred in actual to the total estimated costs.
- 4) At the balance sheet date, any expected loss is recognized as expenses for the current period if the expected total contract costs exceed total contract revenue. For construction contracts in progress, provisions for impairment of inventories are made at the difference. For loss-making contracts to be performed, this difference are recognized as expected liabilities.

**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(XXII) Revenue** *(continued)***2. Specific methods of revenue recognition**

The Company mainly sells products such as pressure compensatory style drip tapes, labyrinth-style drip tapes, embedded-style drip tapes and drippers, PVC pipelines for water supply, PE pipelines and assemblies. Where a customer collects the goods from our warehouse or orders the Company to arrange for transportation, the Company recognizes the revenue upon delivery and acceptance of the products and after issuance of invoice according to the bill of delivery.

**(XXIII) Government grants****1. The basis for determining government grants relating to assets and accounting treatments**

The government grants obtained by the Company for purchasing or constructing or otherwise originating long-term assets are classified as government grants relating to assets. Government grants relating to assets are recognized as deferred income and allocated evenly over the expected useful life of the relevant asset and included in profit or loss for the current period. Nevertheless, government grants measured at notional value are directly included in profit or loss for the current period.

**2. The basis for determining government grants relating to income and accounting treatments**

Government grants other than government grants relating to assets are classified as government grants relating to income. Government grants relating to income applied in compensating related costs or losses in subsequent periods are recognized as deferred income and included in profit or loss for the current period in which the related costs are recognized. Government grants, applied in compensating related costs or losses already incurred, are directly recognized in profit or loss for the current period.

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**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(XXIV) Deferred income tax assets and deferred income tax liabilities**

1. Deferred income tax assets or deferred income tax liabilities are recognized on the basis of the difference between the carrying amounts of the assets or liabilities and their tax bases (for an item not recognized as asset or liability but for which tax base can be determined under tax laws, the difference between its tax base and its carrying amount), and are calculated by applying the tax rates applicable to the period in which the assets are expected to be recovered or the liabilities are expected to be settled.
2. Deferred income tax assets are recognized for deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. At the balance sheet date, deferred income tax assets unrecognized in prior accounting periods are recognized 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 utilized.
3. The carrying amount of deferred income 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 income tax asset can be utilized. Such amount is written back to the extent that it has become probable that sufficient taxable profit will be available.
4. The Company's current and deferred income taxes are recognized in profit or loss for the current period as tax expense or profit, excluding income tax arising from (1) business combination; and (2) transactions or issues directly recognized in owners' equity.

**(XXV) Leases****1. Accounting treatment for operating leases**

If the Company is the lessee, rental expenses are included in relevant asset costs or recognized in profit or loss for the current period on straight-line basis over each period in the lease term, with any initial direct cost incurred directly charged to profit or loss for the current period. Contingent rental is credited to current profit or loss when incurred.

**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(XXV) Leases** *(continued)***1. Accounting treatment for operating leases** *(continued)*

If the Company is the lessor, rental expenses are included in profit or loss for the current period on straight-line basis over the lease term, with any initial direct cost incurred (other than those larger amounts are capitalized and charged to profit or loss by phases) directly charged to profit or loss for the current period. Contingent rental is credited to current profit or loss when incurred.

**2. Accounting treatment for finance leases**

If the Company is the lessee, at the inception date of the lease, the lower of fair value of the leased assets at the inception date of the lease and the present value of minimum lease payment is accounted for as the value of the leased assets. The minimum lease payment is accounted for as the value of long-term payable. The difference represents unrecognized finance costs with any initial direct expense incurred included in the value of leased assets. For each period in the lease term, current finance cost is calculated using effective interest method.

If the Company is the lessor, at the inception date of the lease, the sum of minimum lease income at the inception date of the lease and the initial direct expense is accounted for as the value of finance lease payment receivable, with the 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 recognized as unrealized finance income. For each period of the lease term, current finance income is calculated and recognized using effective interest method.

**(XXVI) Significant accounting judgements and estimates**

The preparation of the financial statements requires the Company to make estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Key assumptions of the estimates and judgments of uncertainties are reviewed on an ongoing basis by the Company. The effects of changes to accounting estimates are recognized during the period in which the estimate is revised and in any future periods affected.

## Notes to Financial Statements

2016

**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(XXVI) Significant accounting judgements and estimates** *(continued)*

The main uncertainties in the estimated amount are as follows:

**1. Recognition of deferred income tax assets**

As stated in note III to the Financial Statements — Deferred income tax assets and deferred income tax liabilities, deferred income tax assets are recognized on the basis of the deductible temporary differences between the carrying amounts of the assets or liabilities and their tax bases (for an item not recognized as asset or liability but for which tax base can be determined under tax laws, the difference between its tax base and its carrying amount), and are calculated by applying the tax rates applicable to the period in which the assets are expected to be recovered or the liabilities are expected to be settled. Deferred income tax assets are recognized for deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

**2. Provision for doubtful debt**

As stated in note III to the Financial Statements — Receivables, for Individually significant receivables for which separate bad-debt provision is made, it is individually assessed for impairment and bad-debt provision is made on the basis of the difference between the present value of its estimated future cash flows and its carrying amount. For receivable groups that are individually insignificant but with relatively high credit risk, bad-debt provision is made on the basis of the difference between the present value of its estimated future cash flows and its carrying amount, according to the structure of the receivable portfolio and similar credit risk characteristics (debtors' ability to settle outstanding amounts based on contracted terms) and taking into account the historical losses and the expected potential losses arising from the debtor's economic conditions. For individually insignificant receivables for which bad-debt provision is separately made, individually assessed for impairment with bad-debt provision is made based on the difference between the present value of its estimated future cash flows and its carrying amount.

**III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES** *(continued)***(XXVI) Significant accounting judgements and estimates** *(continued)***3. Provision for impairment of inventories**

As stated in Inventories under note III to these Financial Statements, at the balance sheet date, the Company's inventories are measured at the lower of cost and net realizable value. Provision for impairment is made for the excess of the cost over the net realizable value of individual inventory. For inventories for immediate sale, net realizable value is determined as the estimated selling price of the inventories less the estimated costs of sales and relevant taxes and levies in the ordinary course of business. For inventories that require processing, net realizable value is determined as the amount of the estimated selling price of the finished goods produced less the estimated costs to completion, the estimated costs of sales and relevant taxes and levies in the ordinary course of business. At the balance sheet date, where part of an inventory item is subject to an agreed contractual price while the remainder is not, their net realizable values are determined separately and compared with their respective costs to determine the amount of provision for impairment made or released.

**4. Impairment of long-term assets**

As stated in Impairment of part of long-term assets under note III to the Financial Statements, for long-term assets such as long-term equity investments, investment properties measured by the cost model, fixed assets, construction in progress and intangible assets with limited useful lives, the Company estimates its recoverable amount when there is evidence at the balance sheet date that the intangible assets are impaired. Goodwill arising from a business combination and an intangible asset with an indefinite useful life shall conduct impairment test, irrespective of whether there is any indication of impairment. The Company conduct impairment test on goodwill together with the related asset group or asset group portfolio. If the result of the recoverable amount measurement indicates that the recoverable amount of such long-term assets is less than its carrying amount, the carrying amount of the assets is reduced to its recoverable amount. That reduction is recognized as an impairment loss and charged to profit or loss for the current period. A provision for impairment of the assets is recognized accordingly.

## Notes to Financial Statements

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## IV. TAXATION

## (I) Principle tax types and tax rates

Tax types	Tax basis	Tax rate (%)
VAT	Sale of goods or rendering of taxable services	0, 3, 5, 6, 11, 13 17
Business tax	Taxable turnover	5
Property tax	Ad-valorem tax levied at 1.2% on the difference between initial costs of the property less 30%; tax assessable on rent levied at 12% of the rental income	1.2, 12
City maintenance and construction tax	Turnover tax payables	7
Education surcharge	Turnover tax payables	3
Local education surcharge	Turnover tax payables	2
EIT	Taxable profit	15, 20, 25

Description for Business Tax to Value-added Tax:

Pursuant to the Circular of the MOF and the SAT regarding the Pilot Program on Comprehensive Implementation of Value Added Taxes from Business Taxes Reform (財政部·國家稅務總局關於全面推開營業稅改徵增值稅試點的通知) (Cai Shui [2016] No. 36 Circular), effective from 1st May, 2016, business tax to value-added tax policy is fully implemented in the architectural, real estate, financial and community services sectors and value added taxes instead of business taxes will be levied. The project income from the Company and its subsidiaries shall be subject to value added taxes instead of business taxes.

Information on income tax rates of taxpayers with various tax rates

Name of taxpayer	Income tax rate (%)
the Company, Gansu Tianye, Akesu Tianye, Tiancheng Water Saving, Kuitun Water Saving and Zhongxinnong Water Saving	15
Hami Tianye	20
Other taxpayers other than the above-mentioned	25

#### IV. TAXATION *(continued)*

##### (II) Tax concession

###### 1. Value-added tax (“VAT”)

- (1) Income of the Company and its subsidiaries from sale of agricultural plastic films is exempted from value-added tax under the Notice of the Ministry of Finance, State Administration of Taxation on VAT Exemption Policy on Certain Materials for Agricultural Production (Cai Shui [2001] No. 113) issued by the Ministry of Finance and the State Administration of Taxation.

The Company and its subsidiaries have been exempted from VAT for the production, sale, wholesaling and retailing of belts and pipes products for drip irrigation under the requirements of the Notice on VAT Exemption for Belts and Pipes Products for Drip Irrigation (Cai Shui [2007] No. 83) issued by the Ministry of Finance and the State Administration of Taxation.

VAT has been levied at 13%, a tax rate applicable to agricultural mechanization, on water saving drip irrigation products produced and sold by the Company and drip irrigation products processed and assembled with devices, such as filters, main pipes, branch pipes, agricultural plastic films for drip irrigation and sprinkler heads, under the Notice 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.

- (2) The agricultural plastic films produced and sold by Hami Tianye, a subsidiary, have been entitled to VAT exemption concession upon separate assessment from other taxable items under the Approval and Reply to Application for VAT Exemption from Hami Tianye (Ha Shi Guo Shui Han [2004] No. 95) issued by the Hami Municipal SAT Office.

Pursuant to the Approval and Reply on VAT Levied on Water Saving Drip Irrigation Devices Distributed by Hami Tianye (Ha Shi Guo Shui Han [2004] No. 140) issued by the Hami Municipal SAT Office, as the water saving drip irrigation devices produced by the subsidiary Hami Tianye Hongxing Water Saving Irrigation Co., Ltd\* are processed and assembled with devices such as filters, main pipes, branch pipes, belts for drip irrigation and sprinkler heads, VAT has been levied at 13%, a tax rate applicable to agricultural mechanization pursuant to the requirements under (4) of clause 2 of Article 2 under the Provisional Regulations of the People's Republic of China on Value-added Tax.

## Notes to Financial Statements

2016

**IV. TAXATION** *(continued)***(II) Tax concession** *(continued)***1. Value-added tax (“VAT”)** *(continued)*

- (3) Belts for drip irrigation produced and sold by Tiancheng Water Saving, a subsidiary have been exempted from VAT under the Notice on Registration and Filing for Tax Reduction and Exemption (Sha Guo Shui Jian Mian Bei Zi [2009] No. 058) issued by the Shawan County SAT Office.

Plastic films sold by the subsidiary Tiancheng Water Saving have been exempted from VAT under the Notice on Registration and Filing for Tax Reduction and Exemption (Sha Guo Shui Jian Mian Bei Zi [2009] No. 059) issued by the Shawan County SAT Office.

- (4) Pursuant to the Letter on Confirmation of The Principal Businesses of Akesu Tianye Water Saving Co., Ltd\* (阿克蘇天業節水有限公司) Conforming to the State Encouraged Enterprises issued by the Economic and Information Commission of the Xinjiang Uygur Autonomous Region, Xin Jing Xin Chan Ye Han [2013] No. 322 (新經信產業函[2013]322號), the businesses of agricultural plastic belts and pipes for drip irrigation engaged by the subsidiary, Akesu Tianye, conform to the content set out in clause 6 “Development and Production of Agricultural Plastic Water Saving Products and Durable (Three Years and Above) Functional Agricultural Films” of Article 19 “Light Industry” under the “Encouraged Category” of Order No. 9 of the National Development and Reform Commission, “Catalogue for the Guidance of Industrial Restructuring (2011 version)”. It is agreed that Akesu Tianye would be exempted from city maintenance and construction tax, education surcharge and local education surcharge from 23 February 2012 under relevant requirements under the Notice on VAT Exemption for Belts and Pipes for Drip Irrigation, (Cai Shui [2007] No. 83) (財稅[2007]83號) issued by the Ministry of Finance and the State Administration of Taxation and the document of Akesu Di Shui Jian Mian Bei Zi 2012 No. [76] (阿克蘇市地稅減免備字2012[76]號).
- (5) According to Cai Shui [2007] No.83 Circular, Akesu Tianye applied for tax relief filing on VAT for drip tapes and pipes, and has been exempted from VAT for drip tapes and pipes since 3rd January, 2016 and 1st November, 2016, respectively.

**IV. TAXATION** *(continued)***(II) Tax concession** *(continued)***2. Enterprise Income Tax (“EIT”)**

- (1) The Company and its subsidiaries, Gansu Tianye, Akesu Tianye and Kuitun Water Saving were subjected to an EIT tax rate of 15% in 2016 as it complied with the requirements of the tax concession policies of the Western Development.
- (2) The production operation of agricultural plastic belts for drip irrigation engaged by Tiancheng Water Saving, a subsidiary, conforms to order No. 9 of the National Development and Reform Commission. Pursuant to the Notice of Ministry of Finance, the General Administration of Customs and the State Administration of Taxation on the Tax Policy for In-depth Implementation of the Western Development Strategy, it is subjected to an EIT tax rate of 15% during 1st January 2011 to 31st December 2020.
- (3) Hami Tianye, a subsidiary, is a qualified small low-profit enterprise, the taxable income of which will be 50% of the total income before being subjected to an EIT tax rate of 20%.
- (4) Zhongxinnong Water Saving, a subsidiary mainly engaged in promotion and application of high-efficiency water saving technology, which belongs to “Promotion and Application of High-efficiency Water Transportation, Distribution and Conservation and Irrigation Technology” of Article 18 “Water Conservancy” under the Class I “Encouraged Category” of “Catalogue for the Guidance of Industrial Restructuring”, was subjected to an EIT tax rate of 15% in 2016.

## Notes to Financial Statements

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## V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

## (I) Notes to items in the Consolidated Balance Sheet

## 1. Cash

## (1) Breakdown

Item	Closing balance	Opening balance
Cash on hand	43.70	210.98
Bank deposit	152,366,770.34	113,856,561.31
Other cash	1,548,839.22	5,552,790.66
<b>Total</b>	<b>153,915,653.26</b>	119,409,562.95

## (2) Breakdown of other cash

Item	Closing balance	Opening balance
Futures cash deposits		833,509.65
Investment in futures- refundable	77,869.29	4,444,281.01
Margin of engineering projects	1,470,969.93	275,000.00
<b>Sub-total</b>	<b>1,548,839.22</b>	5,552,790.66

## Notes to Financial Statements

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

## (I) Notes to items in the Consolidated Balance Sheet (continued)

## 2. Bills receivables

## (1) Breakdown

Item	Closing balance			Opening balance		
	Book balance	Bad-debt provision	Carrying amount	Book balance	Bad-debt provision	Carrying amount
Bank acceptance bills	1,400,000.00		1,400,000.00	1,230,000.00		1,230,000.00
Total	1,400,000.00		1,400,000.00	1,230,000.00		1,230,000.00

## (2) Information on bills receivables of the Company endorsed or discounted at the end of the period and had not yet fallen due as at the balance sheet date

Item	Amount derecognized at the end of the period	Amount remained recognized at the end of the period
Bank acceptance bills	7,017,000.00	
Sub-total	7,017,000.00	

Bank acceptance bills' acceptor is a commercial bank, which has higher credit, and the bank acceptance bills are less unlikely to be paid upon maturity, so the Company will have endorsed or discounted bank acceptance bills derecognized. However, if such bills could not be paid upon maturity, in accordance with the Law of Negotiable Instruments, the Company shall also bear joint liability for the bill holders.

## Notes to Financial Statements

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**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)**(I) Notes to items in the Consolidated Balance Sheet** (continued)**3. Receivables**

## (1) Breakdown

## 1) Breakdown by category

Category	Book balance		Closing balance		Carrying amount
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Bad debts that are individually significant and for which provision has been separately made					
Provision for bad debts with similar credit risk characteristics	145,187,186.60	100.00	22,507,017.58	15.50	122,680,169.02
Bad debts that are individually insignificant but for which provision has been separately made					
<b>Total</b>	<b>145,187,186.60</b>	<b>100.00</b>	<b>22,507,017.58</b>	<b>15.50</b>	<b>122,680,169.02</b>

(continued from the previous table)

Category	Book balance		Opening balance		Carrying amount
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Bad debts that are individually significant and for which provision has been separately made					
Provision for bad debts with similar credit risk characteristics	98,656,250.20	100.00	8,725,312.61	8.84	89,930,937.59
Bad debts that are individually insignificant but for which provision has been separately made					
<b>Total</b>	<b>98,656,250.20</b>	<b>100.00</b>	<b>8,725,312.61</b>	<b>8.84</b>	<b>89,930,937.59</b>

## Notes to Financial Statements

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**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)**(I) Notes to items in the Consolidated Balance Sheet** (continued)**3. Receivables** (continued)

## (1) Breakdown (continued)

- 2) Trade receivables for which bad-debt provision has been made in groups using the aging analysis method

Aging	Closing Balance		
	Book balance	Bad-debt provision	Percentage of provision (%)
Within 1 year	66,026,766.23	660,267.65	1.00
1-2 years	6,851,043.01	3,425,521.51	50.00
2-3 years	1,787,768.79	1,787,768.79	100.00
3-4 years	268,978.09	268,978.09	100.00
4-5 years	1,321,004.52	1,321,004.52	100.00
Over 5 years	3,124,218.61	3,124,218.61	100.00
Sub-total	79,379,779.25	10,587,759.17	13.34

- 3) Receivables for which bad-debt provision has been made in groups using group provision method

Name of entity	Book balance	Bad-debt provision	Percentage of provision (%)	Reason for provision
Amounts of state land improvement project and governmental bidding project	65,807,407.35	11,919,258.41	18.11	Bad debt provision was made for the impairment after testing
Sub-total	65,807,407.35	11,919,258.41	18.11	

The state land improvement project and governmental bidding project related to the loans are cooperative projects between the Company and the government, and the payees are identical in nature and have similar risk features, therefore, they are deemed as risk portfolios.

## Notes to Financial Statements

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**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***(I) Notes to items in the Consolidated Balance Sheet** *(continued)***3. Receivables** *(continued)**(2) Age analysis*

Age	Closing balance	Opening balance
Within 1 year	<b>94,119,063.54</b>	52,534,678.40
1–2 years	<b>17,159,206.65</b>	16,678,811.27
2–3 years	<b>9,404,623.05</b>	8,060,753.04
3–4 years	<b>1,615,754.57</b>	3,713,618.09
4–5 years	<b>292,331.00</b>	5,812,157.09
Over 5 years	<b>89,190.21</b>	3,130,919.70
Total	<b>122,680,169.02</b>	89,930,937.59

Age analysis over receivables is only based on the month when amounts are actually recorded, and the settlement to such amount will be prioritized in terms of capital turnover.

*(3) Bad-debt provision made during the period amounted to RMB13,781,704.97.*

## Notes to Financial Statements

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**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)**(I) Notes to items in the Consolidated Balance Sheet** (continued)**3. Receivables** (continued)

## (4) Top 5 trade receivables

Name of entity	Book balance	Percentage to trade receivables balance (%)	Bad-debt provision
Huanghuagou Project Construction Office of Fuhai County*	12,827,041.06	8.83	128,270.41
Water Conservancy Construction Management Office of the Forth Agricultural Division	9,481,807.96	6.53	
Land Development, Arrangement, Construction and Management Authority of Xinjiang Uygur Autonomous Region	4,998,191.41	3.44	
Jiuquan Dayu Water Conservation Co., Limited	3,672,312.70	2.53	36,723.13
Huludao Happy Food Co., Limited* (葫蘆島市開心食品有限公司)	3,300,000.00	2.27	33,000.00
Sub-total	34,279,353.13	23.61	197,993.54

## Notes to Financial Statements

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**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)**(I) Notes to items in the Consolidated Balance Sheet** (continued)**4. Prepayments**

## (1) Age 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	9,786,487.78	91.99		9,786,487.78	23,848,751.76	96.58		23,848,751.76
1-2 years	358,349.67	3.37		358,349.67	487,562.19	1.97		487,562.19
2-3 years	145,731.50	1.37		145,731.50	152,662.82	0.62		152,662.82
Over 3 years	347,360.26	3.27		347,360.26	203,752.16	0.83		203,752.16
Total	10,637,929.21	100.00		10,637,929.21	24,692,728.93	100.00		24,692,728.93

## (2) Top 5 prepayments

Name of entity	Book balance	Percentage to trade receivables balance (%)
Water Conservancy Construction Management Office of Regiment No. 133	6,576,988.99	61.83
Dalian Sunlight Machinery Co., Ltd.	556,162.50	5.23
Qingdao Xindacheng Plastic Machinery Co., Ltd.* (青島新大成塑料機械有限公司)	417,562.50	3.93
Water Conservancy Construction Management Office of Regiment No. 121	261,062.57	2.45
Water Conservancy Construction Management Office of Regiment No. 144	252,529.32	2.37
Sub-total	8,064,305.88	75.81

## Notes to Financial Statements

2016

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

## (I) Notes to items in the Consolidated Balance Sheet (continued)

## 5. Other receivables

## (1) Breakdown

## 1) Breakdown by category

Category	Book balance		Closing balance		Carrying amount
	Amount	Percentage	Amount	Bad-debt provision	
		(%)		Percentage of provision (%)	
Bad debts that are individually significant and for which provision has been separately made					
Provision for bad debts with similar credit risk characteristics	26,503,708.83	100.00	1,978,985.33	7.47	24,524,723.50
Bad debts that are individually insignificant but for which provision has been separately made					
<b>Total</b>	<b>26,503,708.83</b>	<b>100.00</b>	<b>1,978,985.33</b>	<b>7.47</b>	<b>24,524,723.50</b>

(continued from the previous table)

Category	Book balance		Opening balance		Carrying amount
	Amount	Percentage	Amount	Bad-debt provision	
		(%)		Percentage of provision (%)	
Bad debts that are individually significant and for which provision has been separately made					
Provision for bad debts with similar credit risk characteristics	27,567,637.60	100.00	2,055,818.17	7.46	25,511,819.43
Bad debts that are individually insignificant but for which provision has been separately made					
<b>Total</b>	<b>27,567,637.60</b>	<b>100.00</b>	<b>2,055,818.17</b>	<b>7.46</b>	<b>25,511,819.43</b>

## Notes to Financial Statements

2016

**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)**(I) Notes to items in the Consolidated Balance Sheet** (continued)**5. Other receivables** (continued)

## (1) Breakdown (continued)

- 2) Other receivables for which bad-debt provision has been made in groups using group provision method

Age	Book balance	Closing balance	
		Bad-debt provision	Percentage of provision (%)
Within 1 year	8,961,541.60	89,615.41	1.00
1-2 years	1,305,251.43	652,625.72	50.00
2-3 years	454,500.00	454,500.00	100.00
3-4 years	4,477.77	4,477.77	100.00
4-5 years	99,940.00	99,940.00	100.00
Over 5 years	677,826.43	677,826.43	100.00
Sub-total	11,503,537.23	1,978,985.33	17.20

- 3) Other receivables for which bad-debt provision has been made using individual assessment method

Substance of other receivables	Book balance	Bad-debt provision	Percentage of provision	
			(%)	Reason for provision
Xinjiang Aral Tiannong Water Saving Irrigation Co, Ltd* (hereinafter referred as "Aral Water Saving")	14,996,171.60			Former subsidiary in liquidation
Fund borrowed in advance for construction materials for state-owned project	4,000.00			Bad-debt provision for the difference between the present value of its future cash flow and its carrying amount
Sub-total	15,000,171.60			

Receivables due from Aral Water Saving amounted to RMB14,996,171.60, it is in liquidation, and the result of which has not been finalized. According to the progress of the liquidation at the end of the period, the Company expects that the completion will take place by the end of 2018 and the amount will be fully recoverable at that time.

## Notes to Financial Statements

2016

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

## (I) Notes to items in the Consolidated Balance Sheet (continued)

## 5. Other receivables (continued)

(2) Bad-debt provision made during the period amounted to RMB-76,832.84.

(3) Category of other receivables by nature

Nature	Closing balance	Opening balance
Security deposits	10,620,049.04	2,208,454.49
Project fee advanced to government	4,000.00	2,338,582.35
Provisional accounts receivables	15,879,659.79	23,020,600.76
Total	26,503,708.83	27,567,637.60

(4) Top 5 other receivables

Name of entity	Nature	Book balance	Age	Percentage in the balance of other receivables (%)	Bad-debt provision
Aral Water Saving	Current account	14,996,171.60	Over 4 years	56.58	
Water Authority of Yongchang County	Security deposits	745,000.00	1-2 years	2.81	372,500.00
Water Administration Station of Pishan County	Security deposits	800,000.00	Within 1 year	3.02	8,000.00
Shulii Bureau of Bachu County	Security deposits	739,804.82	Within 2 years	2.79	80,898.05
Yintao Project Construction and Management Bureau of Huining County	Security deposits	1,867,000.00	Within 1 year	7.04	18,670.00
Sub-total		19,147,976.42		72.24	480,068.05

## Notes to Financial Statements

2016

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

## (I) Notes to items in the Consolidated Balance Sheet (continued)

## 6. Inventories

## (1) Breakdown

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Raw materials	161,541,004.90		161,541,004.90	205,822,715.41	367,029.93	205,455,685.48
Construction in progress	12,041,685.65		12,041,685.65			
Work-in-progress				8,556,607.97		8,556,607.97
Finished goods	283,912,584.99	9,305,446.48	274,607,138.51	306,205,214.83	8,138,361.09	298,066,853.74
Goods in transit	22,442,138.49		22,442,138.49	48,413,733.36		48,413,733.36
Materials under subcontract processing	4,041,248.79		4,041,248.79	5,131,538.35		5,131,538.35
Other materials turnover	36,015.20		36,015.20	77,534.16		77,534.16
<b>Total</b>	<b>484,014,678.02</b>	<b>9,305,446.48</b>	<b>474,709,231.54</b>	<b>574,207,344.08</b>	<b>8,505,391.02</b>	<b>565,701,953.06</b>

## (2) Provision for impairment of inventories

## 1) Breakdown

Item	Opening balance	Increase during the period		Decrease during the period		Closing balance
		Provision	Others	Write-back or write-off	Others	
Raw materials	367,029.93			367,029.93		
Finished goods	8,138,361.09	6,325,711.40		5,158,626.01		9,305,446.48
<b>Sub-total</b>	<b>8,505,391.02</b>	<b>6,325,711.40</b>		<b>5,525,655.94</b>		<b>9,305,446.48</b>

## 2) Information on the specific basis for determination of the net realizable value, reasons for write-back or write-off provision for impairment of inventories during the period

Item	Basis for the provision for impairment of inventories	Reason for write-back of provision for impairment of inventories for the period	Percentage of the amount writtenback during the period to the closing balance of such inventories (%)
Raw materials	Net realizable value of inventories lower than carrying amount thereof	Applied in production or being sold	0.23
Finished goods	Net realizable value of inventories lower than carrying amount thereof	Applied in production or being sold	1.82

## Notes to Financial Statements

2016

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

## (I) Notes to items in the Consolidated Balance Sheet (continued)

## 7. Others current assets

Item	Closing balance	Opening balance
Pending deduct VAT on purchase	<b>3,328,683.44</b>	
Prepaid tax	<b>1,648,057.40</b>	
Enterprises income tax prepaid	<b>1,026,984.05</b>	2,296,120.01
<b>Total</b>	<b>6,003,724.89</b>	2,296,120.01

## 8. Long-term equity investments

## (1) Breakdown by category

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Investment in subsidiaries	<b>5,190,830.27</b>	<b>5,190,830.27</b>		5,190,830.27	5,190,830.27	
Investment in joint ventures	<b>2,767,059.77</b>		<b>2,767,059.77</b>	2,801,090.14		2,801,090.14
<b>Total</b>	<b>7,957,890.04</b>	<b>5,190,830.27</b>	<b>2,767,059.77</b>	7,991,920.41	5,190,830.27	2,801,090.14

## Notes to Financial Statements

2016

**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)**(I) Notes to items in the Consolidated Balance Sheet** (continued)**8. Long-term equity investments** (continued)

## (2) Breakdown

Investee	Opening balance	Increase or decrease during the period			Investment profit and loss recognized with the equity method	Adjustment of other consolidated return
		Increase	Decrease			
<b>Subsidiaries</b>						
Aral Water Saving	5,190,830.27					
Sub-total	5,190,830.27					
<b>Joint Venture</b>						
Jianshui Runnong Water Supply Co., Ltd.	2,801,090.14			-34,030.37		
Sub-total	2,801,090.14			-34,030.37		
Total	7,991,920.41			-34,030.37		

(continued from the previous table)

Investee	Other changes in equity	Increase or decrease in during the period			Closing balance	Closing balance of provision for impairment
		Cash dividends or profit distribution declared	Provision for impairment	Others		
<b>Subsidiaries</b>						
Aral Water Saving				5,190,830.27	5,190,830.27	
Sub-total				5,190,830.27	5,190,830.27	
<b>Joint Venture</b>						
Jianshui Runnong Water Supply Co., Ltd.				2,767,059.77		
Sub-total				2,767,059.77		
Total				7,957,890.04	5,190,830.27	

## Notes to Financial Statements

2016

**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***(I) Notes to items in the Consolidated Balance Sheet** *(continued)***8. Long-term equity investments** *(continued)*(3) *Information on investment in unlisted and listed companies*

Item	Closing balance	Opening balance
Investment in unlisted companies	<b>2,767,059.77</b>	2,801,090.14
<b>Total</b>	<b>2,767,059.77</b>	2,801,090.14

(4) *Other Information*

Aral Water Saving made provision for impairment for its long-term equity investment during liquidation.

Jianshui Runnong Water Supply Co., Ltd. was incorporated by the Company, Yunnan Hydropower Investment Co., Ltd., Kunming Survey & Design Institute Co., Ltd. under China Power Construction Group and Southwest Jiaotong Construction Group Co., Ltd. on 2nd July, 2015. The Company holds 28.00% of the equity of Jianshui Runnong. Details of explanation are set out in Note "Interest in Other Entities".

## Notes to Financial Statements

2016

**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***(I) Notes to items in the Consolidated Balance Sheet** *(continued)***9. Investment properties***(1) Breakdown*

Item	Buildings and Structures	Total
Initial carrying amount		
Opening balance	10,098,998.07	10,098,998.07
Increase during the period		
Decrease during the period	10,098,998.07	10,098,998.07
1) Transferred into fixed assets	10,098,998.07	10,098,998.07
Closing balance		
Accumulated depreciation and amortization		
Opening balance	1,963,244.88	1,963,244.88
Increase during the period	327,207.48	327,207.48
1) Provision or amortization	327,207.48	327,207.48
Decrease during the period	2,290,452.36	2,290,452.36
1) Transferred out from fixed asset	2,290,452.36	2,290,452.36
Closing balance		
Provision for impairment		
Opening balance		
Increase during the period		
Decrease during the period		
Closing balance		
Carrying amount		
Carrying amount at the end of the period		
Carrying amount at the beginning of the period	8,135,753.19	8,135,753.19

## Notes to Financial Statements

2016

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

## (I) Notes to items in the Consolidated Balance Sheet (continued)

## 10. Fixed assets

## (1) Breakdown

Item	Buildings and structures	Machinery and equipment	Motor vehicles	Office and others equipment	Total
Initial carrying amount					
Opening balance	88,709,864.80	283,638,440.30	6,392,996.87	8,553,581.84	387,294,883.81
Increase during the period	10,393,998.07	18,183,627.60	285,675.21	2,119,325.54	30,982,626.42
1) Additions	200,000.00	3,447,170.79	285,675.21	2,119,325.54	6,052,171.54
2) Transfer-in from construction-in-progress	95,000.00	14,736,456.81			14,831,456.81
3) Transfer-in from investment properties	10,098,998.07				10,098,998.07
Decrease during the period		3,295,331.75	7,069.92		3,302,401.67
1) Disposal or retirement		1,242,137.49	7,069.92		1,249,207.41
2) Transferred into projects under construction		2,053,194.26			2,053,194.26
Closing balance	99,103,862.87	298,526,736.15	6,671,602.16	10,672,907.38	414,975,108.56
Accumulated depreciation					
Opening balance	22,690,447.90	200,566,044.27	4,244,646.32	4,299,228.95	231,800,367.44
Increase during the period	5,562,208.36	14,257,405.39	489,374.51	898,617.93	21,207,606.19
1) Provision	3,271,756.00	14,257,405.39	489,374.51	898,617.93	18,917,153.83
2) Transfer-in from investment properties	2,290,452.36				2,290,452.36
Decrease during the period		1,511,220.02	190.50		1,511,410.52
1) Disposal or retirement		1,040,719.52	190.50		1,040,910.02
2) Transferred into construction in progress		470,500.50			470,500.50
Closing balance	28,252,656.26	213,312,229.64	4,733,830.33	5,197,846.88	251,496,563.11
Provision for impairment					
Opening balance		178,087.60			178,087.60
Increase during the period		5,496,987.07			5,496,987.07
1) Provisions		5,496,987.07			5,496,987.07
Decrease during the period					
Closing balance		5,675,074.67			5,675,074.67
Carrying amount					
Carrying amount at the end of the period	70,851,206.61	79,539,431.84	1,937,771.83	5,475,060.50	157,803,470.78
Carrying amount at the beginning of the period	66,019,416.90	82,894,308.43	2,148,350.55	4,254,352.89	155,316,428.77

## Notes to Financial Statements

2016

**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***(I) Notes to items in the Consolidated Balance Sheet** *(continued)***10. Fixed assets** *(continued)**(2) Idled fixed assets*

Item	Initial carrying amount	Accumulated depreciation	Provision for impairment	Carrying amount
Machinery and equipment	9,789,934.33	4,282,784.07	5,496,987.07	10,163.19
Motor vehicles	16,850.00	16,344.50		505.50
Sub-total	9,806,784.33	4,299,128.57	5,496,987.07	10,668.69

*(3) Information on fixed assets in lack of title certificates*

Item	Carrying amount	Reason for not obtaining title certificate yet
Buildings and structures	13,670,597.48	As the building and land ownership belongs to Xinjiang Tianye Company Limited, negotiations are currently underway.
Sub-total	13,670,597.48	

## Notes to Financial Statements

2016

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

## (I) Notes to items in the Consolidated Balance Sheet (continued)

## 11. Construction-in-progress

## (1) Breakdown

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Anti-shock PVC-M pipes for water supply				2,455,672.95		2,455,672.95
Production of 100 sets of drip irrigation equipment				4,018,532.39		4,018,532.39
PVC drip irrigation tape project	1,011,805.85		1,011,805.85	3,244,669.21		3,244,669.21
Innovative-approach application, promotion and demonstration projects				622,615.71		622,615.71
Drip automation platform construction				621,034.36		621,034.36
R&D project of surface water high-resistance block drip tape				7,906,434.30		7,906,434.30
R&D project of farmland drain desalination equipment — PVC Single-wall corrugated pipe				317,223.58		317,223.58
Production line of water-saving irrigation facilities				36,000.00		36,000.00
Nanjing Water Saving projects	5,648,544.93		5,648,544.93			
Biaxial Direction Stretching PVC-O Item				239,318.17		239,318.17
Splitting unit				420,940.17		420,940.17
Production line of embedded-style drip tapes	1,834,189.54		1,834,189.54			
Automated production projects of drip tapes	5,601,485.43		5,601,485.43			
Large-diameter PVC pipe project	801,816.24		801,816.24			
Miscellaneous	58,161.13		58,161.13	2,015,193.20		2,015,193.20
<b>Total</b>	<b>14,956,003.12</b>		<b>14,956,003.12</b>	21,897,634.04		21,897,634.04

## Notes to Financial Statements

2016

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

## (I) Notes to items in the Consolidated Balance Sheet (continued)

## 11. Construction-in-progress (continued)

## (2) Changes in key construction-in-progress projects during the period

Name of works	Budget (RMB in ten thousand)	Opening balance	Increase during the period	Amount carried forward to fixed assets	Decrease in others	Closing balance
Anti-shock PVC-M pipes for water supply	335.00	2,455,672.95			2,455,672.95	
Production of 100 sets of drip irrigation equipment	2,000.00	4,018,532.39		4,018,532.39		
PVC drip irrigation tape project	185.00	3,244,669.21			2,232,863.36	<b>1,011,805.85</b>
Innovative-approach application, promotion and demonstration projects	160.00	622,615.71			622,615.71	
Drip Automation Platform Construction	500.00	621,034.36			621,034.36	
R&D project of surface water high-resistance block drip tape	500.00	7,906,434.30		3,830,329.97	4,076,104.33	
R&D project of farmland drain desalination equipment — PVC Single-wall corrugated pipe	210.00	317,223.58			317,223.58	
Production line of water-saving irrigation facilities		36,000.00			36,000.00	
Nanjing Water Saving projects			9,477,570.87	3,807,502.87	21,523.07	<b>5,648,544.93</b>
Biaxial Direction Stretching PVC-O Item	202.94	239,318.17			239,318.17	
Splitting unit		420,940.17		420,940.17		
Production line of PE-melting pipes			1,600,446.05	1,600,446.05		
Production line of embedded-style drip tapes			1,834,189.54			<b>1,834,189.54</b>
Automated production projects of drip tapes			5,601,485.43			<b>5,601,485.43</b>
Large-diameter PVC pipe project			801,816.24			<b>801,816.24</b>
Miscellaneous		2,015,193.20	26,768.57	1,153,705.36	830,095.28	<b>58,161.13</b>
<b>Sub-total</b>		<b>21,897,634.04</b>	<b>19,342,276.70</b>	<b>14,831,456.81</b>	<b>11,452,450.81</b>	<b>14,956,003.12</b>

## Notes to Financial Statements

2016

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

## (I) Notes to items in the Consolidated Balance Sheet (continued)

## 11. Construction-in-progress (continued)

## (2) Changes in key construction-in-progress projects during the period (continued)

(continued from the previous table)

Name of works	Percentage of accumulated project investment to budget (%)	Project progress (%)	Accumulated capitalized interests	Capitalized interests for the period	Rate of interest capitalization for the period (%)	Source of capital
Anti-shock PVC-M pipes for water supply	73.30	100.00				Other sources
Production of 100 sets of drip irrigation equipment	20.09	100.00				Other sources
PVC drip irrigation tape project	175.39	54.69				Other sources
Innovative-approach application, promotion and demonstration projects	38.91	100.00				Other sources
Automated production projects of drip tapes	12.42	12.42				Other sources
R&D project of surface water high-resistance block drip belt	158.13	100.00				Other sources
R&D project of farmland drain desalination equipment — PVC Single-wall corrugated pipe	15.11	100.00				Other sources
Production line of water-saving irrigation facilities		100.00				Other sources
Nanjing Water Saving projects						Other sources
Biaxial Direction Stretching PVC-O Item	11.79	100.00				Other sources
Splitting unit		100.00				Other sources
Production line of PE-melting pipes						Other sources
Production line of embedded-style drip tapes						Other sources
Automated production projects of drip tapes						Other sources
Large-diameter PVC pipe project						Other sources
Miscellaneous						Other sources
Sub-total						

## Notes to Financial Statements

2016

**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***(I) Notes to items in the Consolidated Balance Sheet** *(continued)***12. Intangible Assets***(1) Breakdown*

Item	Land use rights	Patent	Total
Initial carrying amount			
Opening balance	14,414,108.82	1,496,566.92	15,910,675.74
Increase during the period			
Decrease during the period			
Closing balance	14,414,108.82	1,496,566.92	15,910,675.74
Accumulated depreciation			
Opening balance	2,464,863.42	254,505.06	2,719,368.48
Increase during the period	297,068.04	269,515.08	566,583.12
1) Provision	297,068.04	269,515.08	566,583.12
Decrease during the period			
Closing balance	2,761,931.46	524,020.14	3,285,951.60
Provision for impairment			
Opening balance			
Increase during the period			
Decrease during the period			
Closing balance			
Carrying amount			
Carrying amount at the end of the period	11,652,177.36	972,546.78	12,624,724.14
Carrying amount at the beginning of the period	11,949,245.40	1,242,061.86	13,191,307.26

*(2) Book value analysis of land use rights*

Item	Closing balance	Opening balance
Beyond Hong Kong		
Medium-term lease (50 years)	<b>11,652,177.36</b>	11,949,245.40
Sub-total	<b>11,652,177.36</b>	11,949,245.40

## Notes to Financial Statements

2016

**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***(I) Notes to items in the Consolidated Balance Sheet** *(continued)***13. Long-Term Deferred Expenses**

Item	Opening balance	Increase during the period	Amortized during the period	Decrease in others	Closing balance
Lease and improvement of buildings	731,918.72	444,352.38	138,522.98		<b>1,037,748.12</b>
Utilities roof impermeable transformation	91,693.20		21,574.92		<b>70,118.28</b>
Amortization of plastic tray	175,551.31		175,551.31		
Total	999,163.23	444,352.38	335,649.21		<b>1,107,866.40</b>

**14. Deferred income tax assets***(1) Deferred income tax assets un-eliminated*

Item	Closing balance		Opening balance	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provision for asset impairment	<b>724,099.33</b>	<b>175,137.33</b>	8,749,226.34	1,317,719.92
Total	<b>724,099.33</b>	<b>175,137.33</b>	8,749,226.34	1,317,719.92

*(2) Breakdown of unrecognized deferred income tax assets*

Item	Closing balance	Opening balance
Provision for asset impairment	<b>41,954,269.67</b>	13,850,395.16
Deductible losses	<b>43,158,716.32</b>	13,050,052.79
Financial liabilities held for trading		379,489.65
Sub-total	<b>85,112,985.99</b>	27,279,937.60

## Notes to Financial Statements

2016

**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***(I) Notes to items in the Consolidated Balance Sheet** *(continued)***14. Deferred income tax assets** *(continued)*

(3) *Deductible losses that have not recognized for deferred income tax assets will expire in the years as set out below*

Year	Closing balance	Opening balance
2016		2,226,529.67
2017	<b>779,101.32</b>	1,494,378.74
2018	<b>898,845.60</b>	2,959,911.09
2019	<b>1,897,271.39</b>	1,897,271.39
2020	<b>1,235,449.59</b>	4,471,961.90
2021	<b>38,348,048.42</b>	
Sub-total	<b>43,158,716.32</b>	13,050,052.79

**15. Financial liabilities at FVTPL for the current period**

Item	Closing balance	Opening balance
Transaction financial liabilities		
Derivative financial liabilities		379,489.65
Total		379,489.65

## Notes to Financial Statements

2016

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

## (I) Notes to items in the Consolidated Balance Sheet (continued)

## 16. Trade payables

## (1) Breakdown

Item	Closing balance	Opening balance
Sale of goods	<b>186,623,667.32</b>	207,271,589.42
Project Funds	<b>848,635.96</b>	1,977,973.89
Total	<b>187,472,303.28</b>	209,249,563.31

## (2) Age analysis

Age	Closing balance	Opening balance
Within 1 year	<b>164,873,402.26</b>	177,967,071.78
1-2 years	<b>5,358,879.45</b>	16,205,924.29
2-3 years	<b>12,918,871.44</b>	5,566,375.25
Over 3 years	<b>4,321,150.13</b>	9,510,191.99
Total	<b>187,472,303.28</b>	209,249,563.31

## Notes to Financial Statements

2016

**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***(I) Notes to items in the Consolidated Balance Sheet** *(continued)***16. Trade payables** *(continued)*(3) *Significant trade payables aged over 1 year*

Item	Closing balance	Reason for overdue or carry forward
Beijing Tianye International Agricultural Engineering and Technology Co Ltd*	<b>5,795,627.24</b>	Pending for completion of settlement procedures due to large business volume
Sub-total	<b>5,795,627.24</b>	

**17. Receipts in advance**(1) *Breakdown*

Item	Closing balance	Opening balance
Receipts in advance for sale of goods	<b>53,435,559.39</b>	66,392,456.70
Project funds in advance	<b>35,186,016.81</b>	
Total	<b>88,621,576.20</b>	66,392,456.70

## Notes to Financial Statements

2016

**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***(I) Notes to items in the Consolidated Balance Sheet** *(continued)***17. Receipts in advance** *(continued)*(2) *Significant receipts in advance aged over 1 year*

Item	Closing balance	Reason for overdue or carry-over
Agriculture Department of Xinjiang Uygur Autonomous Region	4,765,000.00	Payment for construction materials pending settlement due to long construction period
Sub-total	4,765,000.00	

**18. Employee remuneration payables**(1) *Breakdown*

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Short-term remuneration	6,092,728.65	62,139,332.32	61,476,274.95	6,755,786.02
Post-employment benefits — the defined contribution scheme	497,153.29	12,169,012.89	12,103,927.07	562,239.11
Total	6,589,881.94	74,308,345.21	73,580,202.02	7,318,025.13

## Notes to Financial Statements

2016

**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***(I) Notes to items in the Consolidated Balance Sheet** *(continued)***18. Employee remuneration payables** *(continued)**(2) Breakdown of short-term remuneration*

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salary, bonus, allowance and subsidy	1,931,418.50	51,371,446.78	51,231,555.69	<b>2,071,309.59</b>
Employee benefits		1,745,077.13	1,745,077.13	
Social security insurance	8,528.73	3,931,120.52	3,810,049.32	<b>129,599.93</b>
Including:				
Medical insurance contributions	6,441.81	3,289,285.42	3,193,701.78	<b>102,025.45</b>
Work injury insurance contributions	1,550.00	452,233.34	441,590.55	<b>12,192.79</b>
Maternity insurance contributions	536.92	189,601.76	174,756.99	<b>15,381.69</b>
Housing provident fund	32,002.00	3,948,872.80	3,894,462.80	<b>86,412.00</b>
Union and education funds	4,120,779.42	1,142,815.09	795,130.01	<b>4,468,464.50</b>
<b>Sub-total</b>	<b>6,092,728.65</b>	<b>62,139,332.32</b>	<b>61,476,274.95</b>	<b>6,755,786.02</b>

## Notes to Financial Statements

2016

**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***(I) Notes to items in the Consolidated Balance Sheet** *(continued)***18. Employee remuneration payables** *(continued)**(3) Breakdown of defined contribution schemes*

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Basic endowment insurance contributions	21,472.70	7,576,036.90	7,290,234.91	<b>307,274.69</b>
Unemployment insurance contributions	1,937.50	419,246.86	406,466.28	<b>14,718.08</b>
Enterprise annuity	473,743.09	4,173,729.13	4,407,225.88	<b>240,246.34</b>
Sub-total	497,153.29	12,169,012.89	12,103,927.07	<b>562,239.11</b>

In accordance with the Labor Law of the People's Republic of China and the provisions under relevant laws and regulations, the Company and its subsidiaries contributed basic endowment insurance premium for their employees, and until reaching the retirement age prescribed by the State or quitting from their job position for any other reason, they will be paid old-age pension by the social insurance handling agency. The Company and its subsidiaries will not assume any liabilities for any other employee retirement benefits.

According to the Enterprise Annuity Scheme of Xinjiang Tianye (Group) Limited, the Company and its subsidiaries shall pay enterprise annuity for their employees, who are set to receive the accumulated amount on their individual accounts (including principal and investment income) in a lump sum once they retire or otherwise become unemployed.

## Notes to Financial Statements

2016

**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)**(I) Notes to items in the Consolidated Balance Sheet** (continued)**19. Tax and levy payables**

Item	Closing balance	Opening balance
VAT	<b>127,698.75</b>	2,542,365.99
EIT	<b>346,408.59</b>	2,691.44
Individual income tax	<b>32,895.20</b>	25,198.20
City maintenance and construction tax	<b>87,391.94</b>	154,023.67
Property tax	<b>36,000.00</b>	
Education surcharge	<b>37,453.69</b>	66,010.14
Local education surcharge	<b>35,900.10</b>	
Stamp duty	<b>132,962.86</b>	61,991.50
Others		41,506.76
<b>Total</b>	<b>836,711.13</b>	2,893,787.70

**20. Other payables**

## (1) Breakdown

Item	Closing balance	Opening balance
Security deposits	<b>529,961.15</b>	150,182.00
Fund of agent for charging and paying	<b>2,797,432.55</b>	5,177,172.95
Current account	<b>21,539,379.37</b>	9,056,182.28
Others	<b>908,909.71</b>	6,400.00
<b>Total</b>	<b>25,775,682.78</b>	14,389,937.23

## (2) Significant other payables aged over 1 year

Item	Closing balance	Reason for overdue or carry forward
Xinjiang Tianye Company Limited	<b>1,785,675.00</b>	Advance money
Xinjiang Tianye (Group) Co., Ltd.	<b>200,000.00</b>	Advance money
<b>Sub-total</b>	<b>1,985,675.00</b>	

## Notes to Financial Statements

2016

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

## (I) Notes to items in the Consolidated Balance Sheet (continued)

## 21. Deferred income

## (1) Breakdown

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance	Reason
Government grants	9,728,621.82	400,000.00	1,200,000.00	<b>8,928,621.82</b>	Funded by the government
Total	9,728,621.82	400,000.00	1,200,000.00	<b>8,928,621.82</b>	

## (2) Breakdown of government grants

Item	Opening balance	Amount of new grants for the period	Amount included in non-operation revenue for the period	Other movements	Closing balance	Relating to assets/ relating to income
Water saving irrigation technology products industrialization promotion project	9,728,621.82		1,200,000.00		<b>8,528,621.82</b>	Relating to assets
Regiment No. 225 Model base		400,000.00			<b>400,000.00</b>	Relating to assets
Sub-total	9,728,621.82	400,000.00	1,200,000.00		<b>8,928,621.82</b>	

## Notes to Financial Statements

2016

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

#### (I) Notes to items in the Consolidated Balance Sheet *(continued)*

##### 21. Deferred income *(continued)*

###### (3) Other information

According to the “Notice on Special funds for Transformation of Scientific and Technological Results (Shi Cai Jian (2010) No. 89)” issued by the Finance Bureau of XPCC Eighth Agricultural Division, the Company obtained RMB12,000,000 of special funds from the Division for the transformation of significant scientific and technological results to the industrialization promotion of water saving irrigation technology products. The Company has included such funds in deferred income and allocated evenly over the useful life of the assets. It was accounted for under non-operating income.

Pursuant to the Notice on leading by Technology to Create Partial Funds under the “Top 10 Actions Plan” (Bincaijiao [2016] No.133) in 2016, the Company has obtained special funds under the “Top 10 Actions Plan” launched by the Legion of RMB400,000 for funding modern agriculture and the integration of science and technology model base of Regiment 225. The Company has included such funds in deferred income. It has not been amortized due to the project has not been carried out.

## Notes to Financial Statements

2016

**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)**(I) Notes to items in the Consolidated Balance Sheet** (continued)**22. Share capital**

Item	Opening balance	Changes (+/-) (decrease is denoted as "-")				Sub-total	Closing balance
		New shares issuance	Bonus shares	Conversion from reserve	Others		
Restricted shares	317,121,560.00						<b>317,121,560.00</b>
Domestic shares held by legal persons	317,121,560.00						<b>317,121,560.00</b>
Domestic shares held by natural persons							
Non-restricted shares	202,400,000.00						<b>202,400,000.00</b>
H-shares	202,400,000.00						<b>202,400,000.00</b>
Total	519,521,560.00						<b>519,521,560.00</b>

**23. Capital reserve**

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Capital premium (share capital premium)	5,372,472.17			<b>5,372,472.17</b>
Other capital reserve	10,000,000.00			<b>10,000,000.00</b>
Total	15,372,472.17			<b>15,372,472.17</b>

**24. Surplus reserves**

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Statutory surplus reserve	29,390,808.07			<b>29,390,808.07</b>
Discretionary surplus reserve	5,333,289.20			<b>5,333,289.20</b>
Total	34,724,097.27			<b>34,724,097.27</b>

## Notes to Financial Statements

2016

**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***(I) Notes to items in the Consolidated Balance Sheet** *(continued)***25. Undistributed profit**

Item	Amount in current period	Corresponding period last year
Closing balance of undistributed profits for the prior period before adjustment	<b>141,071,178.55</b>	147,865,043.54
Adjustment to opening balance of total undistributed profits (increase "+", decrease "-")		
Opening balance of undistributed profits after adjustment	<b>141,071,178.55</b>	147,865,043.54
Add: net profits attributable to owners of the Parent Company for the current period	<b>-57,338,617.49</b>	-6,793,864.99
Less: transferred to statutory surplus reserve		
Closing balance of undistributed profits	<b>83,732,561.06</b>	141,071,178.55

**(II) Notes to items in the Consolidated Statement of Income****1. Operating income/operating cost***(1) Breakdown*

Item	Current period		Corresponding period last year	
	Income	Cost	Income	Cost
Income from principal businesses	<b>640,263,827.72</b>	<b>603,285,898.22</b>	651,833,305.69	594,338,805.53
Income from other businesses	<b>31,138,091.40</b>	<b>27,500,209.52</b>	15,614,927.52	14,299,765.70
Total	<b>671,401,919.12</b>	<b>630,786,107.74</b>	667,448,233.21	608,638,571.23

## Notes to Financial Statements

2016

**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** (continued)**(II) Notes to items in the Consolidated Statement of Income** (continued)**1. Operating income/operating cost** (continued)

## (2) Operating income/operating cost from principal businesses (by product)

Product breakdown	Current period		Corresponding period last year	
	Income	Cost	Income	Cost
Drip tapes and drip assemblies	<b>299,163,730.73</b>	<b>317,145,590.12</b>	292,960,630.34	279,790,530.49
PVC pipes/PE pipes	<b>325,252,148.37</b>	<b>270,513,746.76</b>	330,634,587.19	282,060,766.93
Project income	<b>15,847,948.62</b>	<b>15,626,561.34</b>	28,238,088.16	32,487,508.11
Sub-total	<b>640,263,827.72</b>	<b>603,285,898.22</b>	651,833,305.69	594,338,805.53

**2. Taxes and surcharges**

Item	Current period	Corresponding period last year
Business tax	<b>277,751.46</b>	409,624.67
City maintenance and construction tax	<b>1,731,455.72</b>	945,451.46
Education surcharge	<b>745,761.40</b>	406,604.36
Local education surcharge	<b>497,174.30</b>	271,069.60
Land use tax	<b>930,341.90</b>	
Stamp tax	<b>173,946.89</b>	
Property tax	<b>362,234.06</b>	
Vehicle and vessel use tax	<b>5,546.25</b>	
Total	<b>4,724,211.98</b>	2,032,750.09

## Notes to Financial Statements

2016

**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***(II) Notes to items in the Consolidated Statement of Income** *(continued)***3. Distribution costs**

Item	Current period	Corresponding period last year
Salaries benefits and social security contributions	<b>13,242,789.93</b>	15,572,880.75
Transportation costs	<b>12,740,457.87</b>	11,684,194.63
Sale service fee	<b>5,942,203.40</b>	3,786,107.86
Warehousing and storage fees	<b>2,099,644.00</b>	2,153,946.40
Advertising fees	<b>1,648,328.59</b>	483,750.00
Tender fee	<b>1,637,124.47</b>	1,648,092.94
Depreciation and amortization charges	<b>1,031,745.45</b>	1,217,378.75
Site fees	<b>1,013,200.64</b>	671,912.69
Travel expenses	<b>899,548.08</b>	1,632,654.46
Others	<b>4,098,190.75</b>	2,821,235.19
<b>Total</b>	<b>44,353,233.18</b>	41,672,153.67

**4. Administrative expenses***(1) Breakdown*

Item	Current period	Corresponding period last year
Salaries benefits and social security contributions	<b>16,552,036.65</b>	15,760,725.12
Losses from work suspension	<b>4,858,191.73</b>	1,512,188.87
Agency service fees	<b>1,887,443.03</b>	1,670,228.16
Lease fees	<b>1,513,745.96</b>	296,145.74
Travel expenses	<b>1,214,728.26</b>	568,258.80
Depreciation and amortization charges	<b>1,199,343.27</b>	902,361.50
Taxes	<b>930,893.16</b>	1,228,763.63
Technology development fee	<b>497,056.75</b>	679,971.78
Car expenses	<b>453,826.70</b>	673,544.57
Others	<b>2,935,258.05</b>	1,999,769.86
<b>Total</b>	<b>32,042,523.56</b>	25,291,958.03

*(2) Included in the administrative expenses for the period was RMB0.65 million of auditor's remuneration (2015: RMB0.65 million).*

## Notes to Financial Statements

2016

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

## (II) Notes to items in the Consolidated Statement of Income (continued)

## 5. Finance costs

Item	Current period	Corresponding period last year
Interest expenses		
Including: Bank loans, overdrafts and interest of other loans fully repayable within 5 years		
Interest of other loans not fully repayable within 5 years		
Less: Interest income	<b>453,907.94</b>	381,480.74
Add: Exchange loss	<b>-2,497.17</b>	-1,024.09
Add: Commission and other expenses	<b>82,774.80</b>	127,231.86
Total	<b>-373,630.31</b>	-255,272.97

## 6. Assets impairment loss

Item	Current period	Corresponding period last year
Bad debt loss	<b>13,704,872.13</b>	823,795.29
Inventory impairment loss	<b>6,325,711.40</b>	6,372,662.49
Impairment loss on fixed assets	<b>5,496,987.07</b>	
Total	<b>25,527,570.60</b>	7,196,457.78

## Notes to Financial Statements

2016

**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***(II) Notes to items in the Consolidated Statement of Income** *(continued)***7. Gain on change of fair value**

Item	Current period	Corresponding period last year
Financial assets at FVTPL for the current period Including: Gain on change of fair value arising from derivative financial instruments	<b>379,489.65</b>	-379,489.65
<b>Total</b>	<b>379,489.65</b>	-379,489.65

**8. Investment income***(1) Breakdown*

Item	Current period	Corresponding period last year
Return on long-term equity investments accounted with the cost method		
Return on long-term equity investments accounted with the equity method	<b>-34,030.37</b>	1,090.14
Investment income from disposal of long- term equity investments	<b>-8,880.17</b>	22,785.22
Return on investments obtained from disposition of financial assets at FVTPL for the current period	<b>2,800,078.63</b>	5,445,391.94
Others — Financial Products	<b>40,274.00</b>	68,383.63
<b>Total</b>	<b>2,797,442.09</b>	5,537,650.93

## Notes to Financial Statements

2016

**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***(II) Notes to items in the Consolidated Statement of Income** *(continued)***8. Investment income** *(continued)*

(2) *Information on investment income from investments to unlisted company and investments to listed company*

Item	Current period	Corresponding period last year
Investment income from investments to unlisted company	<b>-34,030.37</b>	1,090.14
Sub-total	<b>-34,030.37</b>	1,090.14

**9. Non-operating profits**

(1) *Breakdown*

Item	Current period	Corresponding period last year	Amount recognized in non-recurring profit or loss for the current period
Total gain on disposal of non-current assets	<b>140,529.83</b>	415.58	140,529.83
Including: Gain from disposal of fixed assets	<b>140,529.83</b>	415.58	140,529.83
Government grants	<b>2,681,927.34</b>	1,469,700.00	2,681,927.34
Fines and forfeitures income	<b>14,025.00</b>	75,667.54	14,025.00
Amounts not payable	<b>335,520.19</b>	4,491,169.90	335,520.19
Others	<b>22,182.02</b>	162,418.92	22,182.02
Total	<b>3,194,184.38</b>	6,199,371.94	3,194,184.38

## Notes to Financial Statements

2016

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

## (II) Notes to items in the Consolidated Statement of Income (continued)

## 9. Non-operating profits (continued)

## (2) Breakdown of government grants

Subsidized item	Current period	Corresponding period last year	Relating to assets/ relating to income
Water saving irrigation technology products industrialization promotion project amortization of deferred income	1,200,000.00	1,200,000.00	Relating to assets
XINJIANG Corps' Featured Comprehensive Manufacturing Information-oriented integration application demonstration		80,000.00	Relating to income
Capital for international market expansion of the Corps' SMEs		189,700.00	Relating to income
Special funds for the Corps' Top Ten Leading Technologies	250,000.00		Relating to income
Fees for exploration of international market of SMEs	87,200.00		Relating to income
Fees for establishment of industry technology innovation strategic alliance	500,000.00		Relating to income
Unemployment insurance allowance	549,673.31		Relating to income
Employment subsidy of Social Insurance Administration Centre of Zhangye City	16,073.56		Relating to income
Employment subsidy of social security centre of Regiment No.13	15,392.53		Relating to income
Unemployment subsidy of Social Insurance Bureau of Regiment No. 7	13,587.94		Relating to income
Scientific research funds of Finance Bureau	50,000.00		Relating to income
Sub-total	2,681,927.34	1,469,700.00	

## Notes to Financial Statements

2016

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

## (II) Notes to items in the Consolidated Statement of Income (continued)

## 10. Non-operating expenses

Item	Current period	Corresponding period last year	Amount recognized in non-recurring profit or loss for the current period
Total loss from disposal of non-current assets		994.90	
Including: loss from disposal of fixed assets		994.90	
Donation	<b>20,174.52</b>	5,000.00	20,174.52
Fines expenses	<b>107,914.89</b>	232,939.60	107,914.89
Liquidated damages	<b>373.20</b>	252,476.25	373.20
Others	<b>35,234.13</b>	10,150.60	37,534.13
<b>Total</b>	<b>163,696.74</b>	501,561.35	165,996.74

## 11. Income tax charges

## (1) Breakdown

Item	Current period	Corresponding period last year
Current income tax charges	<b>2,260,347.66</b>	1,272,899.74
Deferred income tax charges	<b>1,142,582.59</b>	-51,121.83
<b>Total</b>	<b>3,402,930.25</b>	1,221,777.91

## Notes to Financial Statements

2016

**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***(II) Notes to items in the Consolidated Statement of Income** *(continued)***11. Income tax charges** *(continued)*(2) *Reconciliation between accounting profits and income tax expenses*

Item	Current period	Corresponding period last year
Total profits	<b>-59,450,678.24</b>	-6,272,412.75
Income tax charges at the statutory tax rate	<b>-8,917,601.74</b>	-940,861.91
Effect of different tax rates adopted by subsidiaries	<b>-38,192.89</b>	-67,922.80
Effect of prior period income tax adjustment	<b>2,540,699.69</b>	418,221.96
Effects on non-taxable income		
Tax effect of costs, expenses and losses not deductible	<b>1,788,129.08</b>	67,349.01
Effect of deductible losses that have not recognized for deferred income tax assets during the prior period	<b>-81,862.93</b>	-232,055.76
Effect of deductible temporary differences or deductible losses that have not recognized for deferred income tax assets during the period	<b>8,111,759.04</b>	1,977,047.41
Income tax expenses	<b>3,402,930.25</b>	1,221,777.91

(3) No profits tax in Hong Kong was levied because the Company and its subsidiaries did not generate profits in Hong Kong or gain profits from Hong Kong in 2015 and 2015.

## Notes to Financial Statements

2016

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

## (III) Notes to items in the Consolidated Cash Flows Statement

## 1. Other cash received relating to operating activities

Item	Current period	Corresponding period last year
Interest income	453,907.94	381,325.45
Deposits received and refunds	4,642,579.00	300,000.00
Government grants received	1,481,927.34	269,700.00
Current accounts and petty cash	6,170,560.35	4,063,203.87
Total	12,748,974.63	5,014,229.32

## 2. Other cash paid relating to operating activities

Item	Current period	Corresponding period last year
Cost of sales paid	30,078,697.80	24,881,894.17
Administrative expenses paid	8,509,954.28	5,836,895.05
Finance costs paid	82,774.80	127,231.86
Current accounts paid	27,015,376.40	5,094,848.01
Total	65,686,803.28	35,940,869.09

## Notes to Financial Statements

2016

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

## (III) Notes to items in the Consolidated Cash Flows Statement (continued)

## 3. Supplemental information to Cash Flows Statement

## (1) Supplemental information to Cash Flows Statement

Further information	Current period	Corresponding period last year
1) Adjusting net profits to cash flow for operating activities:		
Net profits	-62,853,608.49	-7,494,190.66
Add: provision for assets impairment	25,527,570.60	7,196,457.78
fixed asset depreciation, oil/gas asset depreciation and productive biological asset	19,244,361.31	20,150,424.95
amortization of intangible assets	566,583.12	546,606.72
amortization of long-term deferred expenses	335,649.21	954,828.53
loss on disposal of fixed, intangible and other long-term assets (gain is denoted as "-")	-140,529.83	-22,205.90
loss on retirement of fixed assets (gain is denoted as "-")	-379,489.65	379,489.65
loss on changes in fair value (gain is denoted as "-")	-2,497.17	-1,024.09
investment loss (gain is denoted as "-")	-2,831,472.47	-5,513,775.57
decrease in deferred income tax assets (increase is denoted as "-")	1,142,582.59	-51,121.83
increase in deferred income tax liabilities (decrease is denoted as "-")		
decrease in inventories (increase is denoted as "-")	90,992,721.52	5,680,317.19
decrease in operating receivables (increase is denoted as "-")	-31,582,207.91	9,197,058.23
increase in operating payables (decrease is denoted as "-")	-2,040,653.41	-7,620,010.72
Others		
net cash flow generated from operating activities	37,979,009.42	23,402,854.28
2) Material investing and financing activities without cash payment or receipt:		
Conversion of debt 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	152,444,683.33	118,301,053.30
Less: opening cash balance	118,301,053.30	109,888,469.36
Add: closing cash equivalents balance		
Less: opening cash equivalents balance		
Net increase in cash and cash equivalents	34,143,630.03	8,412,583.94

## Notes to Financial Statements

2016

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

## (III) Notes to items in the Consolidated Cash Flows Statement (continued)

## 3. Supplemental information to Cash Flows Statement (continued)

(2) Net cash of the current period received from disposal of subsidiaries

Item	Current period
cash or cash equivalents received from disposal of subsidiaries in the current period	1,040.21
Including: Hami Huiming Recycling Company Limited* (哈密惠民回收有限責任公司)	1,040.21
Less: cash and cash equivalents held by subsidiaries on the date of loss of control	
Including: Hami Huiming Recycling Company Limited* (哈密惠民回收有限責任公司)	
Plus: cash or cash equivalents received in the current period from disposal of subsidiaries in previous periods	
Net cash received from disposal of subsidiaries	1,040.21

(3) Composition of cash and cash equivalents

Item	Closing balance	Opening balance
1) Cash		
Including: Cash on hand	43.70	210.98
Bank deposits readily available for payment	152,366,770.34	113,856,561.31
Other cash readily available for payment	77,869.29	4,444,281.01
Central bank deposits available for payment		
Deposits in players in the same industry		
Lending to players in the same industry		
2) Cash equivalents		
Including: bond investment due within 3 months		
3) Closing balance of cash and cash equivalents	152,444,683.33	118,301,053.30
Including: restricted cash and cash equivalents of Parent Company or subsidiaries within the Group		

## Notes to Financial Statements

2016

**V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)***(IV) Others****1. Assets with Ownership or Use Right restricted**

Item	Closing book value	Reason for Restriction
Cash	<b>1,470,969.93</b>	Margin for Engineering Project
Total	<b>1,470,969.93</b>	

**2. Monetary assets in foreign currency**

Item	Closing balance in foreign currency	Conversion rate	Closing balance converted to RMB
Cash			
Including: USD	<b>2.13</b>	<b>6.937</b>	<b>14.78</b>
Hong Kong Dollar	<b>7,843.93</b>	<b>0.89451</b>	<b>7,016.47</b>

## Notes to Financial Statements

2016

**VI. MODIFICATION OF CONSOLIDATION SCOPE****(I) Increase in consolidation scope**

Name of Entity	Way of equity acquisition	Date of equity acquisition	Contribution	Percentage of contribution (%)
Zhongxinnong Water Saving	Establishment	23rd September, 2016	5,900,000.00	59.00
Wisdom Agriculture	Establishment	02nd September, 2016	700,000.00	70.00
Nanjiang Water Saving	Establishment	22nd March, 2016	15,000,000.00	100.00

**(II) Decrease of consolidation scope**

Company Name	Equity disposal method	Date of equity acquisition	Net assets on the disposal date	Net profits from the beginning of the period to the disposal date
Net profits Hami Huiming Recycling Company Limited*(哈密惠民 回收有限責任公司)	Liquidation	16th December, 2016	357,992.44	2,019.43

## Notes to Financial Statements

2016

## VII. INTEREST IN OTHER ENTITIES

## (I) Interest in important subsidiaries

## 1. Composition of important subsidiaries

## (1) Basic information

Name of subsidiary	Place of principal operation	Place of registration	Nature of business	Shareholding percentage (%)		Way of acquisition
				Direct	Indirect	
Hami Tianye	Hami City, Xinjiang	Hami City, Xinjiang	Manufacturing	60.00		Establishment
Kuitun Water Saving	Kuitun City, Xinjiang	Kuitun City, Xinjiang	Manufacturing	100.00		Establishment
Akesu Tianye	Akesu City, Xinjiang	Akesu City, Xinjiang	Manufacturing	100.00		Establishment
Tiancheng Water Saving	Shihezi City, Xinjiang	Shihezi City, Xinjiang	Manufacturing	60.00		Establishment
Liaoning Tianye	Tieling City, Liaoning	Tieling City, Liaoning	Manufacturing	100.00		Establishment
Shihezi Tianye	Shihezi City, Xinjiang	Shihezi City, Xinjiang	Manufacturing	98.00		Business combination under common control
Gansu Tianye	Zhangye City, Gansu	Zhangye City, Gansu	Manufacturing	100.00		Business combination under common control
Gansu Tianye Water Resources and Hydropower Engineering Co., Ltd.	Zhangye City, Gansu	Zhangye City, Gansu	Manufacturing	100.00		Business Combination under Non-common Control

## 2. Important non-wholly-owned subsidiaries

## (1) Breakdown

Name of subsidiary	Shareholding percentage of minority interest	Profit or loss attributable to minority interest for the period	Distribution of dividend declared to minority interest for the period	Closing balance of minority interest
Hami Tianye	40.00%	-327,145.75		4,671,287.61
Tiancheng Water Saving	40.00%	-4,875,372.17		2,815,524.19

## Notes to Financial Statements

2016

## VII. INTEREST IN OTHER ENTITIES (continued)

## (I) Interest in important subsidiaries (continued)

## 3. Key financial information of the important non-wholly-owned subsidiaries

## (1) Information on assets and liabilities

Name of subsidiary	Current assets	Non-current assets	Closing balance		Total liabilities
			Total Assets	Current liabilities	
Hami Tianye	13,632,220.98	3,381,642.32	17,013,863.30	5,342,070.30	5,342,070.30
Tiancheng Water Saving	26,628,908.91	10,393,274.62	37,022,183.53	29,983,373.06	29,983,373.06

(continued from the previous table)

Name of subsidiary	Current assets	Non-current assets	Opening balance		Total liabilities
			Total Assets	Current liabilities	
Hami Tianye	18,520,437.29	3,835,304.69	22,355,741.98	9,854,410.93	9,854,410.93
Tiancheng Water Saving	36,583,190.33	10,992,176.23	47,575,366.56	27,641,012.03	27,641,012.03

## (2) Information on profit or loss and cash flows

Name of subsidiary	Operating income	Net profits	Current period	
			Total comprehensive income	Cash flow from activities
Hami Tianye	14,702,376.09	-824,290.41		-805,017.14
Tiancheng Water Saving	29,499,736.20	-12,188,430.43		102,034.48

(continued)

Name of subsidiary	Operating income	Net profits	Corresponding period last year	
			Total comprehensive income	Cash flow from activities
Hami Tianye	6,535,533.53	-1,275,100.73		2,681,131.85
Tiancheng Water Saving	27,683,999.06	-475,713.44		-1,805,669.22

## Notes to Financial Statements

2016

## VII. INTEREST IN OTHER ENTITIES (continued)

## (II) Interest in associates

## 1. Key associates

Name of associate	Place of principal operation	Place of registration	Nature of business	Shareholding percentage (%)		Accounting treatment method on investment in associates
				Direct	Indirect	
Jianshui Runnong Water Supply Co., Ltd.	Honghe Hani Yi Autonomous Prefecture, Yunnan Province	Honghe Hani Yi Autonomous Prefecture, Yunnan Province	Manufacturing	28.00		Accounting by the equity method

## 2. Key financial information of the important associates

Item	Closing balance/ Current period Jianshui Runnong Water Supply Co., Ltd.	Opening balance/ Corresponding period last year Jianshui Runnong Water Supply Co., Ltd.
Current assets	10,099,588.36	3,290,864.04
Non-current assets	28,901,347.84	16,671,267.80
Total Assets	39,000,936.20	19,962,131.84
Current liabilities	808,579.86	-41,761.50
Non-current liabilities	2,8310,000.00	10,000,000.00
Total liabilities	29,118,579.86	9,958,238.50
Minority interest		
Owners' equity attributable to the Company	9,882,356.34	10,003,893.34
Net assets calculated pro rata in shareholding	2,767,059.77	2,801,090.14
Adjusting events		
Goodwill		
Unrealized profit from internal transactions		
Others		
Carrying amount of investment in associates	2,764,931.77	2,801,090.14
Fair value of investment in associates with public offer		
Operating income	544,620.41	
Net profits	-121,537.02	3,966.59
Net profit for termination of business		
Other comprehensive income		
Total comprehensive income	121,537.02	3,966.59
Dividend from associates for the period		

## VIII. RISK RELATED TO FINANCIAL INSTRUMENTS

The Company manages its risks with the objectives of balancing risks and return, minimizing the adverse effect of risks on the Company's operating results, and maximizing the benefits to shareholders and other equity owners. Based on such risk management objectives, the basic risk management strategies of the Company are to identify and analyze various risks the Company being exposed to, establish suitable risk tolerance limits and control the risks within a limited extent by monitoring them in a timely and reliable manner.

The financial instruments of the Company are primarily subjected to credit risk, liquidity risk and market risk in daily activities. The management has reviewed and approved the policies to manage these risks, a summary of which is set out as below:

### (I) Credit Risk

Credit risk refers to the risk of financial loss incurred by a party of the financial instrument arising from the non-performance of the other party.

The credit risk of the Company is primarily from bank deposit and receivables. The Company has adopted the following measures to control such risk.

#### 1. Bank deposit

The Company will deposit its money with high-credit financial institutions, so its credit risk is very low.

#### 2. Receivables

The Company will regularly assess the credit of customers transacting in the method of credit. Based on the credit evaluation result, the Company only enters into transaction with recognized customers with good credit worthiness and adopts monitoring and control on the balance of the trade receivables, so as to ensure that the Company will not be exposed to significant bad debt risk.

As the Company's risk in respect of trade receivables are distributed among a large number of counterparties and customers, as of 31st December, 2016, 23.61% (31st December, 2015: 24.47 %) of the Company's receivables were derived from the five largest customers, and the Company did not has material concentrated credit risk.

## Notes to Financial Statements

2016

**VIII. RISK RELATED TO FINANCIAL INSTRUMENTS** *(continued)***(I) Credit Risk** *(continued)***3. Other receivables**

Other receivables of the Company comprise mainly of (among others) project payment advanced to the government and security deposits, the Company collectively manages these amount and relevant economic activities and monitor continuously, with a view to ensure that the Company is not exposed to significant bad debt risk.

- (1) *The Company's receivables that are neither overdue nor impaired and the age analysis of financial assets that are overdue but not impaired are set out as below:*

Item	Neither overdue nor impaired	Closing balance Overdue but impaired			Total
		Within 1 year	1-2 Years	Over 2 years	
Bills receivables	1,400,000.00				1,400,000.00
Receivables	42,450,300.11	9,404,623.05	1,435,303.27	381,521.21	53,671,747.64
Other receivables	4,000.00			14,996,171.60	15,000,171.60
<b>Sub-total</b>	<b>43,854,300.11</b>	<b>9,404,623.05</b>	<b>1,435,303.27</b>	<b>15,377,692.81</b>	<b>70,071,919.24</b>

(continued from the previous table)

Item	Neither overdue nor impaired	Opening balance Overdue but not impaired Total			Total
		Within 1 year	1-2 Years	Over 2 years	
Bills receivables	1,230,000.00				1,230,000.00
Receivables	38,520,328.85	8,060,753.04	3,713,618.09	8,943,076.79	59,237,776.77
Other receivables	2,104,616.59			14,996,171.60	17,100,788.19
<b>Sub-total</b>	<b>41,854,945.44</b>	<b>8,060,753.04</b>	<b>3,713,618.09</b>	<b>23,939,248.39</b>	<b>77,568,564.96</b>

- (2) See the receivables of single provision for impairment to the note on receivables under the notes to the consolidated financial statements.

## Notes to Financial Statements

2016

**VIII. RISK RELATED TO FINANCIAL INSTRUMENTS** (continued)**(II) Liquidity risk**

Liquidity risk refers to the risk of insufficient capital in discharging obligations in relation to a financial liability by an entity. It may be due to the inability to sell the financial liability at fair value timely; or due to the insolvency of the counterparty to serve its contractual debts; or due to accelerated debt maturity; or due to inability to incur expected cash flows.

**Classification of financial liabilities by remaining term to maturity**

Item	Carrying amount	Closing balance	
		Amount of undiscounted contract	Within 1 year
Financial liabilities held for trading			
Trade payables	186,978,506.49	186,978,506.49	186,978,506.49
Other payables	25,775,682.78	25,775,682.78	25,775,682.78
Sub-total	212,754,189.27	212,754,189.27	212,754,189.27

(continued from the previous table)

Item	Carrying amount	Opening balance	
		Amount of undiscounted contract	Within 1 year
Financial liabilities held for trading	379,489.65	379,489.65	379,489.65
Trade payables	209,249,563.31	209,249,563.31	209,249,563.31
Other payables	14,389,937.23	14,389,937.23	14,389,937.23
Sub-total	224,018,990.19	224,018,990.19	224,018,990.19

## Notes to Financial Statements

2016

### VIII. RISK RELATED TO FINANCIAL INSTRUMENTS *(continued)*

#### (III) Market Risk

1. Market risk refers to the risk of fluctuation in fair value or future cash flows of a financial instrument due to changes in market rates. Market risk comprises primarily of interest rate risk and exchange risk.

2. *Exchange risk*

Exchange risk refers to the risk of fluctuation of the financial instruments' fair value or future cash flow arising from changes in exchange rate. The Company operates in Mainland China, and its activities are mainly denominated in RMB. Therefore, the Company's exposure to market risk of changes in exchange rate is insignificant.

The Company's closing balance of financial assets denominated in foreign currencies and financial liabilities denominated in foreign currencies are presented in other foreign currency monetary items under this note.

## Notes to Financial Statements

2016

**IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS****(I) Related parties****1. Information on Parent Company of the Company***(1) Parent Company of the Company*

Name of Parent Company	Place of registration	Nature of business	Registered capital (RMB in ten thousand)	Shareholding	Percentage of voting
				percentage of the Parent Company in the Company (%)	rights of the Parent Company in the Company (%)
Xinjiang Tianye Company Limited	Shihezi, Xinjiang	Manufacturing	69,465.88	38.91	38.91

(2) The ultimate controller of the Company is Xinjiang Tianye (Group) Limited\* (新疆天業(集團)有限公司) (hereinafter referred to as "Tianye Group").

**2. For details of the subsidiaries of the Company, please refer to information on interest in other entities in these notes to the financial statements.****3. Information on joint ventures and associates of the Company**

For details of the joint ventures or associates of the Company, please refer to information on interest in other entities in these notes to the financial statements. Other joint ventures or associates who enter into connected transactions with the Company for this period or with the Company's related parties resulting in balance are listed as follows:

Name of associates	Relationship with the Company
Jianshui Runnong Water Supply Co., Ltd.	Joint-stock company

## Notes to Financial Statements

2016

**IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** *(continued)***(I) Related parties** *(continued)***4. Information on other related parties of the Company**

Name of other related parties	Relationship between other related parties and the Company
Shihezi City Taian Construction Work Co, Ltd*	Under common control of the parent company
Shihezi Tianye Tomato Products Co, Ltd*	Under common control of the parent company
Shihezi Jiamei Packaging Industrial and Trading Co, Ltd *	Under common control of the parent company
Shihezi Taikang Construction and Engineering Co., Ltd.	Under common control of the parent company
Shihezi Xinyuan Highway Transportation Co, Ltd*	Under common control of the parent company
Shihezi City Xinze Vehicle Maintenance Co, Ltd*	Under common control of the parent company
Xinjiang Shihezi Tianda Tomato Products Co, Ltd*	Under common control of the parent company
Shihezi Development Zone Tianye Chemical Co, Ltd*	Under common control of Tianye Group
Tianchen Chemical Co, Ltd*	Under common control of Tianye Group
Jinghe County Jingyi Mining Co, Ltd*	Under common control of Tianye Group
Shihezi Development Zone Huiye Information Technology Co., Ltd.	Under common control of Tianye Group
Xinjiang Tianzhi Chenye Chemical Co, Ltd*	Under common control of Tianye Group
Shihezi Development Zone Qingsong Tianye Cement Co, Ltd*	Under common control of Tianye Group
Tianchen Cement Co, Ltd*	Under common control of Tianye Group
Tianneng Cement Co, Ltd*	Under common control of Tianye Group
Tianwai Chemical Co, Ltd*	Under common control of the parent company

## Notes to Financial Statements

2016

**IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** *(continued)***(I) Related parties** *(continued)***4. Information on other related parties of the Company** *(continued)*

Name of other related parties	Relationship between other related parties and the Company
Tianbo Chenye Mining Co Ltd	Under common control of Tianye Group
Xinjiang Tianye Agricultural New and High Technology Co Ltd	Under common control of Tianye Group
Tianwai Cement Co, Ltd*	Under common control of Tianye Group
Xinjiang Tianye (Group) Mining Co, Ltd*	Under common control of Tianye Group
Shihezi Development Zone Tianye Thermal Power Co, Ltd*	Under common control of Tianye Group
Tianneng Chemical Co, Ltd*	Under common control of Tianye Group
Shihezi Development Zone Huineng Industrial Equipment Installation Co, Ltd*	Under common control of Tianye Group
Turpan Tianye Mineral Development Co., Ltd.	Under common control of Tianye Group
Toksun County Tianye Mineral Development Co., Ltd.*	Under common control of Tianye Group
Xinjing Bingtian Lvcheng Plastic Product Inspection Co., Ltd.	Under common control of Tianye Group
Xinjiang Production & Construction Reclamation Water-saving Drip Irrigation Engineering and Research Centre* (with limited liability)	Under common control of Tianye Group
Shihezi Development Zone Tianye Vehicle Maintenance Service Co, Ltd*	Under common control of Tianye Group
Xinjiang Shihezi City Zhongfa Chemical Co., Ltd. *	Under common control of Tianye Group
Xinjiang Tianye Zhonghua Mining Co, Ltd*	Under common control of Tianye Group
Beijing Tianye International Agricultural Engineering and Technology Co Ltd*	Under common control of Tianye Group

## Notes to Financial Statements

2016

**IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** (continued)**(II) Information on related party transactions****1. Related party transactions regarding purchase and sale of goods and rendering and receipt of services**

## (1) Breakdown

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

RELATED PARTIES	Information on related party	Current period	Corresponding period last year
Xinjiang Tianye Company Limited	Purchase of goods	2,622,831.79	1,836,985.99
Shihezi City Taian Construction Work Co, Ltd*	Purchase of goods	6,476,536.57	107,874.39
Shihezi Xinyuan Highway Transportation Co, Ltd*	Purchase of goods	211,885.00	114.83
Shihezi Jiamei Packaging Industrial and Trading Co, Ltd *	Purchase of goods		185,333.00
Tianye Group	Purchase of goods	156,111,602.98	228,631,471.50
Shihezi Development Zone Huineng Industrial Equipment Installation Co, Ltd*	Purchase of goods	126,400.07	126,494.36
Shihezi Development Zone Tianye Thermal Power Co, Ltd*	Purchase of goods		25,370.61
Tianwai Chemical Co, Ltd*	Purchase of goods	12,291.91	5,619.75
Shihezi Development Zone Tianye Vehicle Maintenance Service Co, Ltd*	Purchase of goods	2,810.16	20,457.11
Shihezi Development Zone Huiye Information Technology Co., Ltd.	Purchase of goods	12,044.60	95,073.50
Shihezi Development Zone Qingsong Tianye Cement Co, Ltd*	Purchase of goods		1,200.42
Tianchen Chemical Co, Ltd*	Purchase of goods	278.46	22,500.88
Tianchen Cement Co, Ltd*	Purchase of goods		6,842.16
Tianwai Cement Co, Ltd*	Purchase of goods	2,182.05	2,234.04
Xinjing Bingtian Lvcheng Plastic Product Inspection Co., Ltd.	Purchase of goods	33,660.80	123,216.26
Shihezi City Xinze Vehicle Maintenance Co, Ltd*	Purchase of goods	48,081.00	
Xinjiang Shihezi City Zhongfa Chemical Co., Ltd.*	Purchase of goods	890,242.70	
Xinjiang Tianye Agricultural New and High Technology Co Ltd	Purchase of goods	15,200.00	
Total		166,566,048.09	231,190,788.80

## Notes to Financial Statements

2016

**IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** (continued)**(II) Information on related party transactions** (continued)**1. Related party transactions regarding purchase and sale of goods and rendering and receipt of services** (continued)

(1) Breakdown (continued)

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

RELATED PARTIES	Information on related party transactions	Current period	Corresponding period last year
Xinjiang Tianye Company Limited	Sale of water-saving product	<b>1,683,469.20</b>	1,026,550.37
Shihezi City Taian Construction Work Co, Ltd*	Sale of water-saving product	<b>535,916.85</b>	39,731.78
Shihezi Development Zone Tianye Chemical Co, Ltd*	Sale of water-saving product	<b>18,007.52</b>	11,378.01
Shihezi Tianye Tomato Products Co, Ltd*	Sale of water-saving product	<b>1,000.00</b>	198,053.19
Shihezi Jiamei Packaging Industrial and Trading Co, Ltd *	Sale of water-saving product		10,829.44
Tianye Group	Sale of water-saving product	<b>788,808.36</b>	311,599.46
Tianchen Chemical Co, Ltd*	Sale of water-saving product	<b>15,633.69</b>	65,613.69
Jinghe County Jingyi Mining Co, Ltd*	Sale of water-saving product	<b>16,235.88</b>	18,213.10
Shihezi Development Zone Huiye Information Technology Co., Ltd.	Sale of water-saving product	<b>1,556.39</b>	76.07
Xinjiang Tianzhi Chenye Chemical Co, Ltd*	Sale of water-saving product	<b>170,978.44</b>	256,572.89
Shihezi Development Zone Qingsong Tianye Cement Co, Ltd*	Sale of water-saving product		9,150.99
Tianchen Cement Co, Ltd*	Sale of water-saving product	<b>872.74</b>	9,876.89
Tianneng Cement Co, Ltd*	Sale of water-saving product		2,190.81
Tianwai Chemical Co, Ltd*	Sale of water-saving product	<b>35,746.53</b>	201,888.90
Tianbo Chenye Mining Co Ltd	Sale of water-saving product	<b>83,921.98</b>	487.00
Xinjiang Tianye Agricultural New and High Technology Co Ltd	Sale of water-saving product	<b>130,081.94</b>	158,250.05

## Notes to Financial Statements

2016

**IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** (continued)**(II) Information on related party transactions** (continued)**1. Related party transactions regarding purchase and sale of goods and rendering and receipt of services** (continued)

(1) Breakdown (continued)

2) (continued)

RELATED PARTIES	Information on related party transactions	Current period	Corresponding period last year
Tianwai Cement Co, Ltd*	Sale of water-saving product	<b>877.78</b>	18,870.63
Xinjiang Tianye (Group) Mining Co, Ltd*	Sale of water-saving product	<b>4,735.73</b>	
Shihezi Development Zone Tianye Thermal Power Co, Ltd*	Sale of water-saving product	<b>66,698.62</b>	
Tianneng Chemical Co, Ltd*	Sale of water-saving product	<b>51,205.11</b>	128,394.29
Shihezi Development Zone Huineng Industrial Equipment Installation Co, Ltd*	Sale of water-saving product		5,645.48
Turpan Tianye Mineral Development Co., Ltd.	Sale of water-saving product	<b>498.87</b>	528.41
Shihezi Taikang Construction and Engineering Co., Ltd.	Sale of water-saving product		1,786.68
Shihezi Xinyuan Highway Transportation Co, Ltd*	Sale of water-saving product	<b>480.00</b>	764.96
Toksun County Tianye Mineral Development Co., Ltd.*	Sale of water-saving product	<b>3,029.91</b>	
Xinjiang Bingtian Lvcheng Plastic Product Inspection Co., Ltd.	Sale of water-saving product	<b>680.09</b>	
Xinjiang Production & Construction Reclamation Water-saving Drip Irrigation Engineering and Research Centre* (with limited liability)	Sale of water-saving product	<b>17,702.98</b>	
Xinjiang Shihezi Tianda Tomato Products Co, Ltd*	Sale of water-saving product	<b>109.00</b>	
Xinjiang Tianye Zhonghua Mining Co, Ltd*	Sale of water-saving product	<b>13,461.04</b>	
<b>Total</b>		<b>3,641,708.65</b>	2,476,453.09

## Notes to Financial Statements

2016

**IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** *(continued)***(II) Information on related party transactions** *(continued)***1. Related party transactions regarding purchase and sale of goods and rendering and receipt of services** *(continued)**(2) Other information*

Both Parties shall negotiate to determine the transaction price by reference to the market price.

**2. Information on related party leases***(1) Breakdown*

## 1) The Company as a lessor

<b>Name of lessee</b>	<b>Type of leased assets</b>	<b>Rental income recognized for the period</b>	Rental income recognized for the corresponding period last year
Xinjiang Tianye Company Limited	Buildings	<b>633,333.33</b>	600,000.00

## 2) The Company as a lessee

<b>Name of lessor</b>	<b>Type of leased assets</b>	<b>Lease payment recognized for the period</b>	Lease payment recognized for the corresponding period last year
Xinjiang Tianye Company Limited	Office and plant	<b>1,455,820.00</b>	1,455,820.00

## Notes to Financial Statements

2016

**IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** (continued)**(II) Information on related party transactions** (continued)**3. Compensation to key management personnel**

Item	Current period	Corresponding period last year
Compensation to key management personnel	<b>3,097,856.20</b>	3,874,628.80

**4. Remuneration of Directors and Supervisors**

Item	Current period				Total
	Salary and subsidy	Old age pension	Housing provident fund	Other social security insurance	
<b>Executive Directors:</b>	<b>624,172.06</b>	<b>90,432.44</b>	<b>63,258.00</b>	<b>249,222.72</b>	<b>1,027,085.22</b>
Chen Lin (Note 1)					
Zhang Qiang	<b>293,801.10</b>	<b>30,742.32</b>	<b>22,602.00</b>	<b>113,842.43</b>	<b>460,987.85</b>
Li He (Note 3)	<b>100,877.21</b>	<b>15,371.16</b>	<b>11,301.00</b>	<b>32,921.21</b>	<b>160,470.58</b>
Yang Wan Sen (Note 3)	<b>76,550.60</b>	<b>14,360.80</b>	<b>9,057.00</b>	<b>32,299.32</b>	<b>132,267.72</b>
Zhu Jia Ji( (Note 2)	<b>76,992.45</b>	<b>15,371.16</b>	<b>11,169.00</b>	<b>37,721.21</b>	<b>141,253.82</b>
Shao Mao Xu (Note 2)	<b>75,950.70</b>	<b>14,587.00</b>	<b>9,129.00</b>	<b>32,438.55</b>	<b>132,105.25</b>
<b>Independent non-executive Directors:</b>	<b>127,800.00</b>				<b>127,800.00</b>
Qin Ming	<b>30,000.00</b>				<b>30,000.00</b>
Yin Feihu	<b>30,000.00</b>				<b>30,000.00</b>
Mak King Sau	<b>52,800.00</b>				<b>52,800.00</b>
Cao Jian	<b>15,000.00</b>				<b>15,000.00</b>
<b>Supervisors:</b>	<b>180,610.90</b>	<b>21,520.32</b>	<b>13,710.00</b>	<b>93,766.13</b>	<b>309,067.35</b>
Chen Jun (Note 5)	<b>144,610.90</b>	<b>21,520.32</b>	<b>13,710.00</b>	<b>93,766.13</b>	<b>273,067.35</b>
Wang Jian (Note 6)	<b>15,000.00</b>				<b>15,000.00</b>
Xu Hong Zhen (Note 7)					
He Jie	<b>21,000.00</b>				<b>21,000.00</b>
<b>Total</b>	<b>932,582.96</b>	<b>111,952.76</b>	<b>76,428.00</b>	<b>342,988.85</b>	<b>1,463,952.57</b>

## Notes to Financial Statements

2016

**IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** (continued)**(II) Information on related party transactions** (continued)**4. Remuneration of Directors and Supervisors** (continued)

(continued from the previous table)

Item	Corresponding period last year				Total
	Salary and subsidy	Old age pension	Housing provident fund	Other social security insurance	
<b>Executive</b>					
<b>Directors:</b>	622,552.20	92,441.78	60,648.00	295,575.00	1,071,216.98
Chen Lin					
Zhang Qiang	285,699.60	31,158.40	20,814.00	110,925.00	448,597.00
Zhu Jia Ji (Note 2)	188,952.40	31,158.40	20,814.00	118,125.00	359,049.80
Shao Mao Xu (Note 2)	147,900.20	30,124.98	19,020.00	66,525.00	263,570.18
<b>Independent non-executive Directors:</b>	135,000.00				135,000.00
Cao Jian (Note 4)	30,000.00				30,000.00
Yin Feihu	30,000.00				30,000.00
Qin Ming	30,000.00				30,000.00
Mak King Sau	45,000.00				45,000.00
<b>Supervisors:</b>	186,176.50	30,298.40	18,828.00	59,003.20	294,306.10
Han Pan (Note 8)	144,176.50	30,298.40	18,828.00	59,003.20	252,306.10
He Jie (Note 8)	42,000.00				42,000.00
Yang Ming (Note 8)					
<b>Total</b>	<b>943,728.70</b>	<b>122,740.18</b>	<b>79,476.00</b>	<b>354,578.20</b>	<b>1,500,523.08</b>

Notes:

- The remuneration and retirement benefits of Chen Lin were paid by Tianye Group, and the Company was not required to reimburse the remuneration and retirement benefits paid by Tianye Group.
- Zhu Jia Ji and Shao Mao Xu resigned as Directors of the Company on 10th June, 2016.

## Notes to Financial Statements

2016

**IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** (continued)**(II) Information on related party transactions** (continued)**4. Remuneration of Directors and Supervisors** (continued)

3. Li He and Yang Wan Sen were appointed as Directors of the Company on 10th June, 2016.
4. Cao Jian was retired as an independent non-executive Director of the Company on 10th June, 2016.
5. Chen Jun was appointed as a Supervisor of the Company on 10th June, 2016.
6. Wang Jian was appointed as a Supervisor of the Company on 10th June, 2016.
7. Xu Hong Zhen was appointed as a Supervisor of the Company on 10th June, 2016. The remuneration and retirement benefits of Xu Hong Zhen were paid by Xinjiang Tianye Company Limited \* (新疆天業股份有限公司), and the Company was not required to reimburse the remuneration and retirement benefits paid by Xinjiang Tianye Company Limited.
8. Han Pan, He Jie and Yang Ming were retired as Supervisors of the Company on 10th June, 2016.

**5. Five highest paid employees**

Of the five highest paid employees during the year, 3 (2015: 2) were Directors, whose detail remuneration are set out in note IX(II)4. The remuneration of the remaining 2 (2015: 3) employees who are not Directors are as set out below:

Item	Current period	Corresponding period last year
Salaries and other benefits	<b>725,984.90</b>	1,027,281.80
Retirement fund scheme contributions	<b>147,882.75</b>	281,828.80
Sub-total	<b>873,867.65</b>	1,309,110.60

The remuneration of each of the five highest paid individuals in the Company are below RMB1 million.

## Notes to Financial Statements

2016

**IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** (continued)**(III) Amount due from/to related party****1. Amount due from related party**

Name of item	Related party	Closing balance		Opening balance	
		Book balance	Bad-debt pro-vision	Book balance	Bad-debt pro-vision
Other receivables	Aral Water Saving	<b>14,996,171.60</b>		14,996,171.60	
Sub-total		<b>14,996,171.60</b>		14,996,171.60	
Prepayments	Tianye Group	<b>72,900.00</b>			
Sub-total		<b>72,900.00</b>			

**2. Amount due to related party**

Name of item	Related party	Closing balance	Opening balance
Trade payables	Tianye Group	<b>83,655,709.45</b>	107,276,888.27
	Beijing Tianye International Agricultural Engineering and Technology Co Ltd*	<b>5,795,627.24</b>	5,795,627.24
	Shihezi City Taian Construction Work Co, Ltd*	<b>848,635.96</b>	
Sub-total		<b>90,299,972.65</b>	113,072,515.51
Other payables	Xinjiang Tianye Company Limited	<b>1,785,675.00</b>	2,259,033.00
	Tianye Group	<b>788,815.20</b>	
Sub-total		<b>2,574,490.20</b>	2,259,033.00

**X. COMMITMENTS AND CONTINGENT LIABILITIES**

As of the balance sheet date, the Company had no material commitments or contingencies that required to be disclosed.

## Notes to Financial Statements

2016

**XI. POST BALANCE SHEET DATE EVENT**

There were no post balance sheet date events that need to disclose as of the date on approval of publication of this financial report.

**XII. OTHER SIGNIFICANT EVENTS****(I) Discontinuing Operations**

Item	Income	expenses	Total amount of profit	Income tax expenses	Net profits	Discontinuing operation profit attributable to owners of the Parent Company
Hami Huiming Recycling Company Limited*(哈密惠民回收有限責任公司)		280.57	2,019.43		2,019.43	2,019.43

**(II) Segment information**

The Company regularly analyses its revenue by business divisions, including design, manufacturing, installation and sale of irrigation system and equipment. The operation of the Company constitutes one single reportable segment under the provisions on segment information of statements of enterprise of ASBE- interpretation No. 3 and accordingly, no separate preparation of segment information is required.

The Company's business during the period were all derived from domestic sales. Further, the segment assets and capital expenditure by geographical location in which the assets located were all located in the PRC.

There were no single customer with transactions amount accounted for 10.00% or more of the Company's operating income during the period.

## Notes to Financial Statements

2016

**XII. OTHER SIGNIFICANT EVENTS** *(continued)***(III) Other Events**

1. The Former Subsidiary, Aral Water Saving has entered into the liquidation procedure on 31st May, 2013. The Company will no longer include Aral Water Saving in the consolidation scope since the date. The investment costs for Aral Water Saving amounted to RMB5,190,830.27. The Company has made full provision for impairment loss in 2013.

As of 31st December, 2016, set out below are the realizable items of Aral Water Saving.

Item	Book Value	Realizable Amount
Cash	9,874,206.39	9,874,206.39
Inventories	6,851,508.61	5,388,128.50
Fixed assets	8,955,464.93	400,000.00
Other assets	854,533.54	
Sub-total	26,535,713.47	15,662,334.89

Save for the amounts due from Aral Water Saving to the Company amounting to RMB14,996,171.60, there was no other actual debts subject to liquidation. The aforesaid realizable assets will be paid for the outstanding amounts due to the Company following the liquidation fees. Separate impairment testing over debts of Aral Water Saving was conducted and the future cash flow was not below the book value, so no provision is made for the bad debt.

As of 31st December, 2016, liquidation of Aral Water Saving was still in progress, completion of which is expected to take place by 2018.

2. According to the resolution by the eighth meeting of the fourth session of the Board on 15th September, 2014, the Company will liquidate and deregister Shihezi Tianye Material Recycling Co., Ltd, a controlling subsidiary. It is awaiting liquidation and the liquidation procedure has not been commenced.

## Notes to Financial Statements

2016

**XIII. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY****(I) Notes to items in the Balance Sheet of the Company****1. Trade receivables***(1) Breakdown*

## 1) Breakdown by category

Category	Book balance		Closing balance		Book value
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Individually significant and for which bad-debt provision has been separately made					
Bad-debt provision made in portfolio as per credit risk features	65,355,335.77	100.00	15,642,744.07	23.93	49,712,591.70
Individually insignificant but for which bad-debt provision has been separately made					
<b>Total</b>	<b>65,355,335.77</b>	<b>100.00</b>	<b>15,642,744.07</b>	<b>23.93</b>	<b>49,712,591.70</b>

(continued from the previous table)

Category	Book balance		Opening balance		Book value
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Individually significant and for which bad-debt provision has been separately made					
Bad-debt provision made in portfolio as per credit risk features	69,241,920.26	100.00	5,631,412.02	8.13	63,610,508.24
Individually insignificant but for which bad-debt provision has been separately made					
<b>Total</b>	<b>69,241,920.26</b>	<b>100.00</b>	<b>5,631,412.02</b>	<b>8.13</b>	<b>63,610,508.24</b>

## Notes to Financial Statements

2016

### XIII. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

#### (I) Notes to items in the Balance Sheet of the Company (continued)

##### 1. Trade receivables (continued)

###### (1) Breakdown (continued)

- 2) Trade receivables for which bad-debt provision has been made in groups using the aging analysis method

Age	Book balance	Closing balance	
		Bad-debt provision	Percentage of provision(%)
Within 1 year	16,435,382.36	164,353.82	1.00
1-2 years	834,971.42	417,485.71	50.00
2-3 years	1,200,576.65	1,200,576.65	100.00
3-4 years	79,900.25	79,900.25	100.00
4-5 years	1,115,829.94	1,115,829.94	100.00
Over 5	1,811,596.86	1,811,596.86	100.00
Sub-total	21,478,257.48	4,789,743.23	22.30

- 3) Receivables for which bad-debt provision has been made in group using group provision method

Name of entity	Book balance	Bad-debt provision	Percentage of provision	Reason for provision
Amounts due from state land treatment project and government tender project	43,877,078.29	10,853,000.84	24.74	Bad debt provision was made for the impairment after testing
Sub-total	43,877,078.29	10,853,000.84	24.74	

## Notes to Financial Statements

2016

**XIII. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY** *(continued)***(I) Notes to items in the Balance Sheet of the Company** *(continued)***1. Trade receivables** *(continued)**(2) Age analysis*

Age	Closing balance	Opening balance
Within 1 year	<b>28,828,762.25</b>	31,573,415.99
1–2 years	<b>10,634,080.29</b>	13,608,067.10
2–3 years	<b>8,677,227.95</b>	6,810,244.24
3–4 years	<b>1,191,000.00</b>	3,425,492.09
4–5 years	<b>292,331.00</b>	5,661,502.17
Over 5 years	<b>89,190.21</b>	2,531,786.65
Total	<b>49,712,591.70</b>	63,610,508.24

Age analysis over receivables is only based on the month when amounts are actually recorded, and the settlement to such amount will be prioritized in terms of capital turnover.

*(3)* Bad-debt provision made during the period amounted to RMB10,011,332.05.

## Notes to Financial Statements

2016

**XIII. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY** *(continued)***(I) Notes to items in the Balance Sheet of the Company** *(continued)***1. Trade receivables** *(continued)**(4) Top 5 trade receivables*

Name of entity	Book balance	Percentage in the balance of receivables (%)	Bad-debt provision
Huanghuagou Project Construction Office of Fuhai County	12,827,041.06	19.63	128,270.41
Water Conservancy Construction Management Office of the Forth Agricultural Division	9,481,807.96	14.51	
Land Development, Arrangement, Construction and Management Authority of Xinjiang Uygur Autonomous Region	4,998,191.41	7.65	
Water bureau of Taigu County	3,019,672.29	4.62	
Liaoning Dongrun Seed Industry Co., Ltd.	3,000,000.00	4.59	3,000,000.00
<b>Sub-total</b>	<b>33,326,712.72</b>	<b>50.99</b>	<b>3,128,270.41</b>

## Notes to Financial Statements

2016

**XIII. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY** *(continued)***(I) Notes to items in the Balance Sheet of the Company** *(continued)***2. Other receivables***(1) Breakdown*

## 1) Breakdown by category

Category	Book balance		Closing balance		Book value
	Amount	Percentage (%)	Bad-debt provision Amount	Percentage of provision (%)	
Individually significant and for which bad-debt provision has been separately made					
Bad-debt provision made in portfolio as per credit risk features	78,900,131.62	100.00	778,110.92	0.32	78,122,020.70
Individually insignificant but for which bad-debt provision has been separately made					
<b>Total</b>	<b>78,900,131.62</b>	<b>100.00</b>	<b>778,110.92</b>	<b>0.32</b>	<b>78,122,020.70</b>

(continued from the previous table)

Category	Book balance		Closing balance		Book value
	Amount	Percentage (%)	Bad-debt provision Amount	Percentage of provision (%)	
Individually significant and for which bad-debt provision has been separately made					
Bad-debt provision made in portfolio as per credit risk features	145,216,499.17	100.00	1,514,825.53	1.04	143,701,673.64
Individually insignificant but for which bad-debt provision has been separately made					
<b>Total</b>	<b>145,216,499.17</b>	<b>100.00</b>	<b>1,514,825.53</b>	<b>1.04</b>	<b>143,701,673.64</b>

## Notes to Financial Statements

2016

**XIII. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY** *(continued)***(I) Notes to items in the Balance Sheet of the Company** *(continued)***2. Other receivables** *(continued)**(1) Breakdown (continued)*

- 2) Other receivables for which bad-debt provision has been made in groups using the aging analysis method

Age	Book balance	Closing balance	
		Bad-debt provision	Percentage of provision (%)
Within 1 year	979,448.85	9,794.49	1.00
1-2 years	4,300.00	2,150.00	50.00
2-3 years	8,400.00	8,400.00	100.00
4-5 years	99,940.00	99,940.00	100.00
Over 5 years	657,826.43	657,826.43	100.00
Sub-total	1,749,915.28	778,110.92	44.47

## Notes to Financial Statements

2016

**XIII. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY** *(continued)***(I) Notes to items in the Balance Sheet of the Company** *(continued)***2. Other receivables** *(continued)**(1) Breakdown (continued)*

- 3) Other receivables for which bad-debt provision has been made using group provision method in the portfolio

Name of entity	Book balance	Bad-debt provision	Percentage of provision(%)	Reason for provision
Aral Water Saving	13,076,659.22			Former subsidiary in liquidation
Hami Tianye	3,219,317.45			Subsidiaries within the scope of consolidation
Kuitun Water Saving	27,702,079.87			Subsidiaries within the scope of consolidation
Akesu Tianye	20,965,524.69			Subsidiaries within the scope of consolidation
Tiancheng Water Saving	11,852,600.84			Subsidiaries within the scope of consolidation
Liaoning Tianye	330,034.27			Subsidiaries within the scope of consolidation
Fund borrowed in advance for construction material for state-owned project	4,000.00			The bad-debt provision will be made with the group provision method based on such project's receipt credit risk.
Sub-total	77,150,216.34			

## Notes to Financial Statements

2016

### XIII. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

#### (I) Notes to items in the Balance Sheet of the Company (continued)

##### 2. Other receivables (continued)

(2) Bad-debt provision made during the period amounted to RMB-736,714.61.

(3) Category of nature of other receivables

Nature	Closing balance	Opening balance
Security deposits	<b>1,484,701.69</b>	1,523,354.49
Project payment advanced to government	<b>4,000.00</b>	2,338,582.35
Amounts due from subsidiaries	<b>77,146,216.34</b>	127,895,703.87
Provisional accounts receivables	<b>265,213.59</b>	13,458,858.46
<b>Total</b>	<b>78,900,131.62</b>	145,216,499.17

(4) Top 5 other trade receivables

Name of entity	Nature	Book balance	Age	Percentage in the balance of other receivables (%)	Bad-debt provision
Hami Tianye	Current account	3,219,317.45	1-2 Years	4.08	
Kuitun Water Saving	Current account	27,702,079.87	1-3 Years	35.11	
Akesu Tianye	Current account	20,965,524.69	1-2 Years	26.57	
Tiancheng Water Saving	Current account	11,852,600.84	1-4 Years	15.02	
Aral Water Saving	Current account	13,076,659.22	4-5 Years	16.57	
<b>Sub-total</b>		<b>76,816,182.07</b>		<b>97.36</b>	

## Notes to Financial Statements

2016

**XIII. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY** *(continued)***(I) Notes to items in the Balance Sheet of the Company** *(continued)***3. Long-term equity investments**(1) *Breakdown*

Item	Book balance	Closing balance Provision for impairment	Carrying amount
Investments in subsidiaries	174,485,270.74	27,190,830.27	147,294,440.47
Investments in associates and joint ventures	2,767,059.77		2,767,059.77
<b>Total</b>	<b>177,252,330.51</b>	<b>21,190,830.27</b>	<b>150,061,500.24</b>

(continued from the previous table)

Item	Book balance	Opening balance Provision for impairment	Carrying amount
Investments in subsidiaries	152,885,270.74	21,190,830.27	131,694,440.47
Investments in associates	2,801,090.14		2,801,090.14
<b>Total</b>	<b>155,686,360.88</b>	<b>21,190,830.27</b>	<b>134,495,530.61</b>

## Notes to Financial Statements

2016

### XIII. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY *(continued)*

#### (I) Notes to items in the Balance Sheet of the Company *(continued)*

#### 3. Long-term equity investments *(continued)*

##### (2) Investments in subsidiaries

Investee	Opening balance	Increase during the period	Decrease during the period	Closing balance	Provision for impairment for the period	Provision for impairment Closing balance
Hami Tianye	11,549,490.47			11,549,490.47		4,000,000.00
Kuitun Water Saving	12,000,000.00			12,000,000.00		12,000,000.00
Akesu Tianye	40,000,000.00			40,000,000.00		
Tiancheng Water Saving	10,260,000.00			10,260,000.00	6,000,000.00	6,000,000.00
Shihezi Tianye	2,470,000.00			2,470,000.00		
Gansu Tianye	61,414,950.00			61,414,950.00		
Aral Water Saving	5,190,830.27			5,190,830.27		5,190,830.27
Liaoning Tianye	10,000,000.00			10,000,000.00		
Zhongxinnong Water Saving		5,900,000.00		5,900,000.00		
Wisdom Agriculture		700,000.00		700,000.00		
Nanjiang Water Saving		15,000,000.00		15,000,000.00		
Sub-total	152,885,270.74	21,600,000.00		174,485,270.74	6,000,000.00	27,190,830.27

## Notes to Financial Statements

2016

**XIII. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY** (continued)**(I) Notes to items in the Balance Sheet of the Company** (continued)**3. Long-term equity investments** (continued)

## (3) Investments in associates

Investee	Opening balance	Increase or decrease during the period			Adjustment of other consolidated return
		Increase	Decrease	Investment profit and loss recognized with the equity method	
Jianshui Runnong Water Supply Co., Ltd.	2,801,090.14			-34,030.37	
Total	2,801,090.14			-34,030.37	

(continued from the previous table)

Investee	Other change to Equity	Increase or decrease during the period			Closing balance	Provision for impairment closing balance
		Cash dividends or profit distribution declared	Provision for impairment	Others		
Jianshui Runnong Water Supply Co., Ltd.				2,767,059.77		
Total				2,767,059.77		

## (4) Investments in unlisted companies and investments in listed companies

Item	Closing balance	Opening balance
Investments on unlisted companies	150,061,500.24	134,495,530.61
Total	150,061,500.24	134,495,530.61

## Notes to Financial Statements

2016

### XIII. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (continued)

#### (II) Notes to items in the Statement of Income of the Company

##### 1. Operating income/operating cost

###### (1) Breakdown

Item	Amount in current period		Corresponding period last year	
	Income	Cost	Income	Cost
Income from principal businesses	<b>366,182,712.61</b>	<b>355,818,143.74</b>	489,947,382.04	467,636,452.31
Income from other businesses	<b>4,500,727.00</b>	<b>2,801,168.28</b>	1,399,253.99	1,123,836.36
Total	<b>370,683,439.61</b>	<b>358,619,312.02</b>	491,346,636.03	468,760,288.67

##### 2. Investment income

###### (1) Breakdown

Item	Current period	Corresponding period last year
Return on long-term equity investment accounted with the cost method	<b>707,113.63</b>	
Return on long-term equity investment accounted with the equity method	<b>-34,030.37</b>	1,090.14
Investment income from disposal of long-term equity investment		2,663.17
Return on investment acquired from financial asset to be measured on fair value, change of which shall be incorporated into current profit and loss	<b>2,800,078.63</b>	5,445,391.94
Others — Financial Product	<b>40,274.00</b>	68,383.63
Total	<b>3,513,435.89</b>	5,517,528.88

## Notes to Financial Statements

2016

**XIII. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY** *(continued)***(II) Notes to items in the Statement of Income of the Company** *(continued)***2. Investment income** *(continued)*

(2) *Information on investment income from investment to unlisted company and investments to listed company*

Item	Current period	Corresponding period last year
Investment income from investments to unlisted company	<b>673,083.26</b>	1,090.14
Sub-total	<b>673,083.26</b>	1,090.14

**XIV. OTHER SUPPLEMENTAL INFORMATION****(I) Breakdown of non-recurring profit and loss**

Item	Amount	Note
Profit and loss from disposal of non-current asset, include unauthorized approval of write-off portion of provision for asset impairment, or with no official approval documents, or accidental tax rebate and exemption	131,649.67	
Government subsidies (other than those closely related to the Company's routine business, in line with national policies and regulation, continuously provided in accordance with certain standard quota or ration) incorporated into the current profit or loss	2,681,927.34	
Payment for possession of fund acquired from non-financial businesses included in the current profit and loss		
Gains arising from the excess of the Group's share of the acquisition-date fair values of the investees' identifiable net assets over the investment costs for acquisition of the subsidiaries, associates and joint ventures		
Non-monetary asset exchange profit and loss		

## Notes to Financial Statements

2016

**XIV. OTHER SUPPLEMENTAL INFORMATION** *(continued)***(I) Breakdown of non-recurring profit and loss** *(continued)*

Item	Amount	Note
Profit and loss from commissioned investment or asset management	40,274.00	
Provision for all assets impairment made for force majeure, such as natural disasters		
Profit and loss from debt restructuring		
Corporate restructuring cost, such as staffing expense and integration cost		
Profit and loss from the portion generated from transactions with unreasonable trading price in excess of fair value		
Net profit or loss of subsidiaries from business merger under common control from the beginning of the period to the date of merger		
Profit and loss from contingencies unrelated to normal business operation of the Company		
In addition to effective hedging operations related to the Company's normal business, returns on change of fair value arising from holding financial assets or financial liabilities at FVTPL for the current period, and returns on investment acquired from disposal of financial assets and financial liabilities at FVTPL for the current period and available-for-sale financial assets	3,179,568.28	
Reversal of receivables impairment provision with impairment test performed separately		
Profit and loss from entrusted loan receivable		
Profit or loss from change in fair value of investment property using the fair value model for subsequent measurement		
Effect from one-time adjustment to the current profit or loss required by tax, accounting and other laws and regulations upon the current profit or loss		
Custodian fee income from entrusted operation		
Operating income and expenses other than the above items	208,030.47	
Other profit and loss items in line with the definition of non-recurring profits and losses		
Sub-total	6,241,449.76	
Less: Affected amount of EIT (decrease is denoted as “—”)	-8,305.26	
Affected amount of minority interest (after tax)	13,377.67	
Net non-recurring profit or loss attributable to owners of the parent Company	6,236,377.35	

## Notes to Financial Statements

2016

**XIV. OTHER SUPPLEMENTAL INFORMATION** (continued)**(II) Rate of return on assets and earnings per share****1. Breakdown**

Profit during the reporting period	Weighted average return on net asset (%)	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profits attributable to the ordinary shareholders of the Company	-8.41	-0.1104	-0.1104
Net profits attributable to the ordinary shareholders of the Company after nonrecurring profit or loss	-9.32	-0.1224	-0.1224

**2. Calculation of weighted average return on net asset**

Item	No.	Current period
Net profits attributable to the ordinary shareholders of the Company	A	-57,338,617.49
Non-recurring profit or loss	B	6,236,377.35
Net profits attributable to the ordinary shareholders of the Company after non-recurring profit or loss	C=A-B	-63,574,994.84
Opening balance of net asset attributable to the ordinary shareholders of the Company	D	710,689,307.99
Net asset attributable to the ordinary shareholders of the Company arising from new shares issuance or conversion of debt to Shares	E	
Number of months accumulated from the month after the month of creation of additional net assets to the end of the reporting period	F	
Decrease in net asset attributable to the ordinary shareholders of the Company due to repurchase or cash dividend	G	
Number of months accumulated from the month after the month of reduction of net assets to the end of the reporting period	H	
Others	I1	
Number of months accumulated from the month after the month of addition or reduction of net assets to the end of the reporting period	J1	
Number of months during the reporting period	K	12
Weighted average net asset	$L = D + A/2 + E \times F / K - G \times H / K \pm I \times J / K$	682,019,999.25
Weighted average return on net asset	M=A/L	-8.41%
Weighted average return on net asset after nonrecurring profit or loss	N=C/L	-9.32%

## Notes to Financial Statements

2016

**XIV. OTHER SUPPLEMENTAL INFORMATION** (continued)**(II) Rate of return on assets and earnings per share** (continued)**3. Calculation of basic earnings per share and diluted earnings per share**

## (1) Calculation of basic earnings per share

Item	SN	Current period
Net profits attributable to the ordinary shareholders of the Company	A	-57,338,617.49
Non-recurring profit or loss	B	6,236,377.35
Net profits attributable to the ordinary shareholders of the Company after non-recurring profit or loss	C=A-B	-63,574,994.84
Open balance of total number of share	D	519,521,560.00
Number of shares increased due to capitalization of capital reserve or distribution of share dividends	E	
Number of shares increased due to new shares issuance or conversion of debt to Shares	F	
Number of months accumulated from the month after the month of creation of additional shares to the end of the reporting period	G	
Decrease in number of shares due to repurchase	H	
Number of months accumulated from the month after the month of reduction of shares to the end of the reporting period	I	
Share reduction during the reporting period	J	
Number of months during the reporting period	K	12
Weighted average number of outstanding ordinary shares	$L=D+E+F \times G / K-H \times I / K-J$	519,521,560.00
Basic earnings per share	$M=A/L$	-0.1104
Basic earnings per share after non-recurring profit or loss	$N=C/L$	-0.1224

## Notes to Financial Statements

2016

### **XIV. OTHER SUPPLEMENTAL INFORMATION** *(continued)*

#### **(II) Rate of return on assets and earnings per share** *(continued)*

##### **3. Calculation of basic earnings per share and diluted earnings per share** *(continued)*

###### *(2) Calculation of diluted earnings per share*

Calculation of diluted earnings per share is the same as the calculation of basic earnings per share

**XINJIANG TIANYE Water Saving Irrigation System Company Limited**

31st March, 2017

## Five Years Financial Summary

For the year ended 31 December 2016

The table below summarizes the audited results, assets and liabilities of the Group for the years ended 31st December, 2016, 2015, 2014, 2013 and 2012. Such information for 2012-2016 was compiled based on the ASBE of China.

### RESULTS

	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	<b>671,402</b>	667,448	700,812	691,547	762,837
Total comprehensive income attributable to owners of the Parent Company	<b>(57,339)</b>	(6,794)	2,080	3,609	3,211

### ASSETS AND LIABILITIES

	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	<b>983,306</b>	1,032,432	1,045,700	1,033,609	1,101,230
Total liabilities	<b>318,953</b>	309,624	313,898	302,961	371,395
Minority interest	<b>(11,002)</b>	(12,119)	(14,319)	(15,222)	(18,018)
Total equity attributable to owners of the Parent Company	<b>653,351</b>	710,689	717,483	715,426	711,817

## Property Interests held by the Group in the PRC

For the year ended 31st December, 2016

Location of Property	Lease term	Percentage of Interests attributable to the Group	Floor Area (sq.m)	Use
1. A parcel of land and various buildings and structures erected thereon, No. 1 Hong Guang Road, Hami City, Xinjiang Uygur Autonomous Region, the PRC	Long-term	60%	4,600.8	Commercial
2. 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-term	100%	4,491.8	Commercial
3. Various buildings and structures located on 134 Tuan, Xiayedi Town Shihezi City, Xinjiang Uygur Autonomous Region, the PRC	Long-term	60%	4,255.3	Commercial
4. Various buildings and structures located on Zhijiang Avenue, Akesu Textile Industrial City (Development Zone), Xinjiang Uygur Autonomous Region, the PRC	Long-term	100%	12,472.7	Commercial