新疆天業節水灌溉股份有限公司

Xinjiang Tianye Water Saving Irrigation System Company Limited*

Stock Code: 840

ANNUAL REPORT 2018

* for identification purposes only

CONTENTS

Corporate Information

DIRECTORS

Executive Directors

Mr. Chen Lin *(Chairman)*
Mr. Huang Dong
(appointed on 26 February, 2019)
Mr. Tan Xinmin (appointed on 26 February, 2019)
Mr. Zhang Qiang (resigned on 26 February, 2019)
Mr. Li He (resigned on 26 February, 2019)
Mr. Yang Wan Sen
(resigned on 26 February, 2019)

Independent non-executive Directors

Mr. Yin Feihu
Mr. Qin Ming
Ms. Gu Li (appointed on 26 February, 2019)
Mr. Hung Ee Tek
(appointed on 26 February, 2019)
Mr. Mak King Sau
(resigned on 31 October, 2018)

SUPERVISORS

Mr. Xu Hongzhen
(resigned on 15 June, 2018)
Mr. Chen Cailai
(appointed on 15 June, 2018)
Ms. Chen Jun
Mr. Xie Xinghui (appointed on 26 February, 2019)
Mr. Wang Jian (resigned on 26 February, 2019)

QUALIFIED ACCOUNTANT

Ms. Chan Ching Yi

COMPANY SECRETARY

Ms. Chan Ching Yi

COMPLIANCE OFFICER

Mr. Zhang Qiang

AUDIT COMMITTEE

Mr. Qin Ming *(Chairman)*
Mr. Yin Feihu
Mr. Hung Ee Tek

REMUNERATION COMMITTEE

Mr. Yin Feihu *(Chairman)*
Mr. Qin Ming
Mr. Huang Dong

NOMINATION COMMITTEE

Mr. Yin Feihu *(Chairman)*
Mr. Qin Ming
Mr. Chen Lin

AUDITOR

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

HONG KONG LEGAL ADVISER

Li & Partners
22nd Floor, Worldwide House
19 Des Voeux Road Central
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 of Directors, I hereby announce the report of Xinjiang Tianye Water Saving Irrigation System Company Limited together with its subsidiaries for the year ended 31st December, 2018.

BUSINESS REVIEW

- Operating income for the year ended 31st December, 2018 was approximately RMB536,157,000, a decrease of approximately 27.36% from 2017.
- Net loss attributable to owners of the parent Company for the year ended 31st December, 2018 was approximately RMB47,637,000 (2017: net profit attributable to owners of the parent Company was approximately RMB1,349,000).
- Basic and diluted earnings per share for the year was approximately RMB0.0917 (2017: basic and diluted loss per share of approximately RMB0.0026).

PROSPECTS:

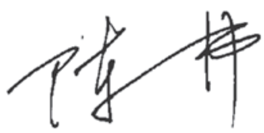
During the reporting period, with the development of domestic economy and society, the demand for water will become more obvious and water resources will become increasingly scarce. As a result, the Chinese government will promote to continue the construction of large and medium-sized irrigation areas for water-saving renovation and modernization, and facilitate the comprehensive construction of auxiliary facilities in relation to field, water, forest, road and electricity, with simultaneous development of efficient water-saving irrigation. Due to rapid development of the water-saving irrigation industry in China, the market competition is increasingly fierce, which leads to a growing conflict between the demand and the supply, and thus directly affects the economic benefits of the Group.

The Directors of the Group believe the Chinese government introduces the water-saving agriculture as a regional strategy for developing a healthy national economy through its plan to increase the area of farmland with efficient water-saving irrigation by 100 million mu. In recent years, the government has promulgated various industrial policies beneficial to the water-saving irrigation industry, and increased the investment in water-saving irrigation projects in the sectors and fields of water conservancy, agriculture, agricultural comprehensive development, land consolidation and urban landscape. Therefore, many new development opportunities emerge in the water-saving irrigation industry with enormous potential and optimistic prospect. In view of this and based on the extension of industrial chains, the Group will fully utilize its own advantages and seize opportunities to accelerate the construction of efficient water-saving demonstration bases for land circulation, promote the reform of mixed ownership, facilitate the upgrading of products, enhance the Company's capacity to undertake the construction of water conservancy projects so as to remove the barriers between upstream and downstream industrial chains. By diversifying and differentiating the premier products, the Group will enhance its competitive strength in the domestic and overseas market.

APPRECIATION

Finally, I would like 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
29th March, 2019

Management Discussion and Analysis

OVERVIEW

As a pioneer in providing one-stop solutions for water saving irrigation system in the People's Republic of China ("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 products sold by the Group mainly include drip tapes and PVC pipelines. The drip tapes can be categorised into five types, including (i) single-sided labyrinth-style drip tapes; (ii) embedded-style drip tapes; and (iii) heavy flow compensatory style drip tapes; (iv) nanometer high-strength drip tapes; and (v) high anti-blocking drip tapes. The PVC pipelines can be categorised into three types, including (i) PVC-M pipes; (ii) PVC-U pipes; and (iii) PVC-O pipes. There is only one type of PE pipelines, namely PE-melting pipes.

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.

RESULTS OF OPERATIONS

Operating income

For the year ended 31st December, 2018, operating income of the Group was approximately RMB536,157,000, representing an decrease of approximately 27.36% from approximately RMB738,121,000 for the year ended 31st December, 2017.

The following table summarises the breakdown of operating income of the Group for each of the two years ended 31st December, 2018 and 31st December, 2017 by products:

	For the year ended 31st December, 2018		For the year ended 31st December, 2017		
Category	**Operating income RMB'000**	**% to total Operating income %**	Operating income RMB'000	% to total Operating income %	**Year-on-year percentage change %**
Drip tape and drip assemblies	**94,783**	**17.68**	294,255	39.86	**–67.79**
PVC/PE pipelines	**317,943**	**59.30**	317,773	43.05	**0.05**
Provision of installation services	**108,611**	**20.26**	92,387	12.52	**17.56**
Other operating income	**14,820**	**2.76**	33,706	4.57	**–56.03**
Total	**536,157**	**100.00**	738,121	100.00	**–27.36**

For the year ended 31st December, 2018, sales of drip tape and drip assemblies decreased by approximately 67.79% to approximately RMB94,783,000, while sales of PVC/PE pipelines slightly increased by approximately 0.05% to approximately RMB317,943,000. At the same time, the sales volume of drip tape and drip assemblies decreased from approximately 19,515 tonnes for the year ended 31st December, 2017 to approximately 8,820.71 tonnes for the year ended 31st December, 2018, while the sales volume of PVC/PE pipelines decreased from approximately 38,945 tonnes for the year ended 31st December, 2017 to approximately 33,218.52 tonnes for the year ended 31st December, 2018. The decrease in operating income was mainly attributable to intensifying competition in water-saving agricultural irrigation industry led to a decrease in sales during 2018.

Cost of sales

For the year ended 31st December, 2018, cost of sales of the Group was approximately RMB490,620,000, representing an decrease of approximately 25.45% from approximately RMB658,119,000 for the year ended 31st December, 2017. Costs of sales for the year ended 31st December, 2018 comprised direct materials costs of approximately RMB410,453,000, direct labour costs of approximately RMB39,593,000 and production overhead of approximately RMB40,574,000, which accounted for approximately 83.66%, 8.07% and 8.27%, respectively, of the total costs of sales for year 2018. Costs of sales for the year ended 31st December, 2017 comprised direct materials costs of approximately RMB547,687,000, direct labour costs of approximately RMB54,755,000 and production overhead of approximately RMB55,677,000, which accounted for approximately 83.22%, 8.32% and 8.46%, respectively, of the total costs of sales for year 2017.

Non-operating income

Non-operating income for the year ended 31st December, 2018 was approximately RMB1,243,000, which was mainly derived from amounts not payable. For the year ended 31st December, 2017, non-operating income was approximately RMB304,000.

Distribution costs

Distribution costs were approximately RMB39,284,000 for the year ended 31st December, 2018, representing an increase of approximately 2.55% from 2017. The amount accounted for approximately 7.33% of the total operating income for the year ended 31st December, 2018, which was slightly higher than its share of total operating income of approximately 5.19% in the previous year. Distribution costs mainly comprised transportation costs, salaries expenses, sales service fee, warehousing and storage fee etc. For the year ended 31st December, 2018, transportation costs decreased by 16.80% to RMB8,700,000, while sales service fee and other fees increased to approximately RMB6,204,000 and approximately RMB2,583,000 respectively, representing an increase of approximately 17.22% and approximately 70.65%, which was mainly attributable to after-sales compensation fees and investments in product demonstration and promotion projects.

Administrative expenses

Administrative expenses increased by approximately 27.77% to approximately RMB34,760,000 for the year ended 31st December, 2018. The amount accounted for approximately 6.62% of total operating income for the year ended 31st December, 2018, which was higher than its share of total operating income of approximately 3.69% in the previous year. For the year ended 31 December, 2018, salaries benefits fees and depreciation and amortization charges increased to approximately RMB20,671,000 and RMB2,856,000, representing an increase of approximately 14.05% and 162.63%, respectively. Loss from work suspension, agency service fees and other fees increased to approximately RMB2,960,000, approximately RMB2,193,000 and approximately RMB3,860,000, representing an increase of approximately 37.03%, approximately 73.05% and approximately 57.77%, respectively, which was mainly due to the increase in advertisement fees, litigation fees and patent fees.

Finance costs

Finance charges for the year ended 31st December, 2018 was approximately RMB55,000, consisted mainly of interest expense and commission charges, while finance income for the year ended 31st December, 2017 was approximately RMB1,615,000, consisted mainly of gains on foreign exchange and interest income from bank deposits.

Assets impairment loss

The assets impairment loss for the years ended 31st December, 2018 was approximately RMB16,349,000, which mainly consisted of impairment loss on fixed assets of approximately RMB2,504,000, inventory impairment loss of approximately RMB9,991,000 and bad debt loss of approximately RMB3,854,000, while the assets impairment loss for the years ended 31st December, 2017 was approximately RMB7,303,000, which mainly consisted of bad debt loss of approximately RMB5,006,000 and inventory impairment loss of approximately RMB2,211,000.

Operating profit

As a result of the factors discussed above, the Group's operating loss for the year ended 31st December, 2018 was approximately RMB–48,622,000, representing a decrease of approximately RMB50,814,000 from operating profit of approximately RMB2,192,000 for the corresponding period in the previous year. The Group's operating loss/profit ratio (expressed as a percentage of operating loss/profit over the Group's operating income) was approximately an operating loss ratio of 9.07% and an operating profit ratio of 0.30% for the years ended 31st December, 2018 and 2017, respectively. The loss was mainly due to decrease of approximately 27.36% in the operating income, the continued rise in PVC resin prices led to higher production costs and assets impairment loss of RMB16,349,000.

Net profit/loss attributable to owners of the parent Company

As a result of the factors discussed above, the net loss attributable to owners of the parent Company decreased from net profit of approximately RMB1,349,000 for the year ended 31st December, 2017 to net loss of approximately RMB47,637,000 for the year ended 31st December, 2018. For the two years ended 31st December, 2017 and 2018, the Group's net profit/loss margins were approximately 0.18% and 8.88%, 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 under our sales contracts. 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 of the Group 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.

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.

Risks from 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 of the PRC, 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.

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.

Xinjiang is a major agricultural province of the PRC. Due to the geographical location and special geological conditions of Xinjiang, the production of water-saving equipment has become a key project supported by China's Western Development strategy. In the event of policy adjustment by the government, the performance of the Company may be affected.

FUTURE PROSPECTS

During the reporting period, with the development of domestic economy and society, the demand for water will become more obvious and water resources will become increasingly scarce. As a result, the Chinese government will promote to continue the construction of large and medium-sized irrigation areas for water-saving renovation and modernization, and facilitate the comprehensive construction of auxiliary facilities in relation to field, water, forest, road and electricity, with simultaneous development of efficient water-saving irrigation. Due to rapid development of the water-saving irrigation industry in China, the market competition is increasingly fierce, which leads to a growing conflict between the demand and the supply, and thus directly affects the economic benefits of the Group.

The Directors of the Group believe the Chinese government introduces the water-saving agriculture as a regional strategy for developing a healthy national economy through its plan to increase the area of farmland with efficient water-saving irrigation by 100 million mu. In recent years, the government has promulgated various industrial policies beneficial to the water-saving irrigation industry, and increased the investment in water-saving irrigation projects in the sectors and fields of water conservancy, agriculture, agricultural comprehensive development, land consolidation and urban landscape. Therefore, many new development opportunities emerge in the water-saving irrigation industry with enormous potential and optimistic prospect. In view of this and based on the extension of industrial chains, the Group will fully utilize its own advantages and seize opportunities to accelerate the construction of efficient water-saving demonstration bases for land circulation, promote the reform of mixed ownership, facilitate the upgrading of products, enhance the Company's capacity to undertake the construction of water conservancy projects so as to remove the barriers between upstream and downstream industrial chains. 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, 2018, the Group had outstanding bank loans of RMB30,000,000 (2017: Nil).

Commitments

As at 31st December, 2018, the Group had contracted but not provided for capital commitments of RMB6,090,000 (2017: RMB1,785,000).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity ratios

The current ratio and quick ratio of the Group as at 31st December, 2018 were approximately 2.32 and 1.02, respectively, representing a slight decrease of 0.17 in current ratio and a slight decrease of 0.13 in quick ratio when compared to those as at 31st December, 2017.

Financial resources

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

Capital expenditures

For the year ended 31st December, 2018, 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 RMB12,973,000 (2017: approximately RMB11,180,000), which were in line with the expansion plans of the Group.

Capital structure

For the year ended 31st December, 2018, the gearing ratio (which is defined as total borrowings over total equity) of the Group was 4.87% (2017: zero). This is primarily due to the fact that the Group's bank loan amounted to RMB30 million in 2018. 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, 2018.

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, 2018, the Group had no contingent liabilities (2017: 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 2017 and 2018.

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, 2018, the Group had 625 employees (2017: 790).

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 RMB13,159,000 for the year ended 31st December, 2018.

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, 2018, the Group had neither material acquisitions nor disposals of subsidiaries and associated companies.

Material investments

For the year ended 31st December, 2018, the Group had no material investments.

Dividend

The Board does not recommend the payment of any final dividend for the year ended 31st December, 2018 (2017: Nil).

Closure of Register of Members

The register of the members of the Company will be closed from Friday, 24th May, 2019 to Friday, 14th June, 2019 (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 4:30 p.m. on Thursday, 23rd May, 2019.

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.

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 2018

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 2018, 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 2017, the Group formulated the implementation plan for energy conservation and consumption reduction for 2018. By adopting several measures, including upgrades and transformation of the recycling system for water for production and production equipment automation, as compared to 2017, the Group's electricity consumption decreased by 6,387,347 kWh and our water consumption decreased by 7,694 m^3 in 2018. 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, in 2018, as for emissions of CO_2, the Group's emissions of CO_2 increased by 8,343 tons to 19,051 tons, as compared to 10,708 tons in 2017. The Group's emission of CO_2 from every 10,000 tons of products in 2018 increased by 168.5% to 4,901 tons, as compared to 1,900 tons in 2017. The annual loss per tonne for the year 2018 was 0.25 tonne, representing an increase by 237.8% from 0.074 tonne in 2017.

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 112074 m^3 for 2018, representing an decrease of 0.064% as compared to water consumption of 119,768 m^3 in 2017. In 2018, the Group's water consumption reported 2.88 t/m^3, representing an increase of 31.5% compared to 2.19 t/m^3 in 2017, as the Group's production capacity declined and energy consumption increased in 2018.

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 2018, 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.

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 2017, 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, 2018, the Group had a total number of 674 employees, who mainly aged from 31 to 50. Female employees accounted for 21% 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 2018, 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 2018, 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.

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 2018, 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.

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 2018, 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 2018, 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.

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, 2018.

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. Except as described below, throughout the financial year ended 31st December, 2018, 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**").

Pursuant to Code Provision I(f), the Company shall have sufficient number of independent non-executive directors with accounting or related financial management expertise. The Company failed to comply with the relevant code provision during the reporting period. However, the Company currently has sufficient independent non- executive directors to comply with the relevant code provision.

THE BOARD

Composition

As at 31st October, 2018, Mr. Mak King Sau resigned as an independent non-executive director of the Company to invest more time in other businesses. As at 31st December, 2018, the Board comprises six directors (the "**Director(s)**"), including four executive Directors and two independent non-executive Directors. The Board members have no financial, business, family or other material/ relevant relationships with each other.

As at 26 February, 2019, the Company held the extraordinary general meeting and approved the resignation of Mr. Zhang Qiang, Mr. Yang Wan Sen and Mr. Li He, the former executive directors of the Company, as executive directors due to their career development. At the same time, Mr. Tan Xinmin and Mr. Huang Dong are officially appointed as the executive Directors, and Ms. Gu Li and Mr. Hung Ee Tek are officially appointed as the independent non-executive Directors. At the date of this report, the Board comprises seven directors, including three executive Directors and four 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 37 to 42 of this annual report.

The presence of four independent non-executive Directors at the date of this report 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 four 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.

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

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, Audit Committee and Nomination Committee to oversee various aspects of the Company's affairs. The three committees are provided with sufficient resources to discharge their 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, 2018, 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 nine physical meetings for the financial year ended 31st December, 2018. 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.

In addition, the Company holds general meeting to maintain an on-going dialogue with Shareholders. For the year ended 31st December, 2018, the Board held 4 regular meetings and 1 general meeting.

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

Attendants	Number of meetings attended/Total
Executive Directors	
Mr. Chen Lin *(chairman of the Board, hereinafter referred to as the "**Chairman**")*	4/4
Mr. Huang Dong (appointed on 26 February, 2019)	N/A
Mr. Tan Xinmin (appointed on 26 February, 2019)	N/A
Mr. Zhang Qiang (resigned on 26 February, 2019)	4/4
Mr. Li He (resigned on 26 February, 2019)	4/4
Mr. Yang Wan Sen (resigned on 26 February, 2019)	4/4
Independent Non-executive Directors	
Mr. Qin Ming	4/4
Mr. Yin Feihu	4/4
Ms. Gu Li (appointed on 26 February, 2019)	N/A
Mr. Hung Ee Tek (appointed on 26 February, 2019)	N/A
Mr. Mak King Sau (resigned on 31 October, 2018)	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.

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 of the three Committees have 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 works effectively, through which the Chairman will ensure that good corporate governance practices and procedures are established and followed, and that all Directors receive all relevant information in a timely manner. The Chairman is responsible for ensuring Directors are properly notified of 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 2018, 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.

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 2018 is recorded in the table below.

	Reading materials/in house briefing	Attending seminars/ conferences/forums
Executive Directors		
Mr. Chen Lin	✓	✓
Mr. Huang Dong (appointed on 26 February, 2019)	✓	✓
Mr. Tan Xinmin (appointed on 26 February, 2019)	✓	✓
Mr. Zhang Qiang (resigned on 26 February, 2019)	✓	✓
Mr. Li He (resigned on 26 February, 2019)	✓	✓
Mr. Yang Wan Sen (resigned on 26 February, 2019)	✓	✓
Independent Non-executive Directors		
Mr. Qin Ming	✓	✓
Mr. Yin Feihu	✓	✓
Ms. Gu Li (appointed on 26 February, 2019)	✓	✓
Mr. Hung Ee Tek (appointed on 26 February, 2019)	✓	✓
Mr. Mak King Sau (resigned on 31 October, 2018)	✓	✓

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, 2017.

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, 2018.

REMUNERATION COMMITTEE

The chairman of the Remuneration Committee is Mr. Yin Feihu, an independent non-executive Director, and other members include Mr. Zhang Qiang, an executive Director and Mr. Qin Ming, 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, 2018, the Remuneration Committee held one meeting. The individual attendance records of each member are as follows:

Attendants	Number of Meetings Attended/Total	Percentage
Mr. Yin Feihu *(Chairman)*	1/1	100%
Mr. Qin Ming	1/1	100%
Mr. Huang Dong (appointed on 26 February, 2019)	N/A	N/A
Mr. Zhang Qiang (resigned on 26 February, 2019)	1/1	100%

For the year ended 31st December, 2018, 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, an executive Director and Mr. Qin Ming, an independent non-executive Director.

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, 2018, the Nomination Committee held one meeting. The individual attendance records of each member are as follows:

Attendants	Number of Meetings Attended/Total	Percentage
Mr. Yin Feihu *(Chairman)*	1/1	100%
Mr. Chen Lin	1/1	100%
Mr. Qin Ming	1/1	100%

During the year ended 31st December 2018, 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.

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, 2018, the Audit Committee held four meetings. The individual attendance records of each member are as follows:

Attendants	Number of Meetings Attended/Total	Percentage
Mr. Qin Ming *(Chairman)*	4/4	100%
Mr. Yin Feihu	4/4	100%
Mr. Hung Ee Tek (appointed on 26 February, 2019)	N/A	N/A
Mr. Mak King Sau (resigned on 31 October, 2018)	4/4	100%

During the year ended 31st December, 2018, 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, 2018, 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:

Services rendered	2018 RMB'000	2017 RMB'000
Audit services	**625**	625

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, 2018, 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 56 to 62.

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.

DIVIDEND POLICY

The Company considers stable and sustainable returns to the Shareholders to be its goal. In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia, the following factors:

- the financial condition of the Group;
- the liquidity position and expected working capital requirements of the Group;
- any restrictions on payment of dividends that may be imposed by the Group's lenders;
- the retained earnings and distributable reserves of the Company and each of the members of the Group; and
- any other factors that the Board deems appropriate.

The payment of the dividend by the Company is also subject to any restrictions under the PRC Companies Law and the Articles of Association of the Company.

Any final dividend declared by the Company must be approved by an ordinary resolution of the Shareholders at an annual general meeting of the Company and must not exceed the amount recommended by the Board. The dividend policy will continue to be reviewed from time to time and there can be no assurance that a dividend will be proposed or declared in any specific period.

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

	For holders of H Shares	For holders of Domestic Shares
Contact party:	The Company's H Share registrar and transfer office	The Company's registered office
Fax No.:	(852) 28611465	(86993) 2623183
Correspondence address:	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

For the year ended 31st December, 2018, 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.

EXECUTIVE DIRECTORS

Mr. Chen Lin, aged 43, 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 46, 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, and was resigned on 26 February, 2019.

Mr. Li He, aged 43, 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 Director of the Company in June 2016 and was resigned on 26 February, 2019.

Mr. Yang Wan Sen, aged 45, 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 and was resigned on 26 February, 2019.

Mr. Huang Dong, aged 46, who graduated from Xi'an Mining Industry College with a bachelor's degree, is a senior engineer. Previously, he served as deputy general manager and deputy plant president at Xinjiang Shihezi City Zhongfa Chemical Co., Ltd.* (石河子中發化工有限責任公司) and Shihezi Chemical Plant. Currently, Mr. Huang holds office as the deputy party secretary, deputy general manager and deputy plant president of Xinjiang Shihezi City Zhongfa Chemical Co., Ltd. And Shihezi Chemical Plant, as deputy director at the technology center of Xinjiang Tianye (Group) Co., Ltd, and as director of Xinjiang Tianye Company Limited. Mr. Huang was appointed as an executive Director of the Company on 26 February, 2019.

Mr. Tan Xinmin, aged 50, who graduated from Bingtuan Radio & TV University, Shihezi* (兵團廣播電視大學石河子分校) with an undergraduate's degree, is an assistant accountant. From August 1985 to November 1986, he held office at the Shihezi Beiye Prison. Subsequently, he took up employment at Shihezi 141st Regiment from December 1986 to October 1999, and at Tianye Plastic Plant from November 1999 to March 2002. Since April 2002, Mr. Tan has been working at Gansu Tianye Water Saving Device Co., Ltd., during which, his positions include accountant, fiscal chief, chairman, and general manager. Currently, he is the chairman and general manager of Gansu Tianye Water Saving Device Co., Ltd. Mr. Tan was appointed as an executive Director of the Company on 26 February, 2019.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Qin Ming, aged 48, 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 66, 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 46, 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 and was resigned on 31 October, 2018.

Ms. Gu Li, aged 49, who graduated from Xinjiang University of Finance & Economics with a bachelor's degree, is a certified public accountant and a national judicial accounting appraiser. From June 1991 to November 2000, Ms. Gu was a senior staff member and worked as an accountant in the Poverty Alleviation Office of Xinjiang Production and Construction Corps. Since December 2000, she has been responsible for auditing at Xinjiang Xin Xin Hua Tong Certified Public Accountants Co., Ltd.* (新疆新新華通有限責任會計師事務所). From June 2004 to January 2010, Ms. Gu served as the manager of Audit Department 2 of Xinjiang Xin Xin Hua Tong Certified Public Accountants Co., Ltd., and was promoted as deputy director of the same firm from January 2010 to January 2012. She has been serving as the director, legal representative and chief accountant of Xinjiang Xin Xin Hua Tong Certified Public Accountants Co., Ltd. since 2012. Ms. Gu was appointed as an independent non-executive Director of the Company on 26 February, 2019.

Mr. Hung Ee Tek, aged 56, is a member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants of the United Kingdom. He obtained the Master of Arts in International Accounting from the City University of Hong Kong in 2002, and the Master of Arts in Global China Studies from the Hong Kong University of Science and Technology in 2006. From 2006 to 2017, Mr. Hung Ee Tek served as the CFO and company secretary at Ningbo Yidong Electronic Company Limited and Guangxi State Farm, as well as a CFO at Centron Telecom International Holding Limited. Mr. Hung was appointed as an independent non-executive Director of the Company on 26 February, 2019.

SUPERVISORS

Ms. Chen Jun, aged 53, 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. Chen Cailai, aged 35, graduated from Xinjiang Agricultural University with a major in applied chemistry. He obtained a professional qualification of engineer in January 2008. Mr. Chen joined Tianye Holdings in 2007 and served as field operator from July 2007 to October 2007, and then served as project research and development operator from October 2007 to January 2008. He then served as an assistant engineer in the research center of Tianye Holdings from January 2008 to April 2010. Mr. Chen then served as responsible officer for intellectual property in the research center of Tianye Holdings from April 2010 to April 2011. He then served as the deputy head of information department and integrated management department respectively in the research center of Tianye Holdings from April 2011 to April 2014. After that, he served as the head of integrated management department in the research center of Tianye Holdings from April 2014 to July 2014 as well as an engineer in Tianye Holdings from April 2014 till present. Mr. Chen also served as the secretary of the first branch of research center of Tianye Holdings from July 2014 to August 2015. Mr. Chen then also served as the director of intellectual property office of research center of Tianye Holdings from August 2015 to April 2017. Mr. Chen has been serving as the member of monitoring office of the party committee of Tianye Holdings since April 2017. He has over ten years of experience in engineering. Mr. Chen was appointed as the Supervisor of the Company on June 2018.

Mr. Wang Jian, aged 59, 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 and was resigned on 26 February, 2019.

Mr. Xie Xinghui, aged 56, who graduated from Chongqing Construction Engineering College* (重慶建築工程學院) in October 1981 with bachelor's degree, is a senior architect. Previously, Mr. Xie held office as deputy director, director, and deputy president of the Six Design Office of Shihezi Sub-institute of Xinjiang Production and Construction Corps Geotechnical Investigation and Design Institute* (新疆兵團勘側設計研究院石河子分院設計六所). In March 2003, he served as the president of the Shihezi Sub-institute of Xinjiang Production and Construction Corps Construction Design Institute* (兵團建工設計研究院石河子分院). Furthermore, he has various official titles, including member of the National Committee of the Chinese People's Political Consultative Conference (Xinjiang Autonomous Region), member of the Standing Committee of the Chinese People's Political Consultative Conference (Shihezi), chairperson of the Revolutionary Committee of the Chinese Kuomintang (Shihezi), executive of Central Entrepreneurship Association of the Revolutionary Committee of the Chinese Kuomintang* (民革中央企業家聯誼會), vice president of Xinjiang Entrepreneurship Association of the Revolutionary Committee of the Chinese Kuomintang* (民革新疆企業家聯誼會), and president of Shihezi Entrepreneurship Association* (石河子企業聯合會). Mr. Xie was appointed as a supervisor of the Company on 26 February, 2019.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Ms. Chan Ching Yi, aged 44, is the financial controller, company secretary and one of the authorised representatives of the Company. She is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants and has accumulated more than 20 years of financial and auditing experience. She is currently the company secretary of ShiFang Holding Company (stock code: 1831), a company listed on the Main Board of the Stock Exchange. She joined the Company in February 2018.

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 60, 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 54, 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 56, 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 10th 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 57, 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 since 2014. 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 43, 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.

CHANGE IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, there were no changes in information of directors of the Company during the year ended 31st December, 2018.

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, 2018.

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 23 respectively of this annual report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December, 2018 are set out in the consolidated income statement on page 70 to 72 of this annual report.

The Board does not recommend the payment of any dividend in respect of the year ended 31st December, 2018 (2017: 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 239 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 RMB2,074,000 on acquiring new plants and machines, and approximately RMB8,736,000 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 8 to note 9 of section I 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.

DISTRIBUTABLE RESERVES OF THE GROUP

The Group's reserves available for distribution to Shareholders is the retained profits as stated in the financial statements of the Group prepared in accordance with the "Enterprise Accounting Standards — Basic Standards" promulgated by the Ministry of Finance. As at 31st December, 2018, the Group's reserves available for distribution to shareholders represent its retained profits of approximately RMB37,619,000 (2017: retained profits of approximately RMB85,081,000).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2018, sales to the largest customer and the five largest customers of the Group accounted for approximately 7% and 20% (2017: 5% and 17%) of the total turnover of the Group, respectively. Purchases from the Group's largest supplier and five largest suppliers accounted for approximately 15% and 30% (2017: 26% and 38%) 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 (which to the knowledge of the Directors owned more than 5% of the issued share capital of the Company) have an interest in any of the five largest customers or suppliers of the Group.

DIRECTORS AND SUPERVISORS

The Directors and 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. Huang Dong (appointed on 26 February, 2019)
Mr. Tan Xinmin (appointed on 26 February, 2019)
Mr. Zhang Qiang (resigned on 26 February, 2019)
Mr. Li He (resigned on 26 February, 2019)
Mr. Yang Wan Sen (resigned on 26 February, 2019)

Independent non-executive Directors:

Mr. Yin Feihu
Mr. Qin Ming
Ms. Gu Li (appointed on 26 February, 2019)
Mr. Hung Ee Tek (appointed on 26 February, 2019)
Mr. Mak King Sau (resigned on 31 October, 2018)

Supervisors:

Mr. Xu Hongzhen (resigned on 15 June, 2018)
Mr. Chen Cailai (appointed on 15 June, 2018)
Ms. Chen Jun
Mr. Xie Xinghui (appointed on 26 February, 2019)
Mr. Wang Jian (resigned on 26 February, 2019)

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 37 to 42.

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.

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

As at 31st December, 2018, 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.

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

(A) Domestic Shareholders

As at 31st December, 2018, 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:

1. "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 domestic Shares held by Tianye Company represents approximately 63.75% of the total domestic Shares in issue.

4. 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.

(B) H Shareholders

Name	Capacity	Number of H shares of the Company held (Note 1)	Approximate percentage of the total issued H shares of the Company	Approximate percentage of the total issued share capital of the Company (Note 2)
Long Thrive Holdings ("Long Thrive") (Notes 3)	Beneficial owner	14,407,000 (L)	7.12%	2.77%
Ding Wei ("Mr. Ding") (Note 4)	Interest in controlled corporation	14,407,000 (L)	7.12%	2.77%
Wang Bing ("Ms. Wang") (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. Ding. By virtue of the SFO, Mr. Ding is deemed to be interested in the 14,407,000 H shares held by Long Thrive.

5. Ms. Wang is the spouse of Mr. Ding. By virtue of SFO, Ms. Wang is deemed to be interested in the 14,407,000 H shares held by Long Thrive.

Save as disclosed above, as at 31st December, 2018, 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:

- a renewed master purchase agreement ("Master Purchase Agreement") with Tianye Holdings (a substantial Shareholder) dated 4th April, 2018, 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 1st January, 2018 to 31st December, 2020, 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;

- a renewed master sale agreement ("Master Sale Agreement") with Tianye Holdings (a substantial Shareholder) dated 4th April, 2018, 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 1 January, 2018 to 31st December, 2020, 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, 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) ("**CCT Lease 1**"), for a term from 1st July, 2014 to 30th June, 2017 at the rent of RMB1,455,820 per annum (including property management fee);

The above-mentioned Master Purchase Agreement, Master Sale Agreement, and the annual caps for the three years ending 31st December, 2020 were approved by an ordinary resolution of the annual general meeting of the Company held on 15th June, 2018. The details of these transactions were disclosed in the announcement of the Company dated 28rd May, 2018, and the circular of the Company dated 29th April, 2018.

On 26th May, 2017, the Company and Tianye Company (a substantial Shareholder) entered into a renewal agreement to renew the CCT Lease 1. Details of the renewal agreement were disclosed in the Company's announcement dated 26th May, 2017. The renewed term was from 1st July, 2017 to 30th June, 2020 at the rent of RMB1,455,820 per annum (including property management fee.

On 25 July 2018, the Company and石河子下野地農場投資有限責任公司 (Shihezi Xiayede Agricultural Investment Co., Ltd* ("**Shihezi Xiayedi**"), being a major shareholder of a subsidiary of the Company) entered into the Equity Transfer Agreement, pursuant to which, the Company has agreed to acquire and Shihezi Xiayede has agreed to sell 40% equity interest in 石河子市天誠節水器材有限公司 (Shihezi Tiancheng Water Saving Device Co., Ltd*) ("**Tiancheng Water Saving**"). As at the date of transaction, Tiancheng Water Saving was a non-wholly-owned subsidiary of the Company, the equity interest of which is held as to 60% by the Company and 40% by Shihezi Xiayede. Upon the completion of acquisition, the Company held 100% interests in Tiancheng Water Saving, and Tiancheng Water Saving became a wholly-owned subsidiary of the Company.

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, 2018, 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 2017 and 2018, 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 24 to 36 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.

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, 2018.

SHARE OPTION SCHEME

The Company has not adopted any share option scheme.

PERMITTED INDEMNITY PROVISION

During the year ended 31st December, 2018, 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, 2018, the Group did not have any assets under charged or guarantee.

CHARITABLE DONATIONS

During the year ended 31st December, 2018, the Group did not make any charitable donations and other donations (2017: RMB500).

COMPLIANCE WITH LAWS AND REGULATIONS

During the year ended 31st December, 2018, 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, 2018.

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, 2018, 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, 2018 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
29th March, 2019

Report of the Supervisory Committee

To: All Shareholders

During the year ended 31st December, 2018 ("**Year 2018**"), 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 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 2018, 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 2018 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

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 2018 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 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
29th March, 2019

Auditors' Report

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, 2018, 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 owners' equity for the year 2018, as well as the related 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 2018 and of its consolidated and the Parent Company's operating results and cash flows for 2018.

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 section headed "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.

(I) Revenue recognition

1. Description

As described in notes III(XX)and V(II)1. Operating income/operating cost in the financial statement of Tianye Water Saving Company, the operating income of Tianye Water Saving Company for the year 2018 was RBM536,156,700, which was mainly derived from the sales of goods, such as drip tapes and drip assemblies, PVC materials for water supply pipes, PE piping materials and accessories, and the provision of installation services. Revenue from sales of goods is recognised when all of the following conditions are satisfied: Tianye Water Saving Company has delivered goods to the customers based on contractual agreements and the customers have accepted such goods; the payment has been collected or the receipts invoices have been obtained and it is probable that economic benefits associated with the transaction will flow in; the principal risks and rewards of ownership of the goods have been transferred, and the legal ownership of the goods has been transferred. Tianye Water Saving Company determines the progress of performance in relation to the provision of installation services using input method. Where progress of performance cannot be reasonably determined, the company determines its revenue based on the incurred amount of costs to the extent that they are expected to be compensated, until the progress of performance is able to be determined reasonably. Whether the recognition of operating income is appropriate or not has a great impact on the operating results of Tianye Water Saving Company. We pay attention to the recognition of revenue from sales of goods and the provision of installation services. Therefore, we identify the occurrence and completeness of revenue from sales of goods and the total estimated costs of providing installation services as a key audit matter.

2. Application for auditing

Our main audit procedures for revenue recognition include:

(1) obtained an understanding of the key internal controls of Tianye Water Saving Company with regard to the revenue from sales of goods and the provision of installation services, assessed the effectiveness of its design, and tested the operational effectiveness of relevant internal controls;

(2) checked the main sales contract, with respect to sales contracts，identified the transfer of significant risks and rewards of ownership of the goods, and retained neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; with respect to installation services, identified the terms related to determining the progress of the performance of the service provided, evaluated whether the revenue recognition policy complied with the requirements of the Accounting Standards for Business Enterprises;

(3) checked on a sample basis the sales contracts, sales invoices, transportation orders, customer receipts and other documents of Tianye Water Saving Company with regard to the revenue from sales of goods and the provision of installation services, checked the sales invoices, sales remittance vouchers, project progress lists and other documents related to the provision of installation services, evaluate whether the revenue from sales of goods and the provision of installation services had occurred, and confirmed accounts receivable and current transaction amount with customers;

(4) for the revenue from sales of goods confirmed by Tianye Water Saving Company on the balance sheet date, checked the transportation orders, customer receipts and other documents and evaluated whether the operating income had been confirmed during the appropriate period;

(5) checked the project progress lists and assessed the reasonableness of the total estimated costs.

(II) Provision for impairment of inventories

1. Key audit matters

As described in note III(X) and V(I)5. "Inventories" of the consolidated financial statements of Tianye Water Saving Company, the carrying amount of inventories was RMB431,229,300, and provision made for impairment of inventories was RMB17,659,000. On the balance sheet date, the inventories of Tianye Water Saving Company are measured at the lower of cost and net realizable value. When the net realizable value is lower than the cost, provision will be made for impairment of inventories. The determination of the net realizable value of inventories requires the management to use judgments and has a significant effect on the amount, provision for impairment of inventories is therefore recognised as a key audit matter.

2. Application for auditing

Our main audit procedures for provision for impairment of inventories include:

(1) Obtained an understanding of the internal control system of Tianye Water Saving Company with regard to provision for impairment of inventories, assessed its design effectiveness and test the operational effectiveness of the relevant internal controls;

(2) Inspected the inventories of Tianye Water Saving Company, checked the quantity and condition of the inventories, and analyzed whether it is necessary to make provision for impairment of inventories taking into account the age and turnover rate of inventories;

(3) Acquired the provision statement for impairment of inventories of Tianye Water Saving Company, re-conducted the inventory impairment test, checked the changes for the current period in provision made in the prior years for inventory impairment, and analyzed sufficiency of the provision for impairment of inventories.

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. The annual report is expected to be provided to us after the date of 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 available to us, over the course of which, we considered if there is significant inconsistency or there is likely material misstatement between the other information and the financial statements or the information we obtained during the audit.

V. RESPONSIBILITIES OF THE MANAGEMENT AND GOVERNING BODIES FOR THE 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 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:

(I) 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.

(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 as well as relevant prevention measures (if applicable).

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)

Certified Public Accountant:

Hangzhou, the People's Republic of China

29th March, 2019

Consolidated Balance Sheet (Assets)

31st December, 2018

AC01

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

Assets	Notes	31st December, 2018	1st January, 2018	31st December, 2017
Current assets:				
Cash	1	**109,601,975.60**	118,213,806.23	118,213,806.23
Security deposits for settlement				
Interbank lending to banks and other financial institutions				
Financial assets held for trading				N/A
Financial assets at FVTPL for the current period		**N/A**	N/A	
Derivative financial assets				
Bill receivables and trade receivables	2	**213,964,316.50**	214,479,920.80	215,217,541.14
Prepayments	3	**13,888,696.97**	8,773,329.07	8,773,329.07
Premium receivables				
Amounts due from reinsurers				
Reinsurance contract reserve receivables				
Other receivables	4	**15,993,338.32**	30,972,499.20	30,059,848.98
Financial assets purchased to resell				
Inventories	5	**413,570,287.98**	435,116,690.84	435,116,690.84
Contract assets				N/A
Assets held-for-trading		**206,610.00**	206,610.00	
Non-current assets due within one year				
Other current assets	6	**3,714,856.58**	3,887,891.72	3,887,891.72
Total current assets		**770,733,471.95**	811,650,747.86	811,475,717.98

Assets	Notes	31st December, 2018	1st January, 2018	31st December, 2017
Non-current assets:				
Loans and advances				
Debt investments				N/A
Available-for-sale financial assets		**N/A**	N/A	
Other debt investments				N/A
Held-to-maturity investment		**N/A**	N/A	
Long-term receivables				
Long-term equity investments	7	**7,856,660.42**	7,675,186.49	7,675,186.49
Investment in other equity instruments				N/A
Other non-current financial assets				N/A
Investment properties				
Fixed assets	8	**154,581,546.49**	164,681,198.71	164,681,198.71
Construction in progress	9	**4,513,524.38**	3,996,158.12	3,996,158.12
Biological assets for production				
Oil and gas assets				
Intangible assets	10	**13,659,963.36**	12,081,639.18	12,081,639.18
Development expenses				
Goodwill				
Long-term deferred expenses	11	**3,275,296.43**	1,664,977.15	1,664,977.15
Deferred income tax assets	12	**1,081,604.23**	1,759,436.28	1,759,436.28
Other non-current assets	13	**2,070,700.00**		
Total non-current assets		**187,039,295.31**	191,858,595.93	191,858,595.93
Total assets		**957,772,767.26**	1,003,509,343.79	1,003,334,313.91

Legal representative: *Responsible person for accounting:* *Responsible person for accountant:*

Consolidated Balance Sheet (Liabilities and Owners' Equity)

31st December, 2018

AC01

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

Liabilities and owners' equity (or shareholders' equity)	Notes	**31st December, 2018**	1st January, 2018	31st December, 2017
Current liabilities:				
Short-term borrowings	14	**30,000,000.00**		
Loans from central bank				
Interbank borrowing funds				
Held-for-trading financial liabilities				N/A
Financial liabilities at FVTPL for the current period		**N/A**	N/A	
Derivative financial liabilities				
Bill payables and trade payables	15	**217,513,969.66**	254,483,099.10	254,483,099.10
Receipts in advance	16			42,145,925.47
Sale and buy-back financial assets				
Deposit taking from customers and placement from banks and other financial institutions				
Customer brokerage deposits				
Securities underwriting brokerage deposits				
Employee remuneration payables	17	**9,036,937.94**	7,422,721.10	7,422,721.10
Tax and levy payables	18	**5,961,071.48**	3,564,119.24	3,564,119.24
Other payables	19	**22,886,473.68**	20,617,104.66	20,617,104.66
Fees and commission payables				
Contract liabilities	20	**46,759,656.76**	42,145,925.47	N/A
Liabilities held-for-trading				
Non-current liabilities due within one year				
Other current liabilities				
Total current liabilities		**332,158,109.52**	328,232,969.57	328,232,969.57
Non-current liabilities:				
Provision for insurance contracts				
Long-term borrowings				
Bond payables				
Including: Preference shares				
Perpetual bonds				
Long-term payables				
Long-term employee remuneration payables				
Provisions				
Deferred income	21	**9,036,980.38**	8,870,514.79	8,870,514.79
Deferred income tax liabilities				
Other non-current liabilities				
Total non-current liabilities		**9,036,980.38**	8,870,514.79	8,870,514.79
Total liabilities		**341,195,089.90**	337,103,484.36	337,103,484.36

Liabilities and owners' equity (or shareholders' equity)	Notes	**31st December, 2018**	1st January, 2018	31st December, 2017
Owners' equity (or shareholders' equity):				
Paid-in capital (or share capital)	22	**519,521,560.00**	519,521,560.00	519,521,560.00
Other equity instruments				
Including: Preference shares				
Perpetual bonds				
Capital reserve	23	**15,372,472.17**	15,372,472.17	15,372,472.17
Less: treasury shares				
Other comprehensive income				
Special reserve				
Surplus reserve	24	**34,724,097.27**	34,724,097.27	34,724,097.27
General risk provisions				
Undistributed profit	25	**37,619,433.99**	85,256,243.07	85,081,213.19
Total owners' equity attributable to Parent Company		**607,237,563.43**	654,874,372.51	654,699,342.63
Minority interest		**9,340,113.93**	11,531,486.92	11,531,486.92
Total owners' equity		**616,577,677.36**	666,405,859.43	666,230,829.55
Total liabilities and owners' equity		**957,772,767.26**	1,003,509,343.79	1,003,334,313.91

Legal representative: *Responsible person for accounting:* *Responsible person for accountant:*

Balance Sheet of the Parent Company (Assets)

31st December, 2018

AC01

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

Assets	Notes	31st December, 2018	1st January, 2018	31st December, 2017
Current assets:				
Cash		**80,979,782.89**	75,879,729.96	75,879,729.96
Financial assets held for trading				N/A
Financial assets at FVTPL for the current period		**N/A**	N/A	
Derivative financial assets				
Bill receivables and trade receivables	1	**65,303,081.65**	66,843,049.26	71,247,696.26
Prepayments		**4,646,296.89**	3,564,304.44	3,564,304.44
Other receivables	2	**95,542,273.03**	91,886,879.87	91,420,908.98
Inventories		**268,700,627.80**	278,896,923.74	278,896,923.74
Contract assets				N/A
Assets held-for-trading			206,610.00	206,610.00
Non-current assets due within one year				
Other current assets		**20,914.72**	1,390,389.27	1,390,389.27
Total current assets		**515,192,976.98**	518,667,886.54	522,606,562.65
Non-current assets:				
Debt investments				N/A
Available-for-sale financial assets		**N/A**	N/A	
Other debt investments				N/A
Held-to-maturity investment		**N/A**	N/A	
Long-term receivables				
Long-term equity investments	3	**181,421,278.96**	156,548,625.03	156,548,625.03
Investment in other equity instruments				N/A
Other non-current financial assets				N/A
Investment properties				
Fixed assets		**90,620,432.73**	97,985,361.27	97,985,361.27
Biological assets for production		**2,198,353.21**	2,411,649.58	2,411,649.58
Oil and gas assets				
Intangible assets		**6,035,559.28**	6,219,952.48	6,219,952.48
Development expenses				
Goodwill				
Long-term deferred expenses		**2,869,816.11**	1,664,977.15	1,664,977.15
Deferred income tax assets				
Other non-current assets				
Total non-current assets		**283,145,440.29**	264,830,565.51	264,830,565.51
Total assets		**798,338,417.27**	783,498,452.05	787,437,128.16

Legal representative: *Responsible person for accounting:* *Responsible person for accountant:*

Balance Sheet of the Parent Company (Liabilities and Owners' Equity)

31st December, 2018

AC01

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

Liabilities and owners' equity (or shareholders' equity)	Notes	31st December, 2018	1st January, 2018	31st December, 2017
Current liabilities:				
Short-term borrowings		**30,000,000.00**		
Held-for-trading financial liabilities				N/A
Financial liabilities at FVTPL for the current period		**N/A**	N/A	
Derivative financial liabilities				
Bill payables and trade payables		**70,143,820.00**	86,990,228.16	86,990,228.16
Receipts in advance				7,342,310.26
Contract liabilities		**18,495,327.97**	7,342,310.26	N/A
Employee remuneration payables		**5,840,663.20**	4,644,541.72	4,644,541.72
Tax and levy payables		**4,097,636.30**	193,842.54	193,842.54
Other payables		**69,208,356.84**	58,232,080.56	58,232,080.56
Liabilities held-for-trading				
Non-current liabilities due within one year				
Other current liabilities				
Total current liabilities		**197,785,804.31**	157,403,003.24	157,403,003.24
Non-current liabilities:				
Long-term borrowings				
Bond payables				
Including: Preference shares				
Perpetual bonds				
Long-term payables				
Long-term employee remuneration payables				
Provisions				
Deferred income		**8,355,368.39**	8,870,514.79	8,870,514.79
Deferred income tax liabilities				
Other non-current liabilities				
Total non-current liabilities		**8,355,368.39**	8,870,514.79	8,870,514.79
Total liabilities		**206,141,172.70**	166,273,518.03	166,273,518.03

Liabilities and owners' equity (or shareholders' equity)	Notes	**31st December, 2018**	1st January, 2018	31st December, 2017
Owners' equity (or shareholders' equity):				
Paid-in capital (or share capital)		**519,521,560.00**	519,521,560.00	519,521,560.00
Other equity instruments				
Including: Preference shares				
Perpetual bonds				
Capital reserve		**18,474,739.46**	18,474,739.46	18,474,739.46
Less: treasury shares				
Other comprehensive income				
Special reserve				
Surplus reserve		**34,724,097.27**	34,724,097.27	34,724,097.27
Undistributed profit		**19,476,847.84**	44,504,537.29	48,443,213.40
Total owners' equity		**592,197,244.57**	617,224,934.02	621,163,610.13
Total liabilities and owners' equity		**798,338,417.27**	783,498,452.05	787,437,128.16

Legal representative: *Responsible person for accounting:* *Responsible person for accountant:*

Consolidated Income Statement

2018

AC02

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

Item	Notes	Current period	Corresponding period last year
I. Total operating income		**536,156,710.34**	738,120,525.79
Including: Operating income	1	**536,156,710.34**	738,120,525.79
Interest income			
Premium earned			
Fees and commission income			
II. Total operating costs		**588,584,454.04**	737,987,118.99
Including: Operating costs	1	**490,620,405.75**	658,119,017.93
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	**3,945,389.43**	4,365,555.47
Distribution costs	3	**39,284,374.87**	38,306,247.63
Administrative expenses	4	**34,759,918.74**	27,204,814.68
Research and development expenses	5	**3,570,440.28**	4,303,625.93
Finance costs	6	**55,170.91**	–1,615,253.64
Including: Interest expenses		**407,943.00**	
Interest income		**492,644.80**	633,194.62
Assets impairment loss	7	**12,495,143.02**	7,303,110.99
Credit impairment loss	8	**3,853,611.04**	N/A
Add: Other income	9	**4,055,599.70**	2,150,418.85
Investment income (loss is denoted as "–")	10	**–14,371.02**	–91,873.28
Including: Investment income from associates and joint venture		**181,473.93**	–91,873.28
Exchange gain (loss is denoted as "–")			
Net exposure to hedging gains (loss is denoted as "–")			
Gain on changes in fair value (loss is denoted as "–")			
Gain on disposal of assets (loss is denoted as "–")	11	**–235,343.05**	

Item	Notes	Current period	Corresponding period last year
III. Operating profits (loss is denoted as "–")		**–48,621,858.07**	2,191,952.37
Add: Non-operating income	12	**1,243,277.07**	304,466.15
Less: Non-operating expenses	13	**610,531.53**	104,187.31
IV. Total profits (total losses are denoted as "–")		**–47,989,112.53**	2,392,231.21
Less: Income tax expenses	14	**1,446,389.54**	514,174.28
V. Net profits (net loss is denoted as "–")		**–49,435,502.07**	1,878,056.93
(I) Classified by operation continuity			
1. Net profits from continuing operation (net loss is denoted as "–")		**–49,435,502.07**	1,910,029.39
2. Net profits from discontinued operation (net loss is denoted as "–")			–31,972.46
(II) Classification by ownership			
1. Net profits attributable to owners of the Parent Company (net loss is denoted as "–")		**–47,636,809.08**	1,348,652.13
2. Gain or loss of minority interests (net loss is denoted as "–")		**–1,798,692.99**	529,404.80
VI. Net other comprehensive income after tax			
Net other comprehensive income after tax attributable to owners of the Parent Company			
(I) Other comprehensive income that will not be reclassified to profit or loss			
1. Re-measurement of changes under defined benefit schemes			
2. Other comprehensive income from non-transferable gains and losses under equity method			
3. Changes in fair value of investments in other equity instruments			N/A
4. Changes in the fair value of the enterprise's own credit risk			N/A
5. Others			

Item	Notes	Current period	Corresponding period last year
(II) Other comprehensive income that will be reclassified to profit or loss			
1. Other comprehensive income from transferable gains and losses under equity method			
2. Changes in fair value of other debt investments			N/A
3. Gain or loss on changes in fair value of available-for-sale financial assets		**N/A**	
4. Financial assets reclassified to other comprehensive income			N/A
5. Gain or loss on reclassification of held-to-maturity investment to available-for-sale financial assets		**N/A**	
6. Provision of credit impairment of other debt investments			N/A
7. Cash flow hedging reserve (effective hedging portion of gains (losses) arising from cash flow hedging instruments)			
8. Exchange differences arising from translation of foreign currency denominated financial statements			
9. Others			
Net other comprehensive income after tax attributable to minority interests			
VII. Total comprehensive income		**–49,435,502.07**	1,878,056.93
Total comprehensive income attributable to owners of the parent company		**–47,636,809.08**	1,348,652.13
Total comprehensive income attributable to minority interests		**–1,798,692.99**	529,404.80
VIII. Earnings per share:			
(1) Basic earnings per share		**–0.0917**	0.0026
(2) Diluted earnings per share		**–0.0917**	0.0026

Legal representative: *Responsible person for accounting:* *Responsible person for accountant:*

Income Statement of the Parent Company

2018

AC02

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

Item	Notes	Current period	Corresponding period last year
I. Operating income	1	**238,622,870.74**	300,678,716.62
Less: Operating costs	1	**219,867,040.34**	266,062,784.56
Business taxes and surcharges		**1,768,702.73**	1,464,241.11
Distribution costs		**21,694,553.16**	16,732,180.96
Administrative expenses		**19,543,526.55**	14,159,837.80
Research and development expenses	2	**3,361,769.08**	4,303,625.93
Finance costs		**290,127.17**	–233,717.73
Including: Interest expenses		**407,943.00**	
Interest income		**179,493.21**	259,672.92
Assets impairment loss		**7,814,416.64**	4,953,854.06
Credit impairment loss		**–1,075,260.18**	N/A
Add: Other income		**2,397,068.24**	2,140,621.05
Investment income(loss is denoted as "–")	3	**7,335,438.29**	–91,873.28
Including: Investment income from associates and joint venture		**181,473.93**	–91,873.28
Net exposure to hedging gains (loss is denoted as "–")			
Gain on changes in fair value (loss is denoted as "–")			
Gain on disposal of assets (loss is denoted as "–")		**–233,479.89**	
II. Operating profits (loss is denoted as "–")		**–25,142,978.11**	–4,715,342.30
Add: Non-operating income		**628,407.27**	120,538.14
Less: Non-operating expenses		**513,118.61**	6,668.72
III. Total profits (total losses are denoted as "–")		**–25,027,689.45**	–4,601,472.88
Less: Income tax expenses			89,051.54
IV. Net profits (net loss is denoted as "–")		**–25,027,689.45**	–4,690,524.42
(I) Net profits from continuing operation (net loss is denoted as "–")		**–25,027,689.45**	–4,690,524.42
(II) Net profits from discontinued operation (net loss is denoted as "–")			

Item	Notes	Current period	Corresponding period last year
V. Net other comprehensive income after tax			
(I) Other comprehensive income that will not be reclassified to profit or loss			
1. Re-measurement of changes under defined benefit schemes			
2. Other comprehensive income from non-transferable gains and losses under equity method			
3. Changes in fair value of investments in other equity instruments			N/A
4. Changes in the fair value of the enterprise's own credit risk			N/A
5. Others			
(II) Other comprehensive income that will be reclassified to profit or loss			
1. Other comprehensive income from transferable gains and losses under equity method			
2. Changes in fair value of other debt investments			N/A
3. Gain or loss on changes in fair value of available-for-sale financial assets		**N/A**	
4. Financial assets reclassified to other comprehensive income			N/A
5. Gain or loss on reclassification of held-to-maturity investment to available-for-sale financial assets		**N/A**	
6. Provision of credit impairment of other debt investments			N/A
7. Cash flow hedging reserve (effective hedging portion of gains (losses) arising from cash flow hedging instruments)			
8. Exchange differences arising from translation of foreign currency denominated financial statements			
9. Others			
VI. Total comprehensive income		**–25,027,689.45**	–4,690,524.42

Legal representative: *Responsible person for accounting:* *Responsible person for accountant:*

Consolidated Cash Flows Statement

2018

AC03

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

Item	Notes	Current period	Corresponding period last year
I. Cash flow generated from operating activities:			
Cash received from sale of goods and rendering of services		**583,484,233.63**	604,634,509.74
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			
Cash received for interest, fees and commissions			
Net increase in placements from banks and other financial institutions			
Net increase in funds from repurchases			
Net cash received from customer brokerage deposits			
Refund of taxes and levies received		**155,441.11**	703,316.79
Other cash received relating to operating activities	1	**34,134,796.42**	26,567,547.03
Sub-total of cash inflow from operating activities		**617,774,471.16**	631,905,373.56
Cash paid for purchase of goods and services received		**505,590,672.11**	501,402,482.07
Net increase in customers' loans and advance			
Net increase in central bank and interbank placement			
Cash paid for claim settlements on direct insurance contracts			
Net increase in financial assets held for trading			
Net increase in interbank lending to banks and other financial institutions			
Cash paid for interest, fees and commissions			

Item	Notes	Current period	Corresponding period last year
Cash paid for policyholder dividends			
Cash paid to and on behalf of employees		**68,385,111.16**	73,419,737.09
Payments of all types of taxes and levies		**18,952,128.13**	18,116,427.85
Other cash paid relating to operating activities	2	**38,756,840.33**	61,717,551.24
Sub-total of cash outflow from operating activities		**631,684,751.73**	654,656,198.25
Net cash flow generated from operating activities		**–13,910,280.57**	–22,750,824.69
II. Cash flow generated from investment activities:			
Cash received from recovery of investments			
Cash received from returns on investments			
Net cash recovered from disposal of fixed assets, intangible assets and other long-term assets		**3,187,226.29**	213,000.00
Net cash received from disposal of subsidiaries and other business units			
Other cash received relating to investment activities			
Sub-total of cash inflow from investment activities		**3,187,226.29**	213,000.00
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		**17,316,839.56**	9,728,092.22
Cash paid for investments			5,000,000.00
Net increase in pledged loans			
Net cash paid for acquiring subsidiaries and other business units		**8,046,550.79**	
Other cash paid relating to investment activities			

Item	Notes	Current period	Corresponding period last year
Sub-total of cash outflow from investment activities		**25,363,390.35**	14,728,092.22
Net cash flow generated from investment activities		**–22,176,164.06**	–14,515,092.22
III. Cash flow generated from financing activities:			
Cash received from capital contribution			
Including: Cash received by subsidiaries from capital contribution of minority interest			
Cash received from loans obtained		**30,000,000.00**	
Cash received from bond issuance			
Other cash received relating to financing activities			
Sub-total of cash inflow from financing activities		**30,000,000.00**	
Cash paid for debt services			
Cash paid for distribution of dividends, profit or interest expenses		**553,787.95**	
Including: Dividends and profit payable by subsidiaries to minority interest		**145,844.95**	
Other cash paid relating to financing activities	3	**442,680.00**	
Sub-total of cash outflow from financing activities		**996,467.95**	
Net cash flow generated from financing activities		**29,003,532.05**	

Item	Notes	Current period	Corresponding period last year
IV. Effect of changes in foreign exchange rate on cash and cash equivalents		**–607.92**	1,044,145.28
V. Net increase in cash and cash equivalents		**–7,083,520.50**	–36,221,771.63
Add: balance of cash and cash equivalents at the beginning of the period		**116,222,911.70**	152,444,683.33
VI. Balance of cash and cash equivalents at the end of the period		**109,139,391.20**	116,222,911.70

Legal representative: *Responsible person for accounting:* *Responsible person for accountant:*

Cash Flows Statement of the Parent Company

2018

AC03

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

Item	Notes	Current period	Corresponding period last year
I. Cash flow generated from operating activities:			
Cash received from sale of goods and rendering of services		**256,943,410.46**	263,541,165.49
Refund of taxes and levies received			703,316.79
Other cash received relating to operating activities		**14,828,090.98**	17,700,129.91
Sub-total of cash inflow from operating activities		**271,771,501.44**	281,944,612.19
Cash paid for purchase of goods and services received		**203,301,916.68**	203,044,203.92
Cash paid to and on behalf of employees		**43,746,974.81**	48,398,214.97
Payments of all types of taxes and levies		**4,188,176.71**	4,331,401.19
Other cash paid relating to operating activities		**17,156,758.17**	49,815,794.76
Sub-total of cash outflow from operating activities		**268,393,826.37**	305,589,614.84
Net cash flow generated from operating activities		**3,377,675.07**	–23,645,002.65
II. Cash flow generated from investment activities:			
Cash received from recovery of investments		**2,470,000.00**	
Cash received from returns on investments		**7,153,964.36**	
Net cash recovered from disposal of fixed assets, intangible assets and other long- term assets		**221,042.66**	213,000.00
Net cash received from disposal of subsidiaries and other business units			
Other cash received relating to investment activities			
Sub-total cash inflow from investment activities		**9,845,007.02**	213,000.00

Item	Notes	Current period	Corresponding period last year
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		**8,769,508.59**	6,707,349.37
Cash paid for investments		**18,172,680.00**	10,000,000.00
Net cash paid for acquiring subsidiaries and other business units		**8,988,500.00**	
Other cash paid relating to investment activities			
Sub-total of cash outflow from investment activities		**35,930,688.59**	16,707,349.37
Net cash flow generated from investment activities		**–26,085,681.57**	–16,494,349.37
III. Cash flow generated from financing activities:			
Cash received from capital contribution			
Cash received from loans obtained		**30,000,000.00**	
Other cash received relating to financing activities			
Sub-total of cash inflow from financing activities		**30,000,000.00**	
Cash paid for debt services			
Cash paid for distribution of dividends, profit or interest expenses		**407,943.00**	
Other cash paid relating to financing activities			
Sub-total of cash outflow from financing activities		**407,943.00**	
Net cash flow generated from financing activities		**29,592,057.00**	

Item	Notes	Current period	Corresponding period last year
IV. Effect of changes in foreign exchange rate on cash and cash equivalents		**–607.92**	–856.18
V. Net increase in cash and cash equivalents		**6,883,442.58**	–40,140,208.20
Add: balance of cash and cash equivalents at the beginning of the period		**74,096,340.31**	114,236,548.51
VI. Balance of cash and cash equivalents at the end of the period		**80,979,782.89**	74,096,340.31

Legal representative: *Responsible person for accounting:* *Responsible person for accountant:*

Consolidated Statement of Changes in Owners' Equity

2018

AC04

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

	Opening Balance												
	Owners' equity attributable to the Parent Company												
Item	Paid-in capital (or share capital)	Other equity instruments: Preference shares	Other equity instruments: Perpetual bonds	Other equity instruments: Others	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Minority interest	Total owners' equity
I. Closing balance of previous year	519,521,560.00				15,372,472.17				34,724,097.27		85,081,213.19	11,531,486.92	666,230,829.55
Add: Changes in accounting policies											175,029.88		175,029.88
Correction of errors of previous periods													
Business combination under common control													
Others													
II. Opening balance of the year	519,521,560.00				15,372,472.17				34,724,097.27		85,256,243.07	11,531,486.92	666,405,859.43
III. Increase/decrease in the current period (decrease is denoted as "-")											-47,636,809.08	-2,191,372.99	-49,828,182.07
(I) Total comprehensive income											-47,636,809.08	-1,798,692.99	-49,435,502.07
(II) Capital contribution and reduction by owners												-392,680.00	-392,680.00
1. Ordinary shares from owners													
2. Capital contribution by holders of other equity instruments													
3. Amount of share-based payment included in owners' equity													
4. Others												-392,680.00	-392,680.00
(III) Profit appropriation													
1. Transfer to surplus reserve													
2. Transfer to general risk reserve													
3. Appropriation to owners (or shareholders)													
4. 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. Transfer of change amount of defined benefit schemes to retained earnings													
5. Transfer of other comprehensive income to retained earnings													
6. Others													
(V) Special reserve													
1. Transfer for the period													
2. Utilized during the period													
(VI) Others													
IV. Closing balance for the period	519,521,560.00				15,372,472.17				34,724,097.27		37,619,433.99	9,340,113.93	616,577,677.36

Corresponding period of last year

Item	Owners' equity attributable to the Parent Company: Paid-in capital (or share capital)	Other equity instruments: Preference shares	Other equity instruments: Perpetual bonds	Other equity instruments: Others	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Minority interest	Total owners' equity
I. Closing balance of previous year	519,521,560.00				15,372,472.17				34,724,097.27		83,732,561.06	11,002,082.12	664,352,772.62
Add: Changes in accounting policies													
Correction of errors of previous periods													
Business combination under common control													
Others													
II. Opening balance of the year	519,521,560.00				15,372,472.17				34,724,097.27		83,732,561.06	11,002,082.12	664,352,772.62
III. Increase/decrease in the current period (decrease is denoted as "–")											1,348,652.13	529,404.80	1,878,056.93
(I) Total comprehensive income											1,348,652.13	529,404.80	1,878,056.93
(II) Capital contribution and reduction by owners													
1. Ordinary shares from 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. Transfer to general risk reserve													
3. Appropriation to owners (or shareholders)													
4. 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. Transfer of change amount of defined benefit schemes to retained earnings													
5. Transfer of other comprehensive income to retained earnings													
6. Others													
(V) Special reserve													
1. Transfer for the period													
2. Utilized during the period													
(VI) Others													
IV. Closing balance for the period	519,521,560.00				15,372,472.17				34,724,097.27		85,081,213.19	11,531,486.92	666,230,829.55

Legal representative: *Responsible person for accounting:* *Responsible person for accountant:*

Statement of Changes in Owners' Equity of the Parent Company

2018

AC04

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

Item	Opening Balance										
	Paid-in capital (or share capital)	Other equity instruments			Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Total owners' equity
		Preference shares	Perpetual bonds	Others							
I. Closing balance of previous year	519,521,560.00				18,474,739.46				34,724,097.27	48,443,213.40	621,163,610.13
Add: Changes in accounting policies										-3,938,676.11	-3,938,676.11
Correction of errors of previous periods											
Others											
II. Opening balance of the year	519,521,560.00				18,474,739.46				34,724,097.27	44,504,537.29	617,224,934.02
III. Increase/decrease in the current period (decrease is denoted as "–")										-25,027,689.45	-25,027,689.45
(I) Total comprehensive income										-25,027,689.45	-25,027,689.45
(II) Capital contribution and reduction by owners											
1. Ordinary shares from 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. Transfer of change amount of defined benefit schemes to retained earnings											
5. Transfer of other comprehensive income to retained earnings											
6. Others											
(V) Special reserve											
1. Transfer for the period											
2. Utilized during the period											
(VI) Others											
IV. Closing balance for the period	519,521,560.00				18,474,739.46				34,724,097.27	19,476,847.84	592,197,244.57

Item	Corresponding period of last year										
	Paid-in capital (or share capital)	Other equity instruments			Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Total owners' equity
		Preference shares	Perpetual bonds	Others							
I. Closing balance of previous year	519,521,560.00				18,474,739.46				34,724,097.27	53,133,737.82	625,854,134.55
Add: Changes in accounting policies											
Correction of errors of previous periods											
Others											
II. Opening balance of the year	519,521,560.00				18,474,739.46				34,724,097.27	53,133,737.82	625,854,134.55
III. Increase/decrease in the current period (decrease is denoted as "–")										–4,690,524.42	–4,690,524.42
(I) Total comprehensive income										–4,690,524.42	–4,690,524.42
(II) Capital contribution and reduction by owners											
1. Ordinary shares from 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. Transfer of change amount of defined benefit schemes to retained earnings											
5. Transfer of other comprehensive income to retained earnings											
6. Others											
(V) Special reserve											
1. Transfer for the period											
2. Utilized during the period											
(VI) Others											
IV. Closing balance for the period	519,521,560.00				18,474,739.46				34,724,097.27	48,443,213.40	621,163,610.13

Legal representative: *Responsible person for accounting:* *Responsible person for accountant:*

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-found 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 00840.

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 23rd meeting of the fifth session of the Board on 29th March, 2019 for publication.

The Company included 13 subsidiaries, namely, Gansu Tianye Water Saving Device Co., Ltd (hereinafter referred to as "Gansu Tianye"), Gansu Tianye Water Conservancy and Hydropower Company Limited*(hereinafter referred to as "Gansu Tianye Water Conservancy and Hydropower"), 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"), 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"), Xinjiang Tianye Wisdom Agriculture Technology Company Limited*(hereinafter referred to as "Wisdom Agriculture"), Shaya Tianye Modern Agricultural Technology Company Limited* (hereinafter referred to as "Shaya Tianye"), Shihezi Xiyu Water Conservancy and Hydropower Construction and Installation Engineering Co., Ltd.* (hereinafter referred to as "Xiyu Water Conservancy"), and Shihezi Tianye Xiying Water Saving Device Co., Ltd.* (hereinafter referred to as "Xiying Water Saving") 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.

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 abilities for the 12 months from the end of the reporting period.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Importance note: Formulation of specific accounting policies and accounting estimates was based on the features of actual productions and operations of the Company with respect to such transactions or matters as impairment of financial instruments, depreciation of fixed assets, amortization of intangible assets, and recognition of revenue.

(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 31st 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.

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.

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 continue to use 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 instruments

1. Classification of financial assets and financial liabilities

Financial assets are classified into the following three categories at initial recognition: (1) financial assets measured at amortized cost; (2) financial assets measured at fair value through other comprehensive income (FVOCI); (3) financial assets at FVTPL for the current period

Financial liabilities are classified into the following four categories at initial recognition: (1) financial liabilities at FVTPL for the current period; (2) financial liabilities arising from the transfer of financial assets that do not qualify for the derecognition criteria or continue to be involved in the financial assets being transferred; (3) financial guarantee contracts that are not classified as category (1) or (2) above, as well as loan commitments with a lower-than-market interest rate that are not classified as category (1) above; and (4) financial liabilities measured at amortized cost.

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

(IX) Financial instruments *(continued)*

2. Basis of recognition, measurement and conditions of derecognition of financial assets and financial liabilities

(1) Basis of recognition and initial measurement 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. However, where trade receivables without significant financing component are initially recognized or the financing components less than one year of trade receivables are not considered by the Company, such trade receivables shall be initially recognized at the transaction price defined by the ASBE No.14 — Revenue.

(2) Subsequent measurement of financial assets

1) Financial assets measured at amortized cost

These assets are subsequently measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortized cost and is not part of a hedge relationship shall be recognized in profit or loss for the current period, where such financial asset is derecognized, reclassified, amortized using the effective interest method, or recognized for impairment.

2 Investments in debt instruments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, and impairment loss and foreign exchange gains and losses are recognized in profit or loss for the current period. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are transferred from other comprehensive income to profit or loss for the current period.

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

(IX) Financial instruments *(continued)*

2. Basis of recognition, measurement and conditions of derecognition of financial assets and financial liabilities *(continued)*

(2) Subsequent measurement of financial assets (continued)

3) Investments in equity instruments at FVOCI

These assets are subsequently measured at fair value. Dividends (other than the portion of investment costs recovered) are recognised in profit or loss for the current period. Other gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are transferred from other comprehensive income to retained earnings.

4) Financial assets at FVTPL for the current period

These assets are subsequently measured at fair value for the current period. Gains and losses generated, including any interest or dividend income, are recognized in profit or loss for the current period unless the financial assets are part of a hedge relationship.

(3) Subsequent measurement of financial liabilities

1) Financial liabilities at FVTPL for the current period

Financial liabilities under this category comprise held-for-trading financial liabilities (including derivative financial liabilities) and financial liabilities designated as FVTPL for the current period. Financial liabilities at FVTPL are subsequently measured at fair value. Changes in fair value of financial liabilities designated at FVTPL for the current period due to changes in the Company’s own credit risk are included in other comprehensive income, unless such accounting treatment will result in or augment an accounting mismatch. Other gains and losses incurred by these financial liabilities, including any interest expense (other than changes in fair value due to changes in the Company’s own credit risks), are recognized in profit or loss, unless such financial liabilities are part of a hedge relationship. On derecognition, gains and losses accumulated in other comprehensive income are transferred from other comprehensive income to retained earnings.

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

(IX) Financial instruments *(continued)*

2. Basis of recognition, measurement and conditions of derecognition of financial assets and financial liabilities *(continued)*

(3) Subsequent measurement of financial liabilities (continued)

2) Financial liabilities arising from the transfer of financial assets that do not qualify for the derecognition criteria or continue to be involved in the financial assets being transferred

These liabilities are measured according to the requirements of ASBE No. 23 — Transfer of Financial Assets.

3) Financial guarantee contracts that are not classified as category (1) or (2) above and loan commitments with a lower-than-market interest rate that are not classified as category (1) above

Upon initial recognition, these liabilities are subsequently measured at the higher of: ① the loss allowance determined in accordance with impairment policies of financial instruments; ②the balance of the amount initially recognized less the cumulative amortization amount as determined pursuant to ASBE 14 — Revenue.

4) Financial liabilities measured at amortized cost

These liabilities are measured at amortised cost using the effective interest method. Gains or losses on a financial liability that is measured at amortized cost and is not part of a hedge relationship shall be recognized in profit or loss for the current period, when such financial liability is derecognized and amortized using the effective interest method.

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

(IX) Financial instruments *(continued)*

2. Basis of recognition, measurement and conditions of derecognition of financial assets and financial liabilities *(continued)*

(4) Derecognition of financial assets and financial liabilities

1) Financial assets are derecognised when one of the following conditions is met:

① the contractual right to the cash flows from such financial assets has expired;

② such financial assets have been transferred, which meets the requirements of ASBE No. 23 — Transfer of Financial Assets in relation to derecognition of financial assets.

2) A financial liability (or part of it) is derecognized accordingly where its present obligation (or part of it) is discharged.

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, and the rights and obligations arising from or retained in such transfer shall be separately recognized as assets or liabilities. A transferred financial asset will remain recognized if the Company retains substantially all the risks and rewards associated with the ownership of such financial asset. 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, and the rights and obligations arising from or retained in the transfer shall be separately recognized as assets or liabilities; (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.

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

(IX) Financial instruments *(continued)*

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

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, the difference between (1) the carrying amount of the financial asset transferred on the date of derecognition; (2) the sum of the consideration received from the transferred financial asset and the amount (which involves investments in debt instruments at FVTPL being the transferred financial assets) for derecognition of the cumulative changes in fair value directly included in other comprehensive income, is recognized in profit or loss for the current period. If a partial transfer of a financial asset as a whole qualifies for derecognition, the carrying amount of the financial asset prior to such transfer is allocated between the part that subject to derecognition and the part subject to recognition, in proportion to the respective fair values of those parts on the date of transfer. The difference between (1) the carrying amount of the part derecognized; (2) the sum of the consideration of the part derecognized and the amount (which involves investments in debt instruments at FVTPL being the transferred financial assets) for derecognition of the cumulative changes in fair value for the part derecognized which has been previously included in other comprehensive income, is included in profit or loss for the current period.

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

(IX) Financial instruments *(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 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 of financial instruments

(1) Impairment measurement and accounting treatment of financial instruments

Based on the expected credit losses (ECLs), the Company impairs and recognizes the loss allowance with respect to financial assets amortized at costs, investments in debt instruments at FVOCI, contract assets, lease receivables, loan commitments other than financial liabilities at FVTPL for the current period, financial liabilities that disqualify for those at FVTPL for the current period and financial guarantee contracts for financial liabilities arising from the transfer of financial assets that do not qualify for the derecognition criteria or continue to be involved in the financial assets being transferred.

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

(IX) Financial instruments *(continued)*

5. Impairment of financial instruments *(continued)*

(1) Impairment measurement and accounting treatment of financial instruments (continued)

For purchased or originated credit-impaired financial assets, the Company only recognizes the cumulative change in lifetime ECLs after initial recognition on the balance sheet date as loss provision.

For trade receivables and contract assets without significant financing components or financing components in contracts less than one year that are not considered by the Company arising from transactions regulated by ASBE No.14 — Revenue, the Company measures loss provision based on the amount of lifetime ECLs by using a simplified measurement method.

For lease receivables, trade receivables and contract assets with significant financing components arising from transactions regulated by ASBE No.14 — Revenue, the Company measures loss provision based on the amount of lifetime ECLs by using a simplified measurement method.

For financial assets other than those measured by the aforesaid measurement method, the Company assesses whether its credit risk has increased significantly since the initial recognition on each balance sheet date. If the credit risk has increased significantly since the initial recognition, the Company measures loss provision based on the amount of lifetime ECLs; if the credit risk has not increased significantly since the initial recognition, the Company measures the loss provision based on the amount of next 12-month ECLs.

To assess whether the credit risk of a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument on the balance sheet date with the risk of a default occurring on the financial instrument as at the date of initial recognition through reasonable and supportable information, including forward-looking information. For loan commitments and financial guarantee contracts, the date when the Company becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of applying the impairment requirements in relation to the financial instrument.

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

(IX) Financial instruments *(continued)*

5. Impairment of financial instruments *(continued)*

(1) Impairment measurement and accounting treatment of financial instruments (continued)

As at the balance sheet date, the Company assumes that credit risk of the financial instrument has not increased significantly since initial recognition when the Company determines that the financial instrument is only exposed to low credit risk.

The Company considers the following factors when assessing whether credit risk has increased significantly:

1) Whether the contract payment has been overdue for 30 days or more. The Company determines that the credit risk on a financial asset has increased significantly if it has been overdue for more than 30 days, unless the Company has reasonable and supportable information that is available without undue cost or effort, which demonstrates that the credit risk has not increased significantly since initial recognition even though the contract payment has been overdue for more than 30 days.

2) Whether there are changes in the Company's credit management approach in relation to the financial instrument.

3) Whether there are significant changes in the expected performance and behaviour of the debtor.

4) Whether there are actual or expected significant changes in the operating results of the debtor.

5) Whether there are material and adverse changes in the regulatory, economic, or technological environment of the debtor.

6) Whether there are adverse changes in business, financial or economic conditions that are expected to cause significant changes in the debtor's ability to meet its debt obligations.

7) Whether there are significant changes in internal price indicators as a result of a change in credit risk.

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

(IX) Financial instruments *(continued)*

5. Impairment of financial instruments *(continued)*

(1) Impairment measurement and accounting treatment of financial instruments (continued)

8) Whether there are significant changes in the rates or other terms of an existing financial instrument if the instrument was newly originated or issued at the reporting date.

9) Whether there are significant changes in external market indicators of credit risk for a identical financial instrument or similar financial instruments with the same expected life. Such indicators include: the credit spread; the credit default swap prices for the borrower; the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost; and other market information related to the borrower, such as changes in the price of the borrower's debt or equity instruments.

10) Whether there are actual or expected significant changes in the external credit rating of the financial instrument.

11) Whether there is an actual or expected internal credit rating downgrade for the debtor.

12) Whether there are significant increases in credit risk on other financial instruments issued by the same debtor.

13) Whether there are significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements.

14) Whether there are significant changes in the economic incentive to make scheduled contractual payments by the debtor.

15) Expected changes in the loan contracts, including an expected breach of contract that may lead to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees, or other changes to the contractual framework of the financial instrument.

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

(IX) Financial instruments *(continued)*

5. Impairment of financial instruments *(continued)*

(1) Impairment measurement and accounting treatment of financial instruments (continued)

The Company re-measures the ECLs on each balance sheet date, and the increase or reversal of the loss provision resulted therefrom is recognized as an impairment gain or loss in profit or loss. For financial assets measured at amortized cost, the loss provision is offset against their carrying amounts in the balance sheet. For debt investments at FVOCI, the Company recognizes the loss provision in other comprehensive income and does not deduct the carrying amount of the financial assets.

(2) Financial instruments for assessing expected credit risk and measuring ECLs by groups

Item	Basis of defining groups	Approach for measuring ECLs
Other receivables — group of receivables from government authorities	Customer type	The Company calculates ECLs by using exposure at default and 12-month or lifetime ECL rates with reference to historical credit loss experience, in combination with the current situation and forecasts of future economic conditions.
Other receivables — group of receivables from non-government authorities	Customer type	

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

(IX) Financial instruments *(continued)*

5. Impairment of financial instruments *(continued)*

(3) Trade receivables and contract assets for measuring ECLs by groups

Item	Basis of defining groups	Approach for measuring ECLs
Bills receivable — bank acceptance bills	Different acceptors	The Company calculates ECLs by using exposure at default and lifetime ECL rates with reference to historical credit loss experience, in combination with the current situation and forecasts of future economic conditions.
Trade receivables and contract assets — group of receivables from government authorities	Customer type	The Company calculates ECLs by preparing the reconciliation between aging of trading receivables and lifetime ECL rates with reference to historical credit loss experience, in combination with the current situation and forecasts of future economic conditions.
Trade receivables and contract assets — group of receivables from non-government authorities	Customer type	

(X) 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.

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

(X) Inventories *(continued)*

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-taking system

Our inventory-taking system is a perpetual inventory-taking system.

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.

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

(XI) Contract costs

Assets related to contract costs include contract acquisition costs and contract performance costs.

If the Company expects to recover the incremental cost of the contract, it is recognized as an asset as the contract acquisition cost. If the amortization period of the contract acquisition cost does not exceed one year, it will be directly included in profit or loss for the current period when it occurs.

The cost of the Company for performing a contract, if it does not apply to the scope of the relevant standards of inventory, fixed assets or intangible assets, and meets the following conditions, is recognized as an asset as the contract performance cost:

1. The cost is directly related to a current or anticipated contract, including direct labor, direct materials, manufacturing expenses (or similar expenses), costs definitely borne by the customer, and other costs incurred solely for the contract;

2. This cost increases the resources that the Company will use to fulfill its performance obligations in the future;

3. The cost is expected to be recovered.

The Company amortizes the assets related to the contract costs on the same basis as the goods or service revenue recognition related to the assets, which is recognized in profit or loss.

If the carring amount of the assets related to contract costs is higher than the residual consideration expected to be obtained by transferring the goods or service related to the assets minus the estimated cost to be incurred, the Company will make impairment provision for the excess part and recognize it as the impairment loss of assets. The Company will make a reversal of the provision for asset impairment previously made and recognize it in profit or loss for the current period when the impairment conditions have changed resulting in the residual consideration expected to be obtained by tranfering the goods or service related to the assets minus the estimated cost to be incurred higher than the carrying amount of the asset. However, the carrying amount of the asset upon reversal shall not exceed the carrying amount that would have been determined on the date of reversal if no impairment provisions had been made previously.

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

(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.

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.

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

(XII) Long-term equity investment *(continued)*

2. Determination of investment cost *(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 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.

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 longterm 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.

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

(XIII) 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

(XIV) 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.

2. Construction in progress is transferred into fixed assets at its actual cost when it is ready for its intended use. 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.

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

(XV) 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 be capitalized when all of the following conditions are met 1) capital expenditures have been incurred, 2) borrowing costs have been incurred, 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.

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 the capitalization rate (of used general borrowings).

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

(XVI) 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
ERP software	5
Non-patent technologies	10

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.

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

(XVI) Intangible assets *(continued)*

3. *(continued)*

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.

(XVII) Impairment of part of long-term assets

For long-term assets such as long-term equity investments, fixed assets measured by the cost model, 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.

(XVIII) 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.

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

(XIX) Employee Remuneration

1. **Employee Remuneration consists of short-term remuneration, postemployment 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.

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;

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

(XIX) Employee Remuneration *(continued)*

3. Accounting treatment for post-employment benefits *(continued)*

(2) (continued)

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 particular, 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.

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.

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

(XIX) Employee Remuneration *(continued)*

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.

(XX) 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 due to the performance of 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.

(XXI) Revenue

1. Principles of revenue recognition

At the inception of any contract, the Company identifies the performance obligation of each individual item as stipulated in any contract when assessing such contract, and confirms whether the performance obligation of such individual item is fulfilled in a specified period of time or at a particular point of time.

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

(XXI) Revenue *(continued)*

1. Principles of revenue recognition *(continued)*

The performance obligations are considered to have been fulfilled in a specified period of time when satisfying any of the following conditions, or otherwise fulfilled in a particular point of time: (1)the customer simultaneously obtains and consumes economic benefits arising from the performance by the Company of any contract as the Company performs this contract; (2) the customer is able to exercise control over goods or services in progress as the Company performs this contract; (3) no alternative can be created for the goods or services during the performance by the Company of this contract, and the Company is entitled to receive payments for the performance completed to date during the entire term of this contract.

As for the performance obligations fulfiled within a specific period of time, the Company recognizes revenue according to the performance progress over such period of time. Where the performance progress cannot be reasonably identified, the actual amount of costs incurred shall be recognized as revenue to the extent that compensation for such costs actually incurred is expected. Such recognition continues until the performance progress can be reasonably identified. As fro the performance obligations fulfiled at a particular point of time, revenue is recognized at such point of time when the customer obtains the control over the relevant goods or services. In judging whether the customer has secured the control over the goods, the Company considers the following indications: (1) the Company has a present right to the payment for the goods, which means the customer has a present obligation to make payments; (2) the Company has transferred the legal title of the goods to the customers, which means the customers have the legal title to the goods; (3) the Company has transferred physical possession of the goods to customers, which means customers has owned the physical possession of the goods; (4) the Company has transferred the significant risks and rewards of the ownership to the customers, which means customers have received the significant risks and rewards of the goods; (4) the customers have accepted the goods; and (6) other indications show customers have obtained control of the goods.

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

(XXI) Revenue *(continued)*

2. Standard for measuring revenue

(1) The Company recognises as revenue the amount of the transaction price that is allocated to each individual item of the performance obligations. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties and expected repayments to the customers.

(2) For contracts with variable considerations, the Company shall, based on the expected values or the most likely amounts, determine the best estimate of the variable considerations. However, the transaction prices that include the variable considerations shall not exceed the amounts that are most unlikely to have significant reversal for accumulated recognised income when the relevant uncertainties are eliminated.

(3) Where the contract includes significant financing component, the Company determines the transaction price based on the amount payable under the assumption that the customer pays that amount payable in cash when control of the goods or services is obtained by the customer. The difference between the transaction price and the contract consideration shall be amortised within the contract period using effective interest rate. Where the Company expects, at the inception of any contract, that the period between when the customer secures control over such goods and services and when such customer pays for that good or service will be one year or less, the significant financing component shall not be taken into consideration.

(4) Where the contract includes two or more performance obligations, at the inception of any contract, the Company allocates the transaction price to each individual item of the performance obligations according to the relative proportion of the stand-alone selling prices of the goods or services promised by each individual item of the performance obligations.

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

(XXI) Revenue *(continued)*

3. Specific measures to recognize revenue

(1) Revenue recognized by point of time

The Company sells drip tapes and drip assembles, PVC materials for water supply pipes, PE piping materials, and accessories, the performance obligations of which are fulfilled at a particular point of time. Revenue is recognized where the Company, as agreed under the contract, delivers the products to the customers who already accept such products, and collects the payments for such goods or obtains the payment receipts, in which case, the relevant economic benefits may flow in while major risks and returns attached to the ownership of such goods have been transferred along with the legal titles of such goods.

(2) Revenue recognized by performance progress

Where the Company performs the contract to render installation services, and the customers are able to control the goods or services in progress during the performance by the Company of such contract, the Company considers this as a performance obligation fulfilled in a specific period of time, in which case, revenue is recognized by performance progress, unless otherwise such performance progress cannot be reasonably determined. The Company confirms the performance progress of rendering services using the revenue approach. Where the performance progress cannot be identified reasonably but compensation for the costs incurred by the Company is expected, the amount of such costs incurred shall be recognized as revenue until the performance progress can be reasonably identified.

(XXII) Government grants

1. Government grants are recognized when both of the following conditions are met: (1) the Company has fulfilled all the conditions attached to them; and (2) the Company has received the government grants. The monetary grant from the government is measured at the amounts received or receivable. The non-monetary grant from the government is measured at its fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount.

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

(XXII) Government grants *(continued)*

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

In accordance with the requirements of government documents, the government grants obtained by purchasing or constructing or otherwise originating long-term assets are classified as government grants relating to assets. Where there are no specific requirements of government documents, judgment shall be exercised based on the the basic conditions necessary for obtaining such grants. Where the long-term assets are obtained by purchasing or constructing or otherwise originating long-term assets, the grants shall be recognized as the government grants relating to assets. Government grants relating to assets are offset against the carrying amount of the relevant assets, or are recognized as deferred income. Where government grants relating to assets are recognized as deferred income, they are included in profit or loss over the expected useful life of the relevant assets in accordance with the reasonable and systematic methods. Nevertheless, government grants measured at notional value are directly included in profit or loss for the current period. Where the relevant assets are sold, transferred, decommissioned or damaged prior to the end of their useful lives, the unallocated balance of the relevant deferred income shall be treated as profit or loss of the asset disposal for the current period.

3. 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. Where government grants concurrently include the portion related to assets and the portion related to income, which is difficult to differentiate these portions, such government grants shall be classified as the portion related to income. Government grants relating to income applied in compensating related costs and expenses or losses in subsequent periods are recognized as deferred income and included in profit or loss or offset against the relevant costs for the current period in which the related costs and expenses or losses are recognized. Government grants, applied in compensating related costs or losses already incurred, are directly recognized in profit or loss or offset against the relevant costs for the current period.

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

(XXII) Government grants *(continued)*

4. Where government grants involve the daily business operations of the Company, such grants shall be included to other gains or offset against the relevant costs and expenses based on the economic business nature. Government grants irrelevant to the daily business operations of the Company shall be included to non-operating income and expenses.

(XXIII) 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.

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

(XXIV) 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.

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.

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

(XXV) 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.

The main uncertainties in the estimated amount are as follows:

1. Recognition of deferred income tax assets

As stated in note III to these 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. Impairment of financial instruments and contract assets

As per financial instruments prescribed in note III to these financial statements, the Company assesses the impairment of financial instruments by using the expected credit loss model. The expected credit loss model requires significant judgment and estimation, as well as consideration of all reasonable and relevant information including looking-forward information. When making such judgments and estimation, the Company will extrapolate the expected changes of credit risks of the debtors with reference to various factors, including historical repayment record, economic policies, macroeconomic indicators, and industry risks.

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

(XXV) 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 these 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.

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

(XXVI) Changes in significant accounting policies and accounting estimates

1. Changes in significant accounting policies

(1) Changes in accounting policies arising from changes in Accounting Standards for Business Enterprises

1 The Company prepared its 2018 financial statements in compliance with the Circular issued by the Ministry of Finance on Amendment and Circulation of Forms of General Corporate Financial Statements for Year 2018 (Cai Kuai [2018] no.15) and its interpretation as well as the requirements of the Accounting Standards for Business Enterprises. The accounting policy change is adopted by using the retrospective adjustment method. The items and amounts in the 2017 financial statements materially affected are as follows:

Original item and amount in the financial statements		New item and amount in the financial statements	
Bills receivables		Bills receivables and trade receivables	215,217,541.14
Trade receivables	215,217,541.14		
Interests receivables		Other receivables	30,059,848.98
Dividend receivables			
Other receivables	30,059,848.98		
Fixed assets	164,681,198.71	Fixed assets	164,681,198.71
Fixed assets for disposal			
Construction in progress	3,996,158.12	Construction in progress	3,996,158.12
Construction materials			
Bills payables		Bills payables and trade payables	254,483,099.10
Trade payables	254,483,099.10		
Interests payables		Other payables	20,617,104.66
Dividend payables			
Other payables	20,617,104.66		
Administrative expenses	31,508,440.61	Administrative expenses	27,204,814.68
		Research and development expenses	4,303,625.93

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

(XXVI) Changes in significant accounting policies and accounting estimates *(continued)*

1. Changes in significant accounting policies *(continued)*

(1) Changes in accounting policies arising from changes in Accounting Standards for Business Enterprises (continued)

2) Commencing from 1 January 2018, the Company began to implement the revised "ASBE No.14 — Revenue" (the "New Revenue Standard"), "ASBE No.22 — Recognition and measurement for financial instruments, "ASBE No.23 — Transfer of financial assets", "ASBE No.24 — Hedging" and "ASBE No.37 — Presentation of financial instruments" (the "New Financial Instruments Standard") issued by the Ministry of Finance. According to the relevant rules of convergence from the old to new standards, the information for the comparable period will not be adjusted, and the opening balance of retained earnings or other comprehensive income of the reporting period will be retrospectively adjusted since the difference between the implementation of the new standards and the original standards on the first day of implementation.

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

(XXVI) Changes in significant accounting policies and accounting estimates *(continued)*

1. Changes in significant accounting policies *(continued)*

(1) Changes in accounting policies arising from changes in Accounting Standards for Business Enterprises (continued)

2) *(continued)*

1 Implementing the New Revenue Standard

The major impacts of implementing the New Revenue Standard on the financial statements of the Company as at 1 January 2018 are as follows:

Item	31 December 2017	Balance sheet Impact of adjustment under the New Revenue Standard	1 January 2018
Receipts in advance	42,145,925.47	–42,145,925.47	
Contract liabilities		42,145,925.47	42,145,925.47

The Company only adjusts the cumulative impact of contracts that have not been completed on 1 January 2018. For changes to contracts that occurred before 1 January 2018, the Company adopted a simplified treatment method that all contracts were changed according to the contract and the final arrangement identifies the performance obligations that have been and have not been fulfilled, determines the transaction price, and apportions the transaction price between the fulfilled and outstanding performance obligations. The adoption of the simplified method does not have any material impact on the financial statements of the Company.

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

(XXVI) Changes in significant accounting policies and accounting estimates *(continued)*

1. Changes in significant accounting policies *(continued)*

(1) Changes in accounting policies arising from changes in Accounting Standards for Business Enterprises (continued)

2) *(continued)*

2 Implementing the New Financial Instruments Standard

The New Financial Instruments Standard changes the classification and measurement of financial assets and requires three measurement categories: financial assets are measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Equity investments shall be measured at fair value through profit or loss. However, the Company can elect to designate equity investments measured at fair value through other comprehensive income at the date of initial application and the election is irrevocable. (Under this election, only qualifying dividends are recognized in profit or loss. Changes in fair value are never reclassified to profit or loss, even if the asset is sold or otherwise derecognized.)

The New Financial Instruments Standard requires an "expected credit loss" model for recognition and measurement of impairment in financial assets instead of an "objective evidence of impairment" model. The expected credit loss model is applied in financial assets measured at amortized cost or fair value through other comprehensive income, contract assets and lease receivables. As at 1 January 2018, the comparison that the financial assets and financial liabilities of the Company are classified and measured in accordance with the New Financial Instruments Standard and original financial instruments standard is as follows:

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

(XXVI) Changes in significant accounting policies and accounting estimates *(continued)*

1. Changes in significant accounting policies *(continued)*

(1) Changes in accounting policies arising from changes in Accounting Standards for Business Enterprises (continued)

2) *(continued)*

2 Implementing the New Financial Instruments Standard *(continued)*

Item	Original financial instruments standard Measurement category	Original financial instruments standard Carrying amount	New financial instruments standard Measurement category	New financial instruments standard Carrying amount
Cash	Amortized cost	118,213,806.23	Amortized cost	118,213,806.23
Bills receivables and trade receivables	Amortized cost	215,217,541.14	Amortized cost	214,479,920.80
Other receivables	Amortized cost	30,059,848.98	Amortized cost	30,972,499.20
Bills payables and trade payables	Amortized cost	254,483,099.10	Amortized cost	254,483,099.10
Other payables	Amortized cost	20,617,104.66	Amortized cost	20,617,104.66

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

(XXVI) Changes in significant accounting policies and accounting estimates *(continued)*

1. Changes in significant accounting policies *(continued)*

(1) Changes in accounting policies arising from changes in Accounting Standards for Business Enterprises (continued)

2) *(continued)*

2 Implementing the New Financial Instruments Standard *(continued)*

As at 1 January 2018, the carrying amount of the original financial assets and financial liabilities of the Company is adjusted to the carrying amount of the new financial assets classified and measured in accordance with the New Financial Instruments Standard, and the adjustments are as follows:

Item	Carrying amount according to the original financial instruments standard (as at 31 December 2017)	Reclassification	Remeasurement	Carrying amount according to the New Financial Instruments Standard (as at 1 January 2018)
Amortized cost				
Cash				
Balance according to the original CAS22 and the new CAS22	118,213,806.23			118,213,806.23
Bills receivables and trade receivables				
Balance according to the original CAS22	215,217,541.14			
Remeasurement: allowance for expected credit loss			–737,620.34	
Balance according to the new CAS22				214,479,920.80
Other receivables				
Balance according to the original CAS22	30,059,848.98			
Remeasurement: allowance for expected credit loss			912,650.22	

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

(XXVI) Changes in significant accounting policies and accounting estimates *(continued)*

1. Changes in significant accounting policies *(continued)*

(1) Changes in accounting policies arising from changes in Accounting Standards for Business Enterprises (continued)

2) *(continued)*

2 Implementing the New Financial Instruments Standard *(continued)*

Item	Carrying amount according to the original financial instruments standard (as at 31 December 2017)	Reclassification	Remeasurement	Carrying amount according to the New Financial Instruments Standard (as at 1 January 2018)
Balance according to the new CAS22				30,972,499.20
Total financial assets measured at amortized cost	363,491,196.35		175,029.88	363,666,226.23
Bills payables and trade payables				
Balance according to the original CAS22 and the new CAS22	254,483,099.10			254,483,099.10
Other payables				
Balance according to the original CAS22 and the new CAS22	20,617,104.66			20,617,104.66
Total financial liabilities measured at amortized cost	275,100,203.76			275,100,203.76

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

(XXVI) Changes in significant accounting policies and accounting estimates *(continued)*

1. Changes in significant accounting policies *(continued)*

(1) Changes in accounting policies arising from changes in Accounting Standards for Business Enterprises (continued)

2) *(continued)*

2 Implementing the New Financial Instruments Standard *(continued)*

As at 1 January 2018, the closing balance of impairment allowance of the original financial assets of the Company is adjusted to the new loss allowance classified and measured in accordance with the New Financial Instruments Standard, and the adjustments are as follows:

Item	Provision of loss allowance according to the original financial instruments standard (as at 31 December 2017)	Reclassification	Remeasurement	Provision of loss allowance according to the New Financial Instruments Standard (as at 1 January 2018)
Loans and receivables (original CAS22)/financial assets measured at amortized cost(new CAS22)				
Bills receivables and trade receivables	27,145,822.23		737,620.34	27,883,442.57
Other receivables	2,345,706.97		–912,650.22	1,433,056.75
Total	29,491,529.20		–175,029.88	29,316,499.32

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

(XXVI) Changes in significant accounting policies and accounting estimates *(continued)*

1. Changes in significant accounting policies *(continued)*

(1) Changes in accounting policies arising from changes in Accounting Standards for Business Enterprises (continued)

2) *(continued)*

3 The Ministry of Finance promulgated the "Accounting Standard for Business Enterprises Interpretation No.9 — Accounting treatment on net loss of investment under the equity method", "Accounting Standard for Business Enterprises Interpretation No.10 — Depreciation method based on income generated from the use of property plant and equipment, "Accounting Standard for Business Enterprises Interpretation No.11 — Amortization method based on income generated from the use of intangible assets", and "Accounting Standard for Business Enterprises Interpretation No.12 — Regarding whether the provider and recipient of the key management personnel service are related parties" in 2017. Commencing from 1 January 2018, the Company began to implement the above Accounting Standard for Business Enterprises Interpretation, which does not have any material impact on the opening financial data of the Company.

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, 10, 11, 16,17
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

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

(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.

IV. TAXATION *(continued)*

(II) Tax concession *(continued)*

1. Value-added tax ("VAT") *(continued)*

(1) (continued)

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 9th September, 2005,11% since 1st July, 2017 and 10% since 1st May, 2018.

(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,11% since 1st July, 2017 and 10% since 1st May, 2018.

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 23rd 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201276號).

(5) According to Cai Shui [2007] No.83 Circular, Akesu Tianye applied for tax relief filing on VAT for drip tapes and pipes on 7th November, 2016, 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 2018 as they 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 2018.

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

Note: the opening balance in the financial statements represents the data in the financial statements as at 31 December 2017, the closing balance represents the data in the financial statements as at 31 December 2018, the current period represents the year of 2018, and the corresponding period last year represents the year of 2017. The Parent Company is the same.

(I) Notes to items in the Consolidated Balance Sheet

1. Cash

(1) Breakdown

Item	Closing balance	Opening balance
Cash on hand		43.70
Bank deposit	**109,061,521.91**	116,144,998.71
Other cash	**540,453.69**	2,068,763.82
Total	**109,601,975.60**	118,213,806.23

(2) Other information

Other cash primarily consists of investment in futures- refundable and margin of engineering projects. As of 31 December 2018, included in the cash of the Company was restricted cash of RMB462,584.40, which was related to margin of engineering projects.

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

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

2. Bill receivables and trade receivables

(1) Breakdown

1) Breakdown by category

Category	Closing balance				
	Book balance		Bad-debt provision		
	Amount	Percentage (%)	Amount	Percentage of provision (%)	Carrying amount
Bad-debt provision made on a separate basis					
Including: Bill receivables					
Trade receivables	13,767,201.67	5.63	13,653,977.71	99.18	113,223.96
Bad-debt provision made on a group basis					
Including: Bill receivables	2,600,000.00	1.06			2,600,000.00
Trade receivables	228,243,705.57	93.31	16,992,613.03	7.45	211,251,092.54
Total	244,610,907.24	100.00	30,646,590.74	12.53	213,964,316.50

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

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

2. Bill receivables and trade receivables *(continued)*

(1) Breakdown (continued)

1) Breakdown by category *(continued)*

	Opening balance				
	Book balance		Bad-debt provision		
Category	Amount	Percentage (%)	Amount	Percentage of provision (%)	Carrying amount
Bad debts that are individually significant and for which provision has been separately made					
Provision for bad debts with similar credit risk characteristics	242,363,363.37	100.00	27,145,822.23	11.20	215,217,541.14
Bad debts that are individually insignificant but for which provision has been separately made					
Total	242,363,363.37	100.00	27,145,822.23	11.20	215,217,541.14

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

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

2. Bill receivables and trade receivables *(continued)*

(1) Breakdown (continued)

2) Trade receivables for which separate bad-debt provision is made at the end of the period

Name of entity	Book balance	Bad-debt provision	Percentage of provision (%)	Reason for provision
Trade receivables				
Liaoning Dongrun Seed Co. Ltd. (Jinzhou Yixian County)* (遼寧東潤種業有限公司(錦州義縣))	3,000,000.00	3,000,000.00	100.00	In the process of legal proceedings due to insolvency of the counterparty
The 124th Corps of the Seventh Agricultural Division	2,761,283.08	2,761,283.08	100.00	Beyond the national budget for the project after inspection and auditing, with no extrabudgetary funds being disbursed
Kaiyuan Agricultural Technology Popularization Center* (開原市農業技術推廣中心)	1,431,850.12	1,431,850.12	100.00	Expected to be irrecoverable due to on-going appeal
Heilongjiang Province Fuyu Pasture* (黑龍江省富裕牧場)	831,520.00	831,520.00	100.00	Expected to be irrecoverable due to disagreement on the quality upon acceptance
Xinjiang Asina Agricultural Technology Limited* (新疆阿斯納農科公司)	531,786.65	531,786.65	100.00	The Company has won the lawsuit, but the counterparty was insolvent
Liaoning Shenyang Licheng Agricultural Machinery Cooperation Agency* (遼寧瀋陽利成農機專業合作社)	192,330.00	192,330.00	100.00	In the process of legal proceedings, expected to be irrecoverable
the 128th Corps of the Seventh Agricultural Division	147,681.25	147,681.25	100.00	Expected to be irrecoverable
the People's Government in Yujiawobao County, Xinming City	100,001.00	100,001.00	100.00	Expected to be irrecoverable
the 64th Corps of the Fourth Agricultural Division	45,479.53	45,479.53	100.00	Expected to be irrecoverable

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

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

2. Bill receivables and trade receivables *(continued)*

(1) Breakdown (continued)

2) Trade receivables for which separate bad-debt provision is made at the end of the period *(continued)*

Name of entity	Book balance	Bad-debt provision	Percentage of provision (%)	Reason for provision
Huludao Happy Food Limited* (葫蘆島開心食品有限公司)	3,300,000.00	3,300,000.00	100.00	In the process of legal proceedings, expected to be irrecoverable
Tongxin County Water Conservancy Construction Management Center* (同心縣水利工程建設管理中心)	220,803.04	220,803.04	100.00	Expected to be irrecoverable due to long-term default without proper cause
Huangtian Farmland under the 13th Agricultural Division	188,493.57	188,493.57	100.00	Expected to be irrecoverable due to disagreement on the quality upon acceptance
Hongshan Farmland under the 13th Division of Xinjiang Production and Construction Corps	300,000.00	300,000.00	100.00	Expected to be irrecoverable due to disagreement on the quality upon acceptance
Qi Jianyi (祁建義)	462,211.00	462,211.00	100.00	Expected to be irrecoverable due to disagreement on the quality upon acceptance
Zeng Mingmin (曾明敏)	140,538.47	140,538.47	100.00	Preparing litigation, expected to be irrecoverable
Plastics Products Factory of Xinjiang Tianye Company Limited	113,223.96			A related party, without credit losses after testing
Sub-total	13,767,201.67	13,653,977.71	99.18	

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

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

2. Bill receivables and trade receivables *(continued)*

(1) Breakdown (continued)

3) Bill receivables for which bad-debt provision has been made using group provision method

Item	Closing balance Book balance	Bad-debt provision	Percentage of provision (%)
Group of bank acceptance bills	2,600,000.00		
Sub-total	2,600,000.00		

4) Trade receivables for which bad-debt provision has been made using group provision method

Item	Closing balance Book balance	Bad-debt provision	Percentage of provision (%)
Group of receivables from non-government authorities	128,895,775.41	9,654,349.08	7.49
Group of receivables from government authorities	99,347,930.16	7,338,263.95	7.39
Sub-total	228,243,705.57	16,992,613.03	7.44

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

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

2. Bill receivables and trade receivables *(continued)*

(1) Breakdown (continued)

4) Trade receivables for which bad-debt provision has been made using group provision method *(continued)*

1 In the group of receivables from non-government authorities, trade receivables for which bad-debt provision has been made using the comparison table of aging loss rates

Aging	Closing balance Book balance	Bad-debt provision	Percentage of provision (%)
Within 1 year (inclusive, same rule applies below)	105,612,609.82	3,168,378.30	3.00
1–2 years	10,072,534.08	1,510,880.12	15.00
2–3 years	8,142,769.13	1,628,553.83	20.00
3–4 years	3,083,325.91	1,541,662.96	50.00
4–5 years	359,325.21	179,662.61	50.00
Over 5 years	1,625,211.26	1,625,211.26	100.00
Sub-total	128,895,775.41	9,654,349.08	7.49

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

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

2. Bill receivables and trade receivables *(continued)*

(1) Breakdown (continued)

4) Trade receivables for which bad-debt provision has been made using group provision method *(continued)*

2 In the group of receivables from government authorities, trade receivables for which bad-debt provision has been made using the comparison table of aging loss rates

Aging	Closing balance Book balance	Bad-debt provision	Percentage of provision (%)
Within 1 year (inclusive, same rule applies below)	48,999,889.92	489,998.90	1.00
1–2 years	30,581,561.09	1,529,078.06	5.00
2–3 years	8,473,076.82	847,307.68	10.00
3–4 years	5,995,089.84	1,498,772.46	25.00
4–5 years	2,762,114.46	690,528.62	25.00
Over 5 years	2,536,198.03	2,282,578.23	90.00
Sub-total	99,347,930.16	7,338,263.95	7.39

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

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

2. Bill receivables and trade receivables *(continued)*

(2) Aging analysis

Aging	Closing balance Book balance	Bad-debt provision	Percentage of provision (%)
Within 1 year(inclusive, same rule applies below)	157,325,723.70	3,658,377.20	2.33
1–2 years	43,954,095.17	6,339,958.18	14.42
2–3 years	16,615,845.95	2,475,861.51	14.90
3–4 years	9,078,415.75	3,040,435.42	33.49
4–5 years	4,882,321.83	2,631,073.39	53.89
Over 5 years	12,754,504.84	12,500,885.04	98.01
Total	244,610,907.24	30,646,590.74	12.53

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

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

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

2. Bill receivables and trade receivables *(continued)*

(3) Changes in bad-debt provision

Item	1st January, 2018	Increase during the period			Decrease during the period			Closing balance
		Provision	Recovery	Others	Write-back	Write-off	Others	
Trade receivables	27,883,442.57	2,763,148.17						**30,646,590.74**
Sub-total	27,883,442.57	2,763,148.17						**30,646,590.74**

(4) Top 5 trade receivables

Name of entity	Book balance	Percentage to trade receivables balance (%)	Bad-debt provision
Inner Mongolia Mining Exploitation Co., Ltd.	15,506,622.94	5.95	465,198.69
Huanghuagou Project Construction Office of Fuhai County*	10,965,595.87	4.21	328,967.88
Xinjiang Jiarun International Trade Development Co., Ltd.*	8,076,971.98	3.10	242,309.16
Horqin Left Rear Banner Leading Office for Water-saving and Produce Improvement* (科爾沁左翼後旗節水增糧領導小組辦公室)	7,309,210.00	2.80	245,460.50
Baiyin Water Investment and Conservancy Supply Limited* (白銀市水投水利物資供應有限公司)	6,479,637.26	2.49	194,389.12
Sub-total	48,338,038.05	18.55	1,476,325.35

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

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

2. Bill receivables and trade receivables *(continued)*

(5) Information on bill 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	6,820,000.00	
Sub-total	6,820,000.00	

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.

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

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

3. Prepayments

(1) Aging analysis

Aging	Closing balance Book balance	Closing balance Percentage (%)	Closing balance Bad-debt provision	Closing balance Carrying amount	Opening balance Book balance	Opening balance Percentage (%)	Opening balance Bad-debt provision	Opening balance Carrying amount
Within 1 year	12,948,125.76	93.23		12,948,125.76	8,055,810.71	91.82		8,055,810.71
1–2 years	708,078.39	5.10		708,078.39	407,938.04	4.65		407,938.04
2–3 years	124,600.00	0.90		124,600.00	176,047.50	2.01		176,047.50
Over 3 years	107,892.82	0.77		107,892.82	133,532.82	1.52		133,532.82
Total	13,888,696.97	100.00		13,888,696.97	8,773,329.07	100.00		8,773,329.07

(2) Top 5 prepayments

Name of entity	Book balance	Percentage to prepayments balance (%)
Xibei Chemical Distribution Company of PetroChina Company Limited	1,287,008.95	9.27
Zhejiang Xuande Supply Chain Management Limited* (浙江玄德供應鏈管理有限公司)	1,047,750.00	7.54
Zhangbei Beijian Hydropower Engineering Limited* (張北北建水電工程有限公司)	820,464.80	5.91
Water Control Station under the 121th Corps	615,223.49	4.43
Engineering Branch of China Tianjin International Economic & Technical Cooperation Group Corporation* (中國天津國際經濟技術合作集團公司工程分公司)	551,700.00	3.97
Sub-total	4,322,147.24	31.12

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

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

4. Other receivables

(1) Breakdown

1) Breakdown by category

Category	Closing balance				
	Book balance		Bad-debt provision		
	Amount	Percentage (%)	Amount	Percentage of provision (%)	Carrying amount
Bad-debt provision made on a group basis					
Other receivables	**17,630,433.76**	**100.00**	**1,637,095.44**	**9.29**	**15,993,338.32**
Total	**17,630,433.76**	**100.00**	**1,637,095.44**	**9.29**	**15,993,338.32**

Category	Opening balance				
	Book balance		Bad-debt provision		
	Amount	Percentage (%)	Amount	Percentage of provision (%)	Carrying amount
Bad debts that are individually significant and for which provision has been separately made					
Provision for bad debts with similar credit risk characteristics	32,405,555.95	100.00	2,345,706.97	7.24	30,059,848.98
Bad debts that are individually insignificant but for which provision has been separately made					
Total	32,405,555.95	100.00	2,345,706.97	7.24	30,059,848.98

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

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

4. Other receivables *(continued)*

(1) Breakdown (continued)

2) Other receivables for which bad-debt provision has been made on a group basis

Name	Closing balance Book balance	Bad-debt provision	Percentage of provision (%)
Group of receivables from non-government authorities	**3,832,176.02**	**593,324.59**	**15.48**
Group of receivables from government authorities	**13,798,257.74**	**1,043,770.85**	**7.56**
Sub-total	**17,630,433.76**	**1,637,095.44**	**9.29**

(2) Changes in bad-debt provision

Item	1st January, 2018	Increase during the period Provision	Recovery	Others	Decrease during the period Write-back	Write-off	Others	Closing balance
Interests receivables								
Dividend receivables								
Other receivables	1,433,056.75	1,090,462.87				886,424.18		**1,637,095.44**
Sub-total	1,433,056.75	1,090,462.87				886,424.18		**1,637,095.44**

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

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

4. Other receivables *(continued)*

(3) Other receivables actually written off during the current period

1) Other receivables actually written off amounted to RMB886,424.18 during the current period.

2) Other significant receivables written off during the current period

Name of entity	Nature	Write-off amount	Reason for write-off	Write-off procedures performed	Whether the amount was arising from related party transactions
Xinjiang Aral Tiannong Water Saving Irrigation Co, Ltd* (hereinafter referred as "Aral Water Saving")	Current account	886,424.18	Deregistration	Business deregistration	Yes
Sub-total		886,424.18			

3) Information on the write off of other receivables

For details, please refer to the information of Note XII (II) Other Events.

(4) Category of other receivables by nature

Nature	Closing balance	Opening balance
Security deposits	**13,923,812.78**	13,596,431.88
Provisional accounts receivables	**3,353,465.20**	18,222,375.23
Employee borrowings	**236,965.34**	
Project fee advanced to government	**116,190.44**	586,748.84
Total	**17,630,433.76**	32,405,555.95

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

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

4. Other receivables *(continued)*

(5) Top 5 other receivables

Name of entity	Nature	Book balance	Aging	Percentage in the balance of other receivables (%)	Bad-debt provision
Jincang Water Investment Company Limited	Security for salaries for migrant workers	3,924,054.00	Within 1 year and 1–2 years	22.26	99,002.70
Water Conservancy Bureau of People's Government, Pishan County	Security deposits	2,612,662.07	Within 1 year	14.82	26,126.62
Huining County Yintao Engineering Construction Administration* (會寧縣引洮工程建設管理局)	Security deposits	1,086,785.44	2–3 years	6.16	108,678.54
Zhangye Public Resources Trading Center	Security deposits	832,000.00	Within 1 year	4.72	8,320.00
Xinjiang Hengxinda Engineering Tender Agency Limited* (新疆恒信達工程招標代理有限責任公司)	Security deposits	810,000.00	Within 1 year	4.59	8,100.00
Sub-total		9,265,501.51		52.55	250,227.86

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

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

5. Inventories

(1) Breakdown

Item	Closing balance Book balance	Closing balance Provision for impairment	Closing balance Carrying amount	Opening balance Book balance	Opening balance Provision for impairment	Opening balance Carrying amount
Raw materials	**152,689,980.94**	**1,536,270.49**	**151,153,710.45**	148,291,399.78		148,291,399.78
Work-in-progress	**4,163,123.45**		**4,163,123.45**	4,182,948.18		4,182,948.18
Finished goods	**256,892,954.50**	**16,122,714.56**	**240,770,239.94**	286,893,340.16	8,401,341.43	278,491,998.73
Goods in transit	**16,861,482.64**		**16,861,482.64**	1,117,049.46		1,117,049.46
Materials under subcontract processing	**616,461.63**		**616,461.63**	3,028,512.73		3,028,512.73
Other materials turnover	**5,269.87**		**5,269.87**	4,781.96		4,781.96
Total	**431,229,273.03**	**17,658,985.05**	**413,570,287.98**	443,518,032.27	8,401,341.43	435,116,690.84

(2) Provision for impairment of inventories

1) Breakdown

Item	Opening balance	Increase during the period Provision	Increase during the period Others	Decrease during the period Write-back	Decrease during the period Write-off	**Closing balance**
Raw materials		1,536,270.49				**1,536,270.49**
Finished goods	8,401,341.43	8,455,142.45			733,769.32	**16,122,714.56**
Sub-total	8,401,341.43	9,991,412.94			733,769.32	**17,658,985.05**

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

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

5. Inventories *(continued)*

(2) Provision for impairment of inventories (continued)

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	Specific basis for determination of the net realizable value	Reasons for write-back provision for impairment of inventories during the period	Reasons for write-off provision for impairment of inventories during the period
Raw materials	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		
Finished goods	net realizable value is determined as the amount of the estimated selling price of inventory goods less the estimated selling costs and relevant taxes and levies		Production use or sale

3) Explanation on the provision for impairment of inventories for the current period

Provision for impairment is made primarily for high anti-blocking drip tapes and labyrinth-style drip tapes given that their sales prices are estimated to be significantly lower than the historical costs because of the overstocking of those two products resulting form product technology update.

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

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

6. Others current assets

Item	Closing balance	Opening balance
Pending deduct VAT on purchase	**3,545,375.84**	3,597,249.52
Other prepaid tax		960.00
Enterprises income tax prepaid	**169,480.74**	289,682.20
Total	**3,714,856.58**	3,887,891.72

7. 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 joint ventures	**7,856,660.42**		**7,856,660.42**	7,675,186.49		7,675,186.49
Total	**7,856,660.42**		**7,856,660.42**	7,675,186.49		7,675,186.49

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

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

7. Long-term equity investments *(continued)*

(2) Breakdown

Investee	Opening balance	Increase or decrease during the period: Increase	Decrease	Investment profit and loss recognized with the equity method	Adjustment of other consolidated return
Joint Ventures					
Xinjiang Tianye Ecological Technology Company Limit	5,000,000.00				
Jianshui Runnong Water Supply Co., Ltd.	2,675,186.49			181,473.93	
Total	7,675,186.49			181,473.93	

(continued from the previous table)

Investee	Increase or decrease in during the period: Other changes in equity	Cash dividends or profit distribution declared	Provision for impairment	Others	Closing balance	Closing balance of provision for impairment
Joint Ventures						
Xinjiang Tianye Ecological Technology Company Limit					5,000,000.00	
Jianshui Runnong Water Supply Co., Ltd.					2,856,660.42	
Total					7,856,660.42	

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

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

7. Long-term equity investments *(continued)*

(3) Other Information

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".

Xinjiang Tianye Ecological Technology Company Limited was founded by the de facto controller Xinjiang Tianye (Group) Co., Ltd and the Company on 5th December, 2016,with the Company accounting for 20% of the equity interest. Details of explanation are set out in Note "Interest in Other Entities".

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

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

8. Fixed assets

(1) Breakdown

Item	Buildings and structures	Machinery and equipment	Motor vehicles	Office and others equipment	Total
Initial carrying amount					
Opening balance	107,703,197.11	305,107,518.66	6,354,831.10	11,037,047.24	430,202,594.11
Increase during the period	6,927,403.13	14,281,921.29	189,669.11	1,123,686.15	22,522,679.68
1) Additions	43,495.65	2,030,927.90	26,769.11	984,464.06	3,085,656.72
2) Transferred from construction-in-progress	183,930.48	6,147,114.90		85,812.09	6,416,857.47
3) Increase in business combination	6,699,977.00	6,103,878.49	162,900.00	53,410.00	13,020,165.49
Decrease during the period	10,618.62	35,048,630.08	621,119.73	38,876.84	35,719,245.27
1) Disposal or retirement	10,618.62	35,048,630.08	621,119.73	38,876.84	35,719,245.27
Closing balance	114,619,981.62	284,340,809.87	5,923,380.48	12,121,856.55	417,006,028.52
Accumulated depreciation					
Opening balance	30,859,656.36	218,225,971.68	4,449,856.81	6,310,835.88	259,846,320.73
Increase during the period	6,966,364.58	18,008,028.87	575,274.93	1,064,985.34	26,614,653.72
1) Provision	3,240,585.77	13,253,830.38	444,494.93	1,043,465.34	17,982,376.42
2) Increase in business combination	3,725,778.81	4,754,198.49	130,780.00	21,520.00	8,632,277.30
Decrease during the period	9,583.28	27,699,767.65	605,390.78	27,793.06	28,342,534.77
1) Disposal or retirement	9,583.28	27,699,767.65	605,390.78	27,793.06	28,342,534.77
Closing balance	37,816,437.66	208,534,232.90	4,419,740.96	7,348,028.16	258,118,439.68
Provision for impairment					
Opening balance		5,675,074.67			5,675,074.67
Increase during the period	1,291,940.78	1,211,789.30			2,503,730.08
1) Provision	1,291,940.78	1,211,789.30			2,503,730.08
Decrease during the period		3,872,762.40			3,872,762.40
1) Disposal or retirement		3,872,762.40			3,872,762.40
Closing balance	1,291,940.78	3,014,101.57			4,306,042.35
Carrying amount					
Carrying amount at the end of the period	75,511,603.18	72,792,475.40	1,503,639.52	4,773,828.39	154,581,546.49
Carrying amount at the beginning of the period	76,843,540.75	81,206,472.31	1,904,974.29	4,726,211.36	164,681,198.71

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

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

8. Fixed assets *(continued)*

(2) Information on fixed assets in lack of title certificates

Item	Carrying amount	Reason for not obtaining title certificate yet
Buildings and structures	12,519,615.39	Note
Sub-total	12,519,615.39	

Note: The titles of the building and land do not belong to the Company, among which, the titles of the building and land attached to the buildings and structures at a carrying amount of RMB12,519,615.39 belong to Xinjiang Tianye Company Limited, negotiations of which are currently underway.

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

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

9. Construction-in-progress

Construction-in-progress

(1) Breakdown

	Closing balance			Opening balance		
Item	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Reconstruction and expansion project of industry model base in respect of comprehensive utilization of waste plastics	2,315,171.17		2,315,171.17			
Ancillary molds				101,623.93		101,623.93
Large-diameter PVC pipe project	1,171,985.97		1,171,985.97	1,120,306.58		1,120,306.58
Water conservation project at South and North Gates and sales office renovation				154,894.23		154,894.23
Transformation of lighting routes within the production plant				12,135.92		12,135.92
PVC drip irrigation tape project				1,011,805.85		1,011,805.85
Automated production projects of drip tapes				10,883.07		10,883.07
Equipment for the production lines of PVC single-wall corrugated pipes				1,584,508.54		1,584,508.54
Production line project of shuttle rotomolding machines	983,448.27		983,448.27			
Miscellaneous	42,918.97		42,918.97			
Total	4,513,524.38		4,513,524.38	3,996,158.12		3,996,158.12

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

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

9. 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
Reconstruction and expansion project of industry model base in respect of comprehensive utilization of waste plastics	848.84		2,315,171.17			**2,315,171.17**
Large-diameter PVC pipe project	500.00	1,120,306.58	853,495.63	801,816.24		**1,171,985.97**
Water conservation project at South and North Gates and sales office renovation	25.00	154,894.23	43,014.41		197,908.64	
Ancillary molds		101,623.93		101,623.93		
Transformation of lighting routes within the production plant	19.00	12,135.92	161,785.96		173,921.88	
PVC drip irrigation tape project	400.00	1,011,805.85		1,011,805.85		
Automated production projects of drip tapes	1,350.00	10,883.07	1,271,742.85	270,900.00	1,011,725.92	
Equipment of PVC single-wall corrugated pipes	140.00		1,544,557.86	1,544,557.86		
Miscellaneous			95,383.28	52,464.31		**42,918.97**
High-voltage relays			41,006.36	41,006.36		
Equipment for production lines of PVC single-wall corrugated pipes		1,584,508.54		1,584,508.54		
Installation project of 1250KVA transformers	59.42		542,436.56	542,436.56		
Maintenance and renovation project of sales office	6.64		57,198.27	57,198.27		
Air energy units	25.00		216,222.57	216,222.57		
Maintenance and renovation of plant and infrastructures	63.21		610,528.77	192,316.98	418,211.79	
Production line project of shuttle rotomolding machines	150.00		983,448.27			**983,448.27**
Sub-total	3,587.11	3,996,158.12	8,735,991.96	6,416,857.47	1,801,768.23	**4,513,524.38**

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

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

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

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

(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
Reconstruction and expansion project of industry Model base in respect of comprehensive utilization of waste plastics	27.27	27.27				Other sources
Large-diameter PVC pipe project	45.85	45.85				Other sources
Water conservation project at South and North Gates and sales office renovation	79.16	100.00				Other sources
Ancillary molds		100.00				Other sources
Transformation of lighting routes within the production plant	91.54	100.00				Other sources
PVC drip irrigation tape project	25.30	100.00				Other sources
Automated production projects of drip tapes	9.50	9.50				Other sources
Equipment of PVC single-wall corrugated pipes	110.33	100.00				Other sources
Miscellaneous		100.00				Other sources
High-voltage relays		100.00				Other sources
Equipment for production lines of PVC single-wall corrugated pipes		100.00				Other sources
Installation project of 1250KVA transformers	91.29	100.00				Other sources
Maintenance and renovation project of sales office	86.21	100.00				Other sources
Air energy units	86.49	100.00				Other sources
Maintenance and renovation of plant and infrastructures	96.58	100.00				Other sources
Production line project of shuttle rotomolding machines	65.56	65.56				Other sources
Sub-total						

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

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

10. Intangible assets

(1) Breakdown

Item	Land use rights	Patent	ERP software	Non-patent technology	Total
Initial carrying amount					
Opening balance	14,414,108.82	1,496,566.92	25,641.03		15,936,316.77
Increase during the period		482,762.91		2,018,300.00	2,501,062.91
1) Additions					
2) In-house research and development		482,762.91			482,762.91
3) Increase in business combination				2,018,300.00	2,018,300.00
Decrease during the period					
1) Disposal					
Closing balance	14,414,108.82	1,979,329.83	25,641.03	2,018,300.00	18,437,379.68
Accumulated amortization					
Opening balance	3,059,005.62	793,535.22	2,136.75		3,854,677.59
Increase during the period	297,074.16	317,791.37	5,128.20	302,745.00	922,738.73
1) Provision	297,074.16	317,791.37	5,128.20	302,745.00	922,738.73
Decrease during the period					
1) Disposal					
Closing balance	3,356,079.78	1,111,326.59	7,264.95	302,745.00	4,777,416.32
Provision for impairment					
Opening balance					
Increase during the period					
1) Provision					
Decrease during the period					
1) Disposal					
Closing balance					
Carrying amount					
Carrying amount at the end of the period	11,058,029.04	868,003.24	18,376.08	1,715,555.00	13,659,963.36
Carrying amount at the beginning of the period	11,355,103.20	703,031.70	23,504.28		12,081,639.18

At the end of the period, the intangible assets formed through in-house research and development of the company accounted for 3.53% of the balance of intangible assets.

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

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

10. Intangible assets *(continued)*

(2) Carrying amount analysis of land use rights

Item	Closing balance	Opening balance
Beyond Hong Kong	**11,058,029.04**	11,355,103.20
Including: Medium-term lease	**11,058,029.04**	11,355,103.20
Sub-total	**11,058,029.04**	11,355,103.20

11. Long-term deferred expenses

Item	Opening balance	Increase during the period	Amortized during the period	Decrease in others	Closing balance
Housing leasing and decoration		405,480.32			**405,480.32**
Amortization of isolation of forwarding warehouses from offices	836,740.91		128,211.96		**708,528.95**
Amortization of utilities roof impermeable transformation	48,543.36		21,574.92		**26,968.44**
Amortization of civil construction of production lines for large-diameter PVC pipes	413,810.39		93,692.88		**320,117.51**
Environmental upgrade within production plants	116,634.35		26,407.68		**90,226.67**
Staff canteen renovation	249,248.14		48,100.47		**201,147.67**
Plastic trays		997,043.18	861,282.55		**135,760.63**
Transformation of lighting routes within the production plant and factory maintenance		216,959.72	14,419.75		**202,539.97**
Water conservation project at South and North Gates and sales office renovation		197,908.64	8,246.19		**189,662.45**
Decoration of second floor in the exhibition hall for drip irrigation		1,011,725.92	16,862.10		**994,863.82**
Total	1,664,977.15	2,829,117.78	1,218,798.50		**3,275,296.43**

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

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

12. 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	**7,171,476.68**	**1,081,604.23**	9,550,247.00	1,759,436.28
Total	**7,171,476.68**	**1,081,604.23**	9,550,247.00	1,759,436.28

(2) Breakdown of unrecognized deferred income tax assets

Item	Closing balance	Opening balance
Deductible temporary differences	**47,077,236.90**	39,295,155.48
Deductible losses	**62,397,540.25**	32,730,059.67
Sub-total	**109,474,777.15**	72,025,215.15

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

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

12. 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
2018		898,845.60
2019	**1,097,199.45**	1,897,271.39
2020	**1,048,112.50**	1,144,687.25
2021	**26,432,627.66**	26,670,868.55
2022	**1,829,653.02**	2,118,386.88
2023	**31,989,947.62**	
Sub-total	**62,397,540.25**	32,730,059.67

13. Other non-current assets

Item	Closing balance	Opening balance
Prepaid land premiums	**2,070,700.00**	
Total	**2,070,700.00**	

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

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

14. Short-term borrowings

Item	Closing balance	Opening balance
Guarantee borrowings	**30,000,000.00**	
Total	**30,000,000.00**	

15. Bill payables and trade payables

(1) Breakdown

Item	Closing balance	Opening balance
Trade payables	**217,513,969.66**	254,483,099.10
Total	**217,513,969.66**	254,483,099.10

(2) Trade payables

1) Breakdown

Item	Closing balance	Opening balance
Sale of goods	**203,937,771.16**	249,051,481.36
Project and equipment Funds	**13,576,198.50**	5,431,617.74
Total	**217,513,969.66**	254,483,099.10

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

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

15. Bill payables and trade payables

(2) Trade payables

2) Aging analysis

Aging	Closing balance	Opening balance
Within 1 year	**128,258,585.42**	209,260,037.03
1–2 years	**63,763,263.89**	30,610,750.85
2–3 years	**14,234,078.36**	4,084,444.31
Over 3 years	**11,258,041.99**	10,527,866.91
Sub-total	**217,513,969.66**	254,483,099.10

3) Significant trade payables aged over 1 year

Item	Closing balance	Reason for overdue or carry forward
Xinjiang Tianye (Group) Limited	**28,469,940.99**	Pending for completion of settlement procedures due to large business volume
Huaian WeiWang Agricultural and Pastoral Development Company Limited	**1,934,054.44**	Project inspection and acceptance pending completion
Beijing Tianye International Agricultural Engineering and Technology Co Ltd*	**1,895,627.24**	Pending for completion of settlement procedures due to large business volume
Houyun	**1,707,257.22**	Project inspection and acceptance pending completion
Sub-total	**34,006,879.89**	

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

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

16. Receipts in advance

Item	Closing balance	Opening balance
Receipts in advance for sale of goods		22,621,785.79
Project funds in advance		19,311,139.68
Equipment disposal payment in advance		213,000.00
Total		42,145,925.47

17. Employee remuneration payables

(1) Breakdown

Item	Opening balance	Increase during the period: Provision during the period	Increase during the period: Increase in business combination	Decrease during the period	Closing balance
Short-term remuneration	7,367,445.24	59,892,935.77	1,308,652.18	60,091,878.50	**8,477,154.69**
Post-employment benefits — the defined contribution scheme	55,275.86	8,774,911.02		8,270,403.63	**559,783.25**
Termination benefits		103,671.96		103,671.96	
Total	7,422,721.10	68,771,518.75	1,308,652.18	68,465,954.09	**9,036,937.94**

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

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

17. Employee remuneration payables *(continued)*

(2) Breakdown of short-term remuneration

		Increase during the period			
Item	Opening balance	Provision during the period	Increase in business combination	Decrease during the period	**Closing balance**
Salary, bonus, allowance and subsidy	3,107,437.89	46,281,983.85	1,281,446.98	47,782,724.01	**2,888,144.71**
Employee benefits		2,433,160.31	27,205.20	2,433,160.31	**27,205.20**
Social security insurance		4,406,551.76		3,851,499.48	**555,052.28**
Including: Medical insurance contributions		3,919,715.23		3,401,468.20	**518,247.03**
Work injury insurance contributions		283,641.16		261,499.83	**22,141.33**
Maternity insurance contributions		203,195.37		188,531.45	**14,663.92**
Housing provident fund	449.00	3,214,512.26		3,175,080.70	**39,880.56**
Union and education funds	4,259,558.35	3,556,727.59		2,849,414.00	**4,966,871.94**
Sub-total	7,367,445.24	59,892,935.77	1,308,652.18	60,091,878.50	**8,477,154.69**

(3) Breakdown of defined contribution schemes

Item	Opening balance	Increase during the period	Decrease during the period	**Closing balance**
Basic endowment insurance contributions		7,605,572.67	7,377,996.14	**227,576.53**
Unemployment insurance contributions		198,710.07	187,293.09	**11,416.98**
Enterprise annuity	55,275.86	970,628.28	705,114.40	**320,789.74**
Sub-total	55,275.86	8,774,911.02	8,270,403.63	**559,783.25**

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

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

17. Employee remuneration payables *(continued)*

(3) Breakdown of defined contribution schemes (continued)

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.

18. Tax and levy payables

Item	Closing balance	Opening balance
VAT	**4,885,707.09**	2,578,487.17
EIT	**368,668.43**	376,742.78
Individual income tax withheld	**29,931.19**	114,938.86
City maintenance and construction tax	**373,878.82**	242,277.30
Property tax		36,000.00
Education surcharge	**164,225.04**	103,484.09
Local education surcharge	**106,983.37**	66,489.41
Stamp duty	**31,677.54**	45,699.63
Total	**5,961,071.48**	3,564,119.24

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

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

19. Other payables

Item	Closing balance	Opening balance
Security deposits	**2,190,650.58**	2,751,632.44
Current account	**17,278,677.45**	16,087,867.49
Fund of agent for charging and paying	**2,937,039.60**	1,703,258.23
Employee borrowings	**79,277.67**	
Others	**400,828.38**	74,346.50
Total	**22,886,473.68**	20,617,104.66

20. Contract liabilities

Item	Closing balance
Receipts in advance for sale of goods	**29,114,816.56**
Project funds in advance	**17,644,840.20**
Total	**46,759,656.76**

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- relating to assets	7,728,621.82		1,200,000.00	6,528,621.82	Funded by the government
Government grants- relating to income	1,141,892.97	3,909,310.32	2,542,844.73	2,508,358.56	Funded by the government
Total	8,870,514.79	3,909,310.32	3,742,844.73	9,036,980.38	

(2) Breakdown of government grants

Item	Opening balance	Amount of new grants for the period	Profit or loss for the current period or amount for offsetting the related cost (Note)	Closing balance	Relating to assets/ relating to income
Water saving irrigation technology products industrialization promotion project	7,328,621.82		1,200,000.00	6,128,621.82	Relating to assets
Regiment No. 225 Model base	400,000.00			400,000.00	Relating to assets
Improvement in fertilizer placement devices under the drip-irrigation system and optimization of headworks	381,892.97		271,494.96	110,398.01	Relating to income
Research on the optimized model for the integrated water-and-fertilizer distribution of the farmland pipeline network for commercial crops and the related demonstration	760,000.00		309,192.19	450,807.81	Relating to income

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

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

21. Deferred income *(continued)*

(2) Breakdown of government grants (continued)

Item	Opening balance	Amount of new grants for the period	Profit or loss for the current period or amount for offsetting the related cost (Note)	Closing balance	Relating to assets/ relating to income
Special Funds for Corps Technology Development of the Kunyu City Finance Bureau of the 14th Division		500,000.00		**500,000.00**	Relating to income
Shihezi Government's Poverty Alleviation for Yecheng County		1,730,000.00	1,548,388.01	**181,611.99**	Relating to income
Research and Development of Key Technologies and Products for the Water Transmission and Distribution in the Irrigation Zones and Farmland Water-saving Drip Irrigation Systems		300,000.00	2,094.00	**297,906.00**	Relating to income
Development and Application of Key Facilities for Irrigation Systems in Highlands and Mountains		200,000.00	116,003.39	**83,996.61**	Relating to income
Development of Key Technologies and New Products for Water Discharge and Salt Control in Agricultural Farmland		400,000.00	149,081.33	**250,918.67**	Relating to income
the Startup Platform and Base Construction Plan under the Technological Innovation Environment and Capability Enhancement Program		500,000.00	139,408.58	**360,591.42**	Relating to income
Special Funds for Talent Pool Development in the Division and City		279,310.32	7,182.27	**272,128.05**	Relating to income
Sub-total	8,870,514.79	3,909,310.32	3,742,844.73	**9,036,980.38**	

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

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

21. Deferred income *(continued)*

(2) Breakdown of government grants (continued)

Note: For details of government grants included in the profit or loss or offset against the relevant costs for the current period, please refer to explanation on other government grants under the notes to the consolidated financial statements.

(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 special funds of RMB12,000,000 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 the profit or loss for the current period.

According to the "Application for Poverty Alleviation Fund Allocated to Yecheng County" (Shi Shi Fa Gai [2018] No.158) issued by the Development and Reform Commission of XPCC Eighth Agricultural Division, the Company obtained special funds of RMB1,730,000 from Shihezi Government for poverty alleviation in Yecheng County, which is intended for expenses incurred by the Company for the poverty alleviation operation in Yecheng County. The Company included such funds in deferred income and classified the same as the portion related to income, which will be used to compensate the relevant costs, expenses or losses incurred by the Company in the subsequent periods.

During the year, the Company obtained a special operating fund of RMB300,000 from the fiscal department of the central government, which is applied to the "Research and Development of Key Technologies and Products for the Water Transmission and Distribution in the Irrigation Zones and Farmland Water-saving Drip Irrigation Systems". The Company included such fund as part of deferred income, which is classified as items relating to income in light of the official document in connection to such fund appropriation did not specify the purposes of such funding for the current period. This fund will be used to compensate the relevant costs, expenses or losses incurred by the Company in the subsequent periods.

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 (continued)

During the year, the Company obtained a special operating fund of RMB200,000 from the fiscal department of the central government, which is applied to the "Development and Application of Key Facilities for Irrigation Systems in Highlands and Mountains". The total planned investment for this project amounts to RMB4,500,000, comprising our internal sources of RMB4,100,000 and the special operating fund of RMB400,000 from the fiscal department of the central government. The Company included such fund as part of deferred income, which is classified as items relating to income in light of the official document in connection to such fund appropriation did not specify the purposes of such funding for the current period. This fund will be used to compensate the relevant costs, expenses or losses incurred by the Company in the subsequent periods.

During the year, the Company obtained a special operating fund of RMB400,000 from the fiscal department of the central government, which is applied to the "Development of Key Technologies and New Products for Water Discharge and Salt Control in Agricultural Farmland". The total planned investment for this project amounts to RMB600,000, and the special operating fund of RMB600,000 was granted by the fiscal department of the central government. The Company included such fund as part of deferred income, which is classified as items relating to income in light of the official document in connection to such fund appropriation did not specify the purposes of such funding for the current period. This fund will be used to compensate the relevant costs, expenses or losses incurred by the Company in the subsequent periods.

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 (continued)

According to the "Notice on Special Funds (First Tranche) Granted for Scientific and Technology Development of the Corps in 2017" (Bing Cai Jiao [2017] No. 100) issued by the Finance Bureau of XPCC Eighth Agricultural Division, the Company obtained a special fund of RMB500,000 for the Startup Platform and Base Construction Plan under the Technological Innovation Environment and Capability Enhancement Program, which is applied for expenses incurred from the Plan for Technological Breakthroughs in Key Areas under the Key Research and Development Program, the Regional Innovation Direction Plan under the Program for Transformation of Scientific and Technological Results, as well as the Startup Platform and Base Construction Plan and the Technology Innovation Talent Plan under the Technological Innovation Environment and Capability Enhancement Program of the Company. The Company included such fund as part of deferred income, which is classified as items relating to income. This fund will be used to compensate the relevant costs, expenses or losses incurred by the Company in the subsequent periods.

According to the "Notice on 2017 Special Funds for Talent Pool Development in the Division and City" (Shi Shi Cai Wen Xing [2018] No. 59) issued by the Finance Bureau of XPCC Eighth Agricultural Division, the Company obtained a special fund of RMB600,000 for talent pool development in the division and city for 2017, which is applied for expenses incurred by the Company for the talent pool development. The Company included such fund as part of deferred income, which is classified as items relating to income in light of the official document in connection to such fund appropriation did not specify the purposes of such funding for the current period. This fund is mainly used for purchase of assets, which is classified as part of the assets and sets off the book value of the relevant assets using the net method. The remaining balance is classified as part of the assets, which will be used to compensate the relevant costs, expenses or losses incurred by the Company in the subsequent periods.

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 "–") New shares issuance	Bonus shares	Conversion from reserve	Others	Sub-total	Closing balance
Non-tradable shares	317,121,560.00						**317,121,560.00**
Domestic shares held by legal persons	317,121,560.00						**317,121,560.00**
Domestic shares held by natural persons							
Non-restricted shares	202,400,000.00						**202,400,000.00**
H-shares	202,400,000.00						**202,400,000.00**
Total	519,521,560.00						**519,521,560.00**

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			**5,372,472.17**
Other capital reserve	10,000,000.00			**10,000,000.00**
Total	15,372,472.17			**15,372,472.17**

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

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

24. Surplus reserves

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

25. Undistributed profits

(1) Breakdown

Item	Current period	Corresponding period last year
Closing balance of undistributed profits for the prior period before adjustment	**85,081,213.19**	83,732,561.06
Adjustment to opening balance of total undistributed profits (increase "+", decrease "–")		
Opening balance of undistributed profits after adjustment	**85,081,213.19**	83,732,561.06
Undistributed profits on 1st January, 2018 adjusted according to the new standards	**175,029.88**	
Undistributed profits on 1st January, 2018 after adjustment	**85,256,243.07**	
Add: net profits attributable to owners of the Parent Company for the current period	**-47,636,809.08**	1,348,652.13
Closing balance of undistributed profits	**37,619,433.99**	85,081,213.19

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

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

25. Undistributed profits *(continued)*

(2) Breakdown of adjustment to undistributed profits on 1st January, 2018

Due to the implementation of the new standards and related regulations, the difference between the new standards and the original standards on the first adoption day was retrospectively adjusted to undistributed profits on 1st January, 2018 in the amount of RMB175,029.88.

(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	**521,337,248.33**	**478,264,456.65**	704,414,046.39	628,712,622.38
Income from other businesses	**14,819,462.01**	**12,355,949.10**	33,706,479.40	29,406,395.55
Total	**536,156,710.34**	**490,620,405.75**	738,120,525.79	658,119,017.93

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 Income	Current period Cost	Corresponding period last year Income	Corresponding period last year Cost
Drip tapes and drip assemblies	**94,782,838.98**	**94,642,118.96**	294,254,451.31	269,184,213.28
PVC pipes/PE pipes	**317,943,087.25**	**285,336,683.75**	317,772,558.96	273,010,319.35
Project income	**108,611,322.10**	**98,285,653.94**	92,387,036.12	86,518,089.75
Sub-total	**521,337,248.33**	**478,264,456.65**	704,414,046.39	628,712,622.38

(3) Breakdowns of operating revenue

Item / Major types	Amount incurred during the period: drip tapes and drip assemblies	PVC/PE pipelines	Project income	Other businesses	Total
Time of recognizing income					
Goods transferred at a particular point of time	94,782,838.98	317,943,087.25		13,896,054.11	426,621,980.34
Services rendered in a specific period of time			108,611,322.10	923,407.90	109,534,730.00
Total	94,782,838.98	317,943,087.25	108,611,322.10	14,819,462.01	536,156,710.34

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

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

2. Taxes and surcharges

Item	Current period	Corresponding period last year
City maintenance and construction tax	**990,953.11**	1,165,990.15
Education surcharge	**434,550.75**	517,080.00
Local education surcharge	**290,479.16**	327,934.87
Stamp duty	**233,881.27**	386,377.40
Property tax	**510,703.88**	541,202.41
Land use tax	**1,462,985.76**	1,409,667.80
Vehicle and vessel use tax	**21,835.50**	15,605.00
Water conservancy development fund for other places		1,697.84
Total	**3,945,389.43**	4,365,555.47

3. Distribution costs

Item	Current period	Corresponding period last year
Salaries benefits and social security contributions	**14,769,781.42**	13,909,850.85
Transportation costs	**8,699,677.01**	10,456,357.49
Sale service fee	**6,204,419.17**	5,292,969.71
Others	**2,582,837.19**	1,513,528.30
Warehousing and storage fees	**1,716,128.66**	2,043,025.05
Travel expenses	**1,705,179.13**	1,324,401.98
Tender fee	**1,356,936.17**	902,872.99
Depreciation charge	**1,078,403.49**	1,026,171.50
Site fees	**780,251.66**	912,983.51
Advertising fees	**390,760.97**	924,086.25
Total	**39,284,374.87**	38,306,247.63

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

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

4. Administrative expenses

(1) Breakdown

Item	Current period	Corresponding period last year
Salaries benefits and social security contributions	**20,671,260.40**	18,124,127.37
Others	**3,859,594.04**	2,904,701.60
Losses from work suspension	**2,959,998.95**	2,160,109.26
Depreciation and amortization charges	**2,855,811.45**	1,087,393.56
Agency service fees	**2,193,032.97**	1,267,290.68
Travel expenses	**1,003,053.79**	983,835.92
Lease fees	**739,926.42**	167,898.47
Car expenses	**477,240.72**	509,457.82
Total	**34,759,918.74**	27,204,814.68

(2) Included in the administrative expenses for the year was RMB0.625 million of auditor's remuneration (2017: RMB0.625 million).

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

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

5. Research and development expenses

Item	Current period	Corresponding period last year
Employee remuneration	**1,549,656.87**	2,727,461.58
Travel expenses	**903,286.71**	737,508.37
Depreciation and amortization charges	**390,530.51**	215,727.64
Materials	**381,024.00**	219,919.28
Other expenses	**345,942.19**	403,009.06
Total	**3,570,440.28**	4,303,625.93

6. Finance costs

Item	Current period	Corresponding period last year
Interest expenses	**407,943.00**	
Less: Interest income	**492,644.80**	633,194.62
Add: Exchange gains or losses	**607.92**	–1,044,145.28
Add: Commission and other expenses	**139,264.79**	62,086.26
Total	**55,170.91**	–1,615,253.64

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

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

7. Assets impairment loss

Item	Current period	Corresponding period last year
Bad debt loss	–	5,005,526.29
Inventory impairment loss	**9,991,412.94**	2,210,957.79
Impairment loss on fixed assets	**2,503,730.08**	
Impairment loss on assets held for sales		86,626.91
Total	**12,495,143.02**	7,303,110.99

8. Credit impairment loss

Item	Current period
Bad debt loss	**3,853,611.04**
Total	**3,853,611.04**

9. Other gains

Item	Current period	Corresponding period last year	Amount recognized in non-recurring profit or loss for the current period
Government grants relating to assets	**1,200,000.00**		1,200,000.00
Government grants relating to income	**2,855,599.70**	2,150,418.85	2,855,599.70
Total	**4,055,599.70**	2,150,418.85	4,055,599.70

For government grants included to other gains for the current period, details of explanation on other government grants are set out in notes to items in the consolidated financial statements.

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

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

10. Investment income

Item	Current period	Corresponding period last year
Return on long-term equity investments accounted with the equity method	**181,473.93**	–91,873.28
Gains or losses from liquidation of subsidiaries	**–195,844.95**	
Total	**–14,371.02**	–91,873.28

11. Gains on disposal of assets

Item	Current period	Corresponding period last year	Amount recognized in non-recurring profit or loss for the current period
Gain from disposal of fixed assets	**–235,343.05**		–235,343.05
Total	**–235,343.05**		–235,343.05

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

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

12. non-operating income

Item	Current period	Corresponding period last year	Amount recognized in non-recurring profit or loss for the current period
Current accounts not payable	**1,127,759.56**	176,815.62	1,127,759.56
Others	**96,899.11**	116,546.82	96,899.11
Fines and forfeitures income	**18,618.40**	11,103.71	18,618.40
Total	**1,243,277.07**	304,466.15	1,243,277.07

13. Non-operating expenses

Item	Current period	Corresponding period last year	Amount recognized in non-recurring profit or loss for the current period
Loss of damage to non-current assets	**513,118.61**	6,668.72	513,118.61
Fines expenses	**85,662.92**	1,000.00	85,662.92
Liquidated damages	**11,750.00**	70,931.99	11,750.00
Others		25,586.60	
Total	**610,531.53**	104,187.31	610,531.53

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

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

14. Income tax charges

(1) Breakdown

Item	Current period	Corresponding period last year
Current income tax charges	**768,557.49**	2,098,473.23
Deferred income tax charges	**677,832.05**	–1,584,298.95
Total	**1,446,389.54**	514,174.28

(2) Reconciliation between accounting profits and income tax expenses

Item	Current period	Corresponding period last year
Total profits	**–47,989,112.53**	2,392,231.21
Income tax charges at the tax rate of the parent	**–7,198,366.88**	358,834.68
Effect of different tax rates adopted by subsidiaries	**–279,829.85**	–317,238.58
Effect of prior period income tax adjustment	**199,113.13**	274,740.72
Effects on non-taxable income		
Tax effect of costs, expenses and losses not deductible	**146,584.72**	669,695.44
Effect of deductible losses that have not recognized for deferred income tax assets during the prior period	**–87,372.64**	–726,811.61
Effect of deductible temporary differences or deductible losses that have not recognized for deferred income tax assets during the period	**8,666,261.06**	254,953.63
Income tax expenses	**1,446,389.54**	514,174.28

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	**492,644.80**	633,194.62
Deposits, current accounts and petty cash received	**28,695,862.47**	23,990,250.06
Government grants received	**4,864,617.04**	1,817,711.82
Other non-operating income received	**81,672.11**	126,390.53
Total	**34,134,796.42**	26,567,547.03

2. Other cash paid relating to operating activities

Item	Current period	Corresponding period last year
Cost of sales and administrative expenses paid	**28,436,047.48**	29,465,592.32
Financial handling charges paid	**139,264.79**	62,086.26
Security, deposit and current accounts paid	**9,914,260.76**	32,189,872.66
Non-operating expenses and rents paid	**267,267.30**	
Total	**38,756,840.33**	61,717,551.24

3. Other cash paid relating to financing activities

Item	Current period	Corresponding period last year
Principal and liquidation profit paid to Minority interest of Shihezi Tianye	**50,000.00**	
Acquisition of minority interest in Tiancheng Water Saving	**392,680.00**	
Total	**442,680.00**	

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

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

4. 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	**–49,435,502.07**	1,878,056.93
Add: provision for assets impairment	**16,348,754.06**	7,303,110.99
fixed asset depreciation, oil/gas asset depreciation and productive biological asset depreciation	**17,982,376.42**	17,437,506.91
amortization of intangible assets	**922,738.73**	568,725.99
amortization of long-term deferred expenses	**1,218,798.50**	305,759.10
loss on disposal of fixed, intangible and other long-term assets (gain is denoted as "–")	**235,343.05**	
loss on retirement of fixed assets (gain is denoted as "–")	**513,118.61**	6,668.72
loss on changes in fair value (gain is denoted as "–")		
finance cost (gain is denoted as "–")	**408,550.92**	–1,044,145.28
investment loss (gain is denoted as "–")	**14,371.02**	91,873.28
decrease in deferred income tax assets (increase is denoted as "–")	**677,832.05**	–1,584,298.95
increase in deferred income tax liabilities (decrease is denoted as "–")		
decrease in inventories (increase is denoted as "–")	**17,799,808.92**	40,496,645.75
decrease in operating receivables (increase is denoted as "–")	**9,197,402.85**	–99,214,275.05
increase in operating payables (decrease is denoted as "–")	**–29,793,873.63**	12,224,753.95
others		–1,221,207.03
net cash flow generated from operating activities	**–13,910,280.57**	–22,750,824.69

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

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

4. Supplemental information to Cash Flows Statement *(continued)*

(1) Supplemental information to Cash Flows Statement (continued)

Further information	Current period	Corresponding period last year
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	**109,139,391.20**	116,222,911.70
Less: opening cash balance	**116,222,911.70**	152,444,683.33
Add: closing cash equivalents balance		
Less: opening cash equivalents balance		
Net increase in cash and cash equivalents	**–7,083,520.50**	–36,221,771.63

(2) Net cash paid for acquisition of subsidiaries during the period

Item	Current period
Cash or cash equivalent due to business combination during the period and paid during the period	**8,988,500.00**
Including: Xiyu Water Conservancy	**2,018,300.00**
Xiying Water Saving	**6,970,200.00**
Less: cash and cash equivalent held by subsidiaries at acquisition date	**941,949.21**
Including: Xiyu Water Conservancy	
Xiying Water Saving	**941,949.21**
Net cash paid for acquisition of subsidiaries	**8,046,550.79**

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

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

4. Supplemental information to Cash Flows Statement *(continued)*

(3) Composition of cash and cash equivalents

Item	Closing balance	Opening balance
1) Cash	**109,139,391.20**	116,222,911.70
Including: Cash on hand		43.70
Bank deposits readily available for payment	**109,061,521.91**	116,144,998.71
Other cash readily available for payment	**77,869.29**	77,869.29
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	**109,139,391.20**	116,222,911.70
Including: Restricted cash and cash equivalents of Parent Company or subsidiaries within the Group		

(4) Transfer amount endorsed by commercial bills without cash payment or receipt

Item	Current period	Corresponding period last year
Transfer amounts endorsed by commercial bills	**28,511,958.69**	29,492,000.00
Including: Payment for goods	**28,511,958.69**	28,995,000.00
Payment for selling costs		497,000.00

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

(IV) Others

1. Assets with Ownership or Use Right restricted

Item	Carrying amount at the end of the period	Reason for Restriction
Cash	462,584.40	Margin for Engineering Project
Total	462,584.40	

2. Monetary assets in foreign currency

Item	Closing balance in foreign currency	Conversion rate	Closing balance converted to RMB
Cash			7,451.02
Including: USD	8.46	6.8632	58.06
Hong Kong Dollar	8,437.53	0.8762	7,392.96

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

(IV) Others *(continued)*

3. Government grants

(1) Breakdown

1) Government grants relating to assets

① On a gross basis

Item	Opening deferred income	New grants during the period	Amortization during the period	Closing deferred income	Amortization items for the current period	Description
Water saving irrigation technology products industrialization promotion project (note)	7,328,621.82		1,200,000.00	6,128,621.82	Other income	
Regiment No. 225 Model base (note)	400,000.00			400,000.00		
Sub-total	7,728,621.82		1,200,000.00	6,528,621.82		

Note: Project number and contents of grants are presented in deferred income under the notes to the consolidated financial statements.

② On a net basis:

Item	Grants received at the opening period	New grants during the period	Grants received at the closing period	Book value of the assets set off at the closing period
Special Funds for Talent Pool Development in the Division and City		320,689.68	320,689.68	320,689.68
A third batch of Technology Innovation Leaders under the national "Ten Thousand Talents Program"		300,000.00	300,000.00	300,000.00
Sub-total		620,689.68	620,689.68	620,689.68

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

(IV) Others *(continued)*

3. Government grants *(continued)*

(1) Breakdown (continued)

1) Government grants relating to assets *(continued)*

② On a net basis: *(continued)*

(continued from the previous table)

Item	Item presented for book value of assets set off	Item presented for book value of assets yet to be set off	Impacts of the grants on the total profit for the period	Items presented for depreciation and amortization of related assets	Description
Special Funds for Talent Pool Development in the Division and City	Intangible assets		8,017.24		
A third batch of Technology Innovation Leaders under the national "Ten Thousand Talents Program"	Intangible assets		7,500.00		
Sub-total			15,517.24		

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

(IV) Others *(continued)*

3. Government grants *(continued)*

(1) Breakdown (continued)

2) Government grants relating to income applied in compensating related costs or losses in subsequent periods

Item	Opening deferred income	New grants during the period	Carry forward for the current period	Closing deferred income	Carry forward items for the current period	Description
Improvement in fertilizer placement devices under the drip-irrigation system and optimization of headworks	381,892.97		271,494.96	110,398.01	Other income	
Special Funds for Talent Pool Development in the Division and City		279,310.32	7,182.27	272,128.05	Other income	
Research on the optimized model for the integrated water-and-fertilizer distribution of the farmland pipeline network for commercial crops and the related demonstration	760,000.00		309,192.19	450,807.81	Other income	
Special Funds for Corps Technology Development of the Kunyu City Finance Bureau of the 14th Division		500,000.00		500,000.00		
Shihezi Government's Poverty Alleviation for Yecheng County		1,730,000.00	1,548,388.01	181,611.99	Other income	
Research and Development of Key Technologies and Products for the Water Transmission and Distribution in the Irrigation Zones and Farmland Water-saving Drip Irrigation Systems		300,000.00	2,094.00	297,906.00	Other income	
Development and Application of Key Facilities for Irrigation Systems in Highlands and Mountains		200,000.00	116,003.39	83,996.61	Other income	
Development of Key Technologies and New Products for Water Discharge and Salt Control in Agricultural Farmland		400,000.00	149,081.33	250,918.67	Other income	
the Startup Platform and Base Construction Plan under the Technological Innovation Environment and Capability Enhancement Program		500,000.00	139,408.58	360,591.42	Other income	
Sub-total	1,141,892.97	3,909,310.32	2,542,844.73	2,508,358.56		

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

(IV) Others *(continued)*

3. Government grants *(continued)*

(1) Breakdown (continued)

3) Government grants relating to income applied in compensating related costs or losses already incurred

Item	Amount	Presentation item	Description
Unemployment subsidy	164,254.97	Other income	
Support funds for industrial enterprises	55,000.00	Other income	
Innovation funds for micro enterprises	50,000.00	Other income	
Market exploration funds for SMEs	43,500.00	Other income	
Sub-total	312,754.97		

(2) Government grants included in profit or loss for the current period amounts to RMB4,071,116.94.

VI. MODIFICATION OF CONSOLIDATION SCOPE

(I) Business combination under non-common control

1. Business combinations not under common control during the period

Name of acquiree	Date of equity acquisition	Costs of equity acquisition	Percentage of acquired equity (%)	Method to acquire equity
Shihezi Xiyu Water Conservancy and Hydropower Construction and Installation Engineering Co., Ltd.*(石河子西域水利水電建築安裝工程有限責任公司)	2018.6.1	2,018,300.00	100.00	Cash payment
Shihezi Tianye Xiying Water Saving Device Co., Ltd.*(石河子市天業西營節水器材有限責任公司)	2018.7.27	6,970,200.00	100.00	Cash payment

VI. MODIFICATION OF CONSOLIDATION SCOPE *(continued)*

(I) Business combination under non-common control *(continued)*

1. Business combinations not under common control during the period *(continued)*

(continued from the previous table)

Name of acquiree	Acquisition date	Basis for confirming the acquisition date	Income of the acquiree from acquisition date to the period end	Net profit of the acquiree from acquisition date to the period end
Shihezi Xiyu Water Conservancy and Hydropower Construction and Installation Engineering Co., Ltd.	2018.6.1	Date of changes with the administration for industry and commerce	6,495,834.01	13,514.71
Shihezi Tianye Xiying Water Saving Device Co., Ltd.	2018.7.27	Date of changes with the administration for industry and commerce	19,669.05	–418,120.87

2. Cost of combination and goodwill

Item	Shihezi Xiyu Water Conservancy and Hydropower Construction and Installation Engineering Co., Ltd.	Shihezi Tianye Xiying Water Saving Device Co., Ltd.
Cost of combination		
Cash	2,018,300.00	6,970,200.00
Fair value of non-cash assets		
Fair value of liabilities issued or assumed		
Fair value of equity securities issued		
Fair value of contingent consideration		
Fair value at acquisition date of equity held before acquisition date		
Others		
Total cost of combination	2,018,300.00	6,970,200.00
Less: share of fair value of identifiable net assets acquired	2,018,300.00	6,970,200.00
The amount that goodwill/combination costs less than the fair value share of identifiable net assets acquired		

VI. MODIFICATION OF CONSOLIDATION SCOPE *(continued)*

(I) Business combination under non-common control *(continued)*

3. Identifiable assets and liabilities of the acquirees at the acquisition date

(1) Breakdown

Item	Shihezi Xiyu Water Conservancy and Hydropower Construction and Installation Engineering Co., Ltd.		Shihezi Tianye Xiying Water Saving Device Co., Ltd.	
	Fair value at acquisition date	Carrying amount at acquisition date	Fair value at acquisition date	Carrying amount at acquisition date
Assets	2,018,300.00		10,937,750.42	10,937,750.42
Cash			941,749.21	941,749.21
Receivables			82,847.16	82,847.16
Other receivables			1,000.00	1,000.00
Inventories			5,524,265.86	5,524,265.86
Other current assets				
Fixed assets			4,387,888.19	4,387,888.19
Intangible assets	2,018,300.00			
Liabilities			3,967,550.42	3,967,550.42
Trade payables			217,291.15	217,291.15
Receipts in advance			122,050.61	122,050.61
Employee remuneration payables			1,308,652.18	1,308,652.18
Tax and levy payables			46,495.83	46,495.83
Other payables			2,273,060.65	2,273,060.65
Other current liabilities				
Net assets	2,018,300.00		6,970,200.00	6,970,200.00
Less: minority interest				
Net assets acquired	2,018,300.00		6,970,200.00	6,970,200.00

VI. MODIFICATION OF CONSOLIDATION SCOPE *(continued)*

(I) Business combination under non-common control *(continued)*

3. Identifiable assets and liabilities of the acquirees at the acquisition date *(continued)*

(2) Measures to recognize the fair value of identifiable assets and liabilities

The book value of Xiyu Water Conservancy at the acquisition date came from the audit report coded as "Xin Fangxia Kuai Zhuan Shen Zi [2018] No.020", which is prepared and issued by Xinjiang Fang Xia Limited Liability Accounting Firms* (新疆方夏有限責任會計師事務所), while the fair value at the acquisition date came from the valuation report coded as "Tong Zhi Xin De Ping Bao Zi [2018] No.D0024", which is prepared and issued by Tongzhi Xinde (Beijing) Assets Appraisal Co., Ltd.* (同致信德 (北京) 資產評估有限公司).

As of 30 April 2018, the book value of Xiying Water Saving came from the audit report coded as "Xin Fangxia Kuai Zhuan Shen Zi [2018] No.078", which is prepared and issued by Xinjiang Fang Xia Limited Liability Accounting Firms* (新疆方夏有限責任會計師事務所), while the fair value came from the valuation report coded as "Tong Zhi Xin De Ping Bao Zi [2018] No.D0035", which is prepared and issued by Tongzhi Xinde (Beijing) Assets Appraisal Co., Ltd.* (同致信德 (北京) 資產評估有限公司). As agreed under the equity transfer agreement, profit or loss arising from the period between the valuation base date and the completion date of equity transfer shall be assumed by the original shareholders, while the fair value at the acquisition date and the book value at the acquisition date are determined on the basis of operating activities from the adjustment base date to the acquisition date as contained in the valuation report and the audit report.

(II) Changes to the consolidation scope due to other reasons

Decrease in consolidation scope

Company name	Way of equity disposal	Date of equity disposal	Net assets at disposal date	Net profit from opening period to disposal date
Shihezi Tianye Material Recycling Co., Ltd*Note	Liquidation	2018.11.26	10,032.41	10,032.41

Note： According to the eighth meeting of the fourth board dated 15 September 2014, the subsidiary Shihezi Tianye Material Recycling Co., Ltd* would be de-registered following liquidation. The company entered into liquidation on 22 December 2015, and such procedure was completed on 26 November 2018, in which case, investment income of RMB –195,844.95 was recognized in the consolidated financial statements.

VII. INTEREST IN OTHER ENTITIES

(I) Interest in important subsidiaries

1. Composition of important subsidiaries

Name of subsidiary	Place of principal operation	Place of registration	Nature of business	Shareholding percentage (%) Direct	Indirect	Way of acquisition
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, Xinjiang	Shihezi, Xinjiang	Manufacturing	100.00		Establishment
Liaoning Tianye	Tieling City, Liaoning	Tieling City, Liaoning	Manufacturing	100.00		Establishment
Gansu Tianye	Zhangye City, Gansu	Zhangye City, Gansu	Manufacturing	100.00		Business combination under common control
Nanjiang Water Saving	Tumshukh, Xinjiang	Tumshukh, Xinjiang	Manufacturing	100.00		Establishment
Wisdom Agriculture	Shihezi, Xinjiang	Shihezi, Xinjiang	Manufacturing	70.00		Establishment
Zhongxinnong Water Saving	Shihezi, Xinjiang	Shihezi, Xinjiang	Manufacturing	59.00		Establishment
Xiyu Water Conservancy	Shihezi, Xinjiang	Shihezi, Xinjiang	Manufacturing	100.00		Business combination under non-common control
Xiying Water Saving	Shihezi, Xinjiang	Shihezi, Xinjiang	Manufacturing	100.00		Business combination under non-common control

2. Important non-wholly-owned subsidiaries

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%	–700,309.19		**3,895,243.58**
Zhongxinnong Water Saving	41.00%	193,372.71		**5,732,062.50**

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	Closing balance Current assets	Non-current assets	Total Assets	Current liabilities	Non-current liabilities	Total liabilities
Hami Tianye	9,338,976.48	2,992,858.91	12,331,835.39	2,593,726.45		2,593,726.45
Zhongxinnong Water Saving	25,579,205.86	19,022.51	25,598,228.37	11,117,588.13	500,000.00	11,617,588.13

(continued from the previous table)

Name of subsidiary	Opening balance Current assets	Non-current assets	Total Assets	Current liabilities	Non-current liabilities	Total liabilities
Hami Tianye	13,245,340.05	3,270,400.31	16,515,740.36	5,026,858.44		5,026,858.44
Zhongxinnong Water Saving	43,731,972.45	41,669.36	43,773,641.81	30,264,642.32		30,264,642.32

(2) Information on profit or loss and cash flows

Name of subsidiary	Current period Operating income	Net profits	Total comprehensive income	Cash flow from operating activities
Hami Tianye	3,653,358.55	–1,750,772.98	–1,750,772.98	–1,969,817.35
Zhongxinnong Water Saving	24,645,361.76	471,640.75	471,640.75	–6,903,271.81

(continued from the previous table)

Name of subsidiary	Corresponding period last year Operating income	Net profits	Total comprehensive income	Cash flow from operating activities
Hami Tianye	10,180,860.52	–182,911.08	–182,911.08	761,704.09
Zhongxinnong Water Saving	92,387,036.12	3,546,242.25	3,546,242.25	140,714.12

VII. INTEREST IN OTHER ENTITIES *(continued)*

(II) Transactions involving continued control over subsidiaries despite changes to owners' equity in such subsidiaries

1. Description of changes to owners' equity in subsidiaries

Subsidiary name	Date of changes	Shareholding percentage prior to changes	Shareholding percentage subsequent to changes
Tiancheng Water Saving	2018.7.26	60.00%	100.00%

2. Impacts on the minority interest and share of owners' equity attributable to the parent by the transaction

Item	Tiancheng Water Saving
Purchase costs	
Cash	392,680.00
Fair value of non-cash assets	
Total purchase costs	392,680.00
Less: Share of net assets of subsidiaries based on the shareholding percentage acquired	392,680.00
Balance	
including: capital reserve adjusted	
surplus reserve adjusted	
unallocated profit adjusted	

(III) Interest in associates

1. Key associates

Name of associate	Place of principal operation	Place of registration	Nature of business	Shareholding percentage (%) Direct	Shareholding percentage (%) Indirect	Accounting treatment method on investment in joint venture or associates
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

VII. INTEREST IN OTHER ENTITIES *(continued)*

(III) Interest in associates *(continued)*

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	**14,148,633.80**	19,567,129.60
Non-current assets	**71,882,098.46**	71,727,158.45
Total Assets	**86,030,732.26**	91,294,288.05
Current liabilities	**43,918,373.61**	49,830,050.59
Non-current liabilities	**31,910,000.00**	31,910,000.00
Total liabilities	**75,828,373.61**	81,740,050.59
Minority interest		
Owners' equity attributable to the Parent Company	**10,202,358.65**	9,554,237.46
Net assets calculated pro rata in shareholding	**2,856,660.42**	2,675,186.49
Adjusting events		
Goodwill		
Unrealized profit from internal transactions		
Others		
Carrying amount of investment in associates	**2,856,660.42**	2,675,186.49
Fair value of investment in associates with public offer		
Operating income	**13,892,677.86**	10,403,120.05
Net profits	**544,735.07**	–328,118.86
Net profit for termination of business		
Other comprehensive income		
Total comprehensive income	**544,735.07**	–328,118.86
Dividend from associates for the period		

VII. INTEREST IN OTHER ENTITIES *(continued)*

(III) Interest in associates *(continued)*

3. Summary financial information of unimportant associates

Item	Closing balance/ Current period	Opening balance/ Corresponding period last year
Associates		
Total carrying amount of investments	**5,000,000.00**	5,000,000.00
Total amount of the following based on shareholding		
Net profit		
Other comprehensive income		
Total comprehensive income		

Note: Unimportant associate is Xinjiang Tianye Ecological Technology Company Limited* (新疆天業生態科技有限公司) (hereinafter referred to as the "Tianye Ecological Company"). Tianye Ecological Company was established by the Company and the Company's actual controller Xinjiang Tianye (Group) Limited* on 5th December, 2016 for the Shihezi General Army Green Net Project* (石河子將軍山綠網工程項目), in which the Company held 20% equity interests. As Tianye Ecological Company has not commence any operation and all incomes and expenses are funds of agent for charging and paying, there recorded no profit for the year.

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.

1. 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) Trade 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, 2018, 18.55% (31st December, 2017: 24.05%) of the Company's trade receivables were derived from the five largest customers, and the Company did not has material concentrated credit risk.

The maximum credit risk exposure to the Company is the carrying amount of each financial asset presented in the balance sheet.

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

(I) Credit Risk *(continued)*

2. Reconciliation of the balances of allowances for losses on financial instruments at the opening and the closing periods

Item	1 January 2018	Increase for the period Provided	Recovered	Others	Decrease for the period Reverse	Written off	Others	Closing balance
Expected credit losses for the next 12 months (as for the first stage, financial instruments without significant increase in credit risks upon initial recognition)								
Other receivables	1,433,056.75	1,090,462.87				886,424.18		**1,637,095.44**
Sub-total	1,433,056.75	1,090,462.87				886,424.18		**1,637,095.44**
Lifetime expected credited losses (items involving allowances provided for losses based on the lifetime expected credit losses)								
Bill receivables and trade receivables	27,883,442.57	2,763,148.17						**30,646,590.74**
Sub-total	27,883,442.57	2,763,148.17						**30,646,590.74**
Total	29,316,499.32	3,853,611.04				886,424.18		**32,283,686.18**

For details of input values, assumptions, and valuation techniques adopted for impairment of financial instruments, please refer to bill receivables and trade receivables, and other receivables under notes to items in the consolidated financial statements of these notes to financial statements.

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	Opening balance Amount of undiscounted contract	Within 1 year
Bank loans	30,000,000.00	30,955,260.00	30,955,260.00
Bill payables and trade payables	217,513,969.66	217,513,969.66	217,513,969.66
Other payables	22,886,473.68	22,886,473.68	22,886,473.68
Sub-total	270,400,443.34	271,355,703.34	271,355,703.34

(continued from the previous table)

Item	Carrying amount	Opening balance Amount of undiscounted contract	Within 1 year
Bill payables and trade payables	254,483,099.10	254,483,099.10	254,483,099.10
Other payables	20,617,104.66	20,617,104.66	20,617,104.66
Sub-total	275,100,203.76	275,100,203.76	275,100,203.76

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

(III) Market Risk

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

1. Interest rate risk

Interest rate risk refers to the risk of fluctuation in fair value or future cash flows of a financial instrument due to changes in market rates. The Company's exposure to interest rate risk is related to borrowings carrying interests at floating rates.

As at 31 December 2018, the Company had bank borrowings of RMB30,000,000.00 (31 December 2017: RMB nil) at a floating interest rate, and a 50% base point change in interest rates, with all other variables held constant, will not have any significant impact on total profit and shareholders' equity of the Company.

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.

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	Shareholding percentage of the Parent Company in the Company (%)	Percentage of voting 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

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 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
Tianwai Chemical Co., Ltd.*	Under common control of the parent company
Xinjiang Shihezi Tianda Tomato Products Co., Ltd.*	Under common control of the parent company
Shihezi City Taian Construction Work 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
Xinjing Bingtian Lvcheng Plastic Product Inspection 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
Tianneng Chemical Co., Ltd.*	Under common control of Tianye Group
Shihezi Development Zone Huiye Information Technology Co., Ltd.	Under common control of Tianye Group
Tianwai Cement Co., Ltd.*	Under common control of Tianye Group
Xinjiang Tianzhi Chenye Chemical Co., Ltd.*	Under common control of Tianye Group

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
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
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
Beijing Tianye International Agricultural Engineering and Technology Co., Ltd.*	Under common control of Tianye Group
Toksun County Tianye Mineral Development Co., Ltd.*	Under common control of Tianye Group
Xinjiang Tianye Huihe New Materials 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
Farm 8 Shihezi City Oasis Transportation Investment Co., Ltd.*	Under common control of Tianye Group
XPCC Modern Green Chlor-Alkali Chemical Engineering and Research Center (with limited liability)*	Under common control of Tianye Group

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 transactions	Current period	Corresponding period last year
Xinjiang Tianye Company Limited	Purchase of goods	**5,047,301.68**	11,386,085.68
Shihezi City Taian Construction Work Co., Ltd.*	Purchase of goods		3,995,969.23
Shihezi Xinyuan Highway Transportation Co., Ltd.*	Purchase of goods	**741,665.60**	199,680.83
Tianye Group	Purchase of goods	**94,536,736.60**	172,986,845.35
Shihezi Development Zone Huineng Industrial Equipment Installation Co., Ltd.*	Purchase of goods	**401,788.56**	748,232.42
Shihezi Development Zone Huiye Information Technology Co., Ltd.	Purchase of goods	**9,691.01**	10,090.80
Tianchen Chemical Co., Ltd.*	Purchase of goods	**2,438.00**	
Xinjing Bingtian Lvcheng Plastic Product Inspection Co., Ltd.	Purchase of goods		582,983.20
Shihezi City Xinze Vehicle Maintenance Co., Ltd.*	Purchase of goods	**18,834.00**	28,766.08
Xinjiang Tianye Agricultural New and High Technology Co., Ltd.	Purchase of goods	**1,730.00**	34,446.50
Total		**100,760,185.45**	189,973,100.09

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	8,990.31	1,295,413.76
Shihezi City Taian Construction Work Co., Ltd.*	Sale of water-saving product	1,694,065.20	944,785.78
Shihezi Tianyu Xinshi Chemical Co., Ltd.*	Sale of water-saving product	17,444.10	15,679.12
Tianye Group	Sale of water-saving product	395,519.30	681,806.11
Tianchen Chemical Co., Ltd.*	Sale of water-saving product	398,722.51	372,173.51
Jinghe County Jingyi Mining Co., Ltd.*	Sale of water-saving product	154,787.83	65,618.12
Shihezi Development Zone Huiye Information Technology Co., Ltd.	Sale of water-saving product	3,294.31	
Xinjiang Tianzhi Chenye Chemical Co., Ltd.*	Sale of water-saving product	122,668.83	416,419.08
Shihezi Development Zone Qingsong Tianye Cement Co., Ltd.*	Sale of water-saving product		2,185.55
Tianchen Cement Co., Ltd.*	Sale of water-saving product	9,227.80	580.35
Tianneng Cement Co., Ltd.*	Sale of water-saving product		1,057.69
Tianwai Chemical Co., Ltd.*	Sale of water-saving product	139,658.94	126,800.29
Tianbo Chenye Mining Co., Ltd.	Sale of water-saving product	1,950,827.40	973.8
Xinjiang Tianye Agricultural New and High Technology Co., Ltd.	Sale of water-saving product	69,260.00	104,344.93
Tianwai Cement Co., Ltd.*	Sale of water-saving product	8,757.00	6,745.97
Tianneng Chemical Co., Ltd.*	Sale of water-saving product	81,842.48	134,977.69
Shihezi Development Zone Huineng Industrial Equipment Installation Co., Ltd.*	Sale of water-saving product	2,342.50	886.1

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 *(continued)*

RELATED PARTIES	Information on related party transactions	Current period	Corresponding period last year
Turpan Tianye Mineral Development Co., Ltd.	Sale of water-saving product		
Shihezi Xinyuan Highway Transportation Co., Ltd.*	Sale of water-saving product	2,264.04	1,615.38
Toksun County Tianye Mineral Development Co., Ltd.*	Sale of water-saving product	4,858.00	3,788.89
Xinjiang Shihezi Tianda Tomato Products Co., Ltd.*	Sale of water-saving product	103.82	
Xinjiang Tianye Zhonghua Mining Co., Ltd.*	Sale of water-saving product		2,800.39
Xinjiang Tianye Huihe New Materials Co., Ltd.*	Sale of water-saving product	40,670.47	2,352.18
Jianshui Runnong Water Supply Co., Ltd.	Sale of water-saving product		8,916,525.72
Farm 8 Shihezi City Oasis Transportation Investment Co., Ltd.*	Sale of water-saving product	22,510,477.60	
XPCC Modern Green Chlor-Alkali Chemical Engineering and Research Center (with limited liability)*	Sale of water-saving product	2,362.75	
Xinjiang Shihezi City Zhongfa Chemical Co., Ltd.*	Sale of water-saving product	1,544.40	
Total		27,619,689.59	13,097,530.41

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

Name of lessee	Type of leased assets	Rental income recognized for the period	Rental income recognized for the corresponding period last year
Xinjiang Tianye Company Limited	Buildings	**393,546.63**	571,428.58
Xinjiang Tianye Company Limited	Equipment	**19,484.48**	55,728.21

2) The Company as a lessee

Name of lessor	Type of leased assets	Lease payment recognized for the period	Lease payment recognized for the corresponding period last year
Xinjiang Tianye Company Limited	Office and plant	**1,429,337.28**	1,455,820.00

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

(II) Information on related party transactions *(continued)*

3. Information on related party guarantee

The Company as a guaranteed party

Guarantor	Amount of guarantee	Commencement date of guarantee	Expiring date of guarantee	Whether the guarantee has been fulfilled
Xinjiang Tianye Company Limited	30,000,000.00	2018.9.3	2019.9.2	No

4. Compensation to key management personnel

Item	Current period	Corresponding period last year
Compensation to key management personnel	**2,885,911.39**	3,025,031.23

5. Remuneration of Directors and Supervisors

Item	Current period Salary and subsidy	Old age pension	Housing provident fund	Other social security insurance	Total
Executive Directors:	522,850.72	88,193.44	91,908.00	77,517.81	780,469.97
Chen Lin (Note 1)	118,005.00	22,420.00	14,160.00	29,195.20	183,780.20
Zhang Qiang (Note 2)					
Li He	246,600.12	34,856.64	58,446.00	11,771.57	351,674.33
Yang Wan Sen	158,245.60	30,916.80	19,302.00	36,551.04	245,015.44
Independent non-executive Directors:	95,514.36				95,514.36
Qin Ming	30,000.00				30,000.00
Yin Feihu	30,000.00				30,000.00
Mak King Sau (Note 3)	35,514.36				35,514.36
Supervisors:	180,060.08	34,418.88	19,848.00	43,755.26	278,082.22
Chen Jun	180,060.08	34,418.88	19,848.00	43,755.26	278,082.22
Xu Hong Zhen (Note 4)					
Chen Cailai (Note 5)					
Wang Jian					
Total	798,425.16	122,612.32	111,756.00	121,273.07	1,154,066.55

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

(II) Information on related party transactions *(continued)*

5. Remuneration of Directors and Supervisors *(continued)*

(continued from the previous table)

	Corresponding period last year				
Item	Salary and subsidy	Old age pension	Housing provident fund	Other social security insurance	Total
Executive Directors:	526,494.92	103,196.14	53,934.00	118,792.68	802,417.74
Chen Lin (Note 1)					
Zhang Qiang (Note 2)	127,560.00	25,460.04	11,604.00	18,387.24	183,011.28
Li He	236,219.72	52,274.06	23,874.00	54,957.96	367,325.74
Yang Wan Sen	162,715.20	25,462.04	18,456.00	45,447.48	252,080.72
Independent non-executive Directors:	109,200.00				109,200.00
Qin Ming	30,000.00				30,000.00
Yin Feihu	30,000.00				30,000.00
Mak King Sau (Note 3)	49,200.00				49,200.00
Supervisors:	213,212.08	44,555.95	15,654.00	52,401.91	325,823.94
Chen Jun	183,212.08	44,555.95	15,654.00	52,401.91	295,823.94
Xu Hong Zhen (Note 4)					
Wang Jian	30,000.00				30,000.00
Total	848,907.00	147,752.09	69,588.00	171,194.59	1,237,441.68

Notes 1: The remuneration and retirement benefits of Chen Lin were paid by the Company since 1st March, 2018.

Notes 2: The remuneration and retirement benefits of Zhang Qiang were paid by Tianye Group since 13th July, 2017, and the Company was not required to reimburse the remuneration and retirement benefits paid by Tianye Group.

Notes 3: Mak King Sau was retired as a Director of the Company on 1st November, 2018.

Notes 4: Xu Hong Zhen was retired as a Supervisor of the Company on 10th June, 2018.

Notes 5: Chen Cailai was appointed as a Supervisor of the Company on 10th June, 2018. The remuneration and retirement benefits of Chen Cailai 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.

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

(II) Information on related party transactions *(continued)*

6. Five highest paid employees

Of the five highest paid employees during the year, 2 (2017: 2) were Directors, whose detail remunerations are set out in note IX(II)4. The remunerations of the remaining 3 (2017: 3) employees who are not Directors are as set out below:

Item	Current period	Corresponding period last year
Salary, bonus, allowance and subsidy	**721,945.88**	530,936.76
Housing provident fund	**39,186.00**	144,488.16
Old age pension	**53,922.14**	45,204.00
Other social security insurance	**43,308.00**	123,096.49
Total	**858,362.02**	843,725.41

The remunerations of 3 (2017: 3) employees who are not Directors were within the following bands:

Item	Individuals of current period	Individuals of corresponding period last year
HK$0 to HK$1 million	**3**	3

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 Book balance	Closing balance Bad-debt provision	Opening balance Book balance	Opening balance Bad-debt provision
Trade receivables	Xinjiang Tianye Company Limited*	113,223.96		39,682.53	
	Jianshui Runnong Water Supply Co., Ltd.	2,764,666.18	36,824.85	8,916,525.72	89,165.26
	Tianbo Chenye Mining Co., Ltd.	194,184.00	5,825.52		
	Xinjiang Tianye Huihe New Materials Co., Ltd.*	632,000.00	18,960.00		
	Beijing Tianye International Agricultural Engineering and Technology Co., Ltd.*	3,137,258.97	94,117.77		
Sub-total		6,841,333.11	155,728.14	8,956,208.25	89,165.26
Other receivables	Aral Water Saving			14,996,171.60	
Sub-total				14,996,171.60	

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

(III) Amount due from/to related party *(continued)*

2. Amount due to related party

Name of item	Related party	Closing balance	Opening balance
Trade payables	Tianye Group	**75,726,795.41**	93,996,987.20
	Beijing Tianye International Agricultural Engineering and Technology Co., Ltd.*	**1,895,627.24**	5,795,627.24
	Shihezi City Taian Construction Work Co., Ltd.*	**2,536,003.77**	3,192,760.82
	Xinjiang Tianye Company Limited*	**3,807,787.92**	5,004,996.28
	Xinjing Bingtian Lvcheng Plastic Product Inspection Co., Ltd.	**17,493.70**	263,625.70
	Aral Water Saving		5,061,528.14
	Shihezi Development Zone Huineng Industrial Equipment Installation Co., Ltd.*		318,490.34
	Xinjiang Tianye Agricultural New and High Technology Co., Ltd.	**9,245.00**	
Sub-total		**83,992,953.04**	113,634,015.72
Other payables	Tianye Group	**200,000.00**	203,440.00
	Xinjiang Tianye Company Limited*	**1,785,675.00**	1,785,675.00
Sub-total		**1,985,675.00**	1,989,115.00

X. COMMITMENTS AND CONTINGENT LIABILITIES

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

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) Segment information

The Company has no multiple or cross-regional operations and 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 businesses 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.

(II) Other Events

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, 2017, the other receivables of the Company included the balance due from Tiannong Water Savings in the amount of RMB14,996,171.60, which was expected to be fully recovered and no provision for bad debts was made.

On 6 December 2018, liquidation of Aral Water Saving was completed. By completion of such liquidation, Aral Water Saving had an outstanding amount of RMB9,752,216.15due to the Company, tax payments advanced by the Company of RMB889,857.36 and liquidation costs of RMB150,000.00. On 31 January 2018, the Company received a payment of RMB9,905,649.33 from Aral Water Saving, and the remaining uncollectible balance of RMB886,424.18 was written off as bad debts. Aral Water Saving was de-registered with the administration for industry and commerce on 11 December 2018, and therefore the Company de-recognizes the long-term equity investments in Aral Water Saving and allowances for related impairment.

XIII. NOTES TO KEY ITEMS IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

(一) Notes to items in the Balance Sheet of the Company

1. Bill receivables and trade receivables

(1) Breakdown

1) Breakdown by category

Category	Closing balance: Book balance: Amount	Book balance: Percentage (%)	Bad-debt provision: Amount	Bad-debt provision: Percentage of provision (%)	Carrying amount
Bad-debt provision made on a separate basis	9,155,155.59	11.09	9,041,931.63	98.76	113,223.96
Including: Bill receivables					
Trade receivables	9,155,155.59	11.09	9,041,931.63	98.76	113,223.96
Bad-debt provision made on a group basis	73,430,753.03	88.91	8,240,895.34	11.22	65,189,857.69
Including: Bill receivables	1,200,000.00	1.45			1,200,000.00
Trade receivables	72,230,753.03	87.46	8,240,895.34	11.41	63,989,857.69
Total	82,585,908.62	100.00	17,282,826.97	20.93	65,303,081.65

Category	Opening balance: Book balance: Amount	Book balance: Percentage (%)	Bad-debt provision: Amount	Bad-debt provision: Percentage of provision (%)	Carrying amount
Bad debts that are individually significant and for which provision has been separately made					
Provision for bad debts with similar credit risk characteristics	86,194,817.31	100.00	14,947,121.05	17.34	71,247,696.26
Bad debts that are individually insignificant but for which provision has been separately made					
Total	86,194,817.31	100.00	14,947,121.05	17.34	71,247,696.26

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

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

1. Bill receivables and trade receivables *(continued)*

(1) Breakdown (continued)

2) Trade receivables for which separate bad-debt provision is made at the end of the period

Name of entity	Book balance	Bad-debt provision	Percentage of provision (%)	Reason for provision
Trade receivables				
Liaoning Dongrun Seed Industry Co., Ltd.* (Yi County, Jinzhou)	3,000,000.00	3,000,000.00	100.00	In the process of legal proceedings due to insolvency of the counterparty
Regiment No. 124 of Farm 7	2,761,283.08	2,761,283.08	100.00	Beyond the national budget for the project after inspection and auditing, with no extrabudgetary funds being disbursed
Kaiyuan Agricultural Technology Promotion Center*	1,431,850.12	1,431,850.12	100.00	Expected to be irrecoverable due to on-going appeal
Heilongjiang Province Fuyu Pasture*	831,520.00	831,520.00	100.00	Expected to be irrecoverable due to disagreement on the quality upon acceptance
Xinjiang Asina Agricultural Corporation	531,786.65	531,786.65	100.00	The Company has won the lawsuit, but the counterparty was insolvent
Liaoning Shenyang Licheng Agricultural Machinery Professional Cooperative	192,330.00	192,330.00	100.00	In the process of legal proceedings, expected to be irrecoverable
Regiment No. 128 of Farm 7	147,681.25	147,681.25	100.00	Expected to be irrecoverable
People's Government of Yujiawobao Township, Xinmin City	100,001.00	100,001.00	100.00	Expected to be irrecoverable
Regiment No. 64 of Farm 4	45,479.53	45,479.53	100.00	Expected to be irrecoverable
Plastic factory of Xinjiang Tianye Company Limited	113,223.96			A related party, without credit losses after testing
Sub-total	13,767,201.67	13,653,977.71	99.18	

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

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

1. Bill receivables and trade receivables *(continued)*

(1) Breakdown (continued)

3) Bill receivables for which bad-debt provision has been made using group provision method

Item	Closing balance Book balance	Bad-debt provision	Percentage of provision (%)
Group of bank acceptance bills	1,200,000.00		
Sub-total	1,200,000.00		

4) Trade receivables for which bad-debt provision has been made using group provision method

Item	Closing balance Book balance	Bad-debt provision	Percentage of provision (%)
Group of receivables from non-government authorities	44,187,181.38	2,899,855.38	6.56
Group of receivables from government authorities	28,043,571.65	5,341,039.96	19.05
Sub-total	72,230,753.03	8,240,895.34	11.41

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

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

1. Bill receivables and trade receivables *(continued)*

(1) Breakdown (continued)

4) Trade receivables for which bad-debt provision has been made using group provision method *(continued)*

① In the group of receivables from non-government authorities, trade receivables for which bad-debt provision has been made using the comparison table of aging loss rates

Aging	Closing balance		
	Book balance	Bad-debt provision	Percentage of provision (%)
Within 1 year (inclusive, same rule applies below)	40,247,227.10	1,207,416.81	3.00
1–2 years	1,311,000.00	196,650.00	15.00
2–3 years	894,600.00	178,920.00	20.00
3–4 years	834,971.42	417,485.71	50.00
4–5 years			50.00
Over 5 years	899,382.86	899,382.86	100.00
Sub-total	44,187,181.38	2,899,855.38	6.56

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

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

1. Bill receivables and trade receivables *(continued)*

(1) Breakdown (continued)

4) Trade receivables for which bad-debt provision has been made using group provision method *(continued)*

② In the group of receivables from government authorities, trade receivables for which bad-debt provision has been made using the comparison table of aging loss rates

Aging	Closing balance Book balance	Bad-debt provision	Percentage of provision (%)
Within 1 year (inclusive, same rule applies below)	**2,294,672.07**	**22,946.72**	**1.00**
1–2 years	**11,371,661.67**	**568,583.08**	**5.00**
2–3 years	**3,288,853.68**	**328,885.37**	**10.00**
3–4 years	**5,790,071.74**	**1,447,517.94**	**25.00**
4–5 years	**2,762,114.46**	**690,528.62**	**25.00**
Over 5 years	**2,536,198.03**	**2,282,578.23**	**90.00**
Sub-total	**28,043,571.65**	**5,341,039.96**	**19.05**

(2) Changes in bad-debt provision

Item	1st January, 2018	Increase during the period Provision	Recovery	Others	Decrease during the period Write-back	Write-off	Others	Closing balance
Trade receivables	19,351,768.05				2,068,941.08			**17,282,826.97**
Sub-total	19,351,768.05				2,068,941.08			**17,282,826.97**

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

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

1. Bill receivables and trade receivables *(continued)*

(3) Top 5 trade receivables

Name of entity	Book balance	Percentage to trade receivables balance (%)	Bad-debt provision
Inner Mongolia Mining Exploitation Co., Ltd.	15,506,622.94	19.25	465,198.69
Huanghuagou Project Construction Office of Fuhai County*	10,965,595.87	13.61	548,279.79
Xinjiang Jiarun International Trade Development Co., Ltd.*	8,076,971.98	10.02	242,309.16
Regiment No. 121 of Farm 8	3,719,495.99	4.62	111,584.88
Water Conservancy Construction Management Office of the Forth Agricultural Division	3,431,080.39	4.26	714,061.31
Sub-total	41,699,767.17	51.76	2,081,433.83

(4) Information on bill 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	**6,820,000.00**	
Sub-total	**6,820,000.00**	

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.

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

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

2. Other receivables

(1) Breakdown

1) Breakdown by category

Category	Closing balance				
	Book balance		Bad-debt provision		
	Amount	Percentage (%)	Amount	Percentage of provision (%)	Carrying amount
Bad-debt provision made on a separate basis	94,960,854.32	98.50			94,960,854.32
Including: Interests receivables					
Dividend receivables					
Other receivables	94,960,854.32	98.50			94,960,854.32
Bad-debt provision made on a group basis	1,447,541.35	1.50	866,122.64	59.83	581,418.71
Including: Interests receivables					
Dividend receivables					
Other receivables	1,447,541.35	1.50	866,122.64	59.83	581,418.71
Total	96,408,395.67	100.00	866,122.64	0.90	95,542,273.03

Category	Opening balance				
	Book balance		Bad-debt provision		
	Amount	Percentage (%)	Amount	Percentage of provision (%)	Carrying amount
Bad debts that are individually significant and for which provision has been separately made					
Provision for bad debts with similar credit risk characteristics	92,645,745.79	100.00	1,224,836.81	1.32	91,420,908.98
Bad debts that are individually insignificant but for which provision has been separately made					
Total	92,645,745.79	100.00	1,224,836.81	1.32	91,420,908.98

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

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

2. Other receivables *(continued)*

(1) Breakdown (continued)

2) Other receivables for which separate bad-debt provision is made at the end of the period

Name of entity	Book balance	Bad-debt provision	Percentage of provision(%)	Reason for provision
Akesu Tianye	49,891,596.21			Subsidiaries within the scope of consolidation, without credit losses after testing
Tiancheng Water Saving	20,826,941.27			Subsidiaries within the scope of consolidation, without credit losses after testing
Kuitun Water Saving	18,192,253.61			Subsidiaries within the scope of consolidation, without credit losses after testing
Xiying Water Saving	2,720,000.00			Subsidiaries within the scope of consolidation, without credit losses after testing
Liaoning Tianye	1,680,992.17			Subsidiaries within the scope of consolidation, without credit losses after testing
Hami Tianye	1,649,071.06			Subsidiaries within the scope of consolidation, without credit losses after testing
Sub-total	94,960,854.32			

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

(一) 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 on a group basis

Name	Closing balance		
	Book balance	Bad-debt provision	Percentage of provision (%)
Group of receivables from non-government authorities	870,337.66	362,639.32	41.67
Group of receivables from government authorities	577,203.69	503,483.32	87.23
Sub-total	1,447,541.35	866,122.64	59.83

(2) Changes in bad-debt provision

Item	1st January, 2018	Increase during the period			Decrease during the period			Closing balance
		Provision	Recovery	Others	Write-back	Write-off	Others	
Interests receivables								
Dividend receivables								
Other receivables	758,865.92	993,680.90			886,424.18			866,122.64
Sub-total	758,865.92	993,680.90			886,424.18			866,122.64

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

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

2. Other receivables *(continued)*

(3) Other receivables actually written off during the current period

1) Other receivables actually written off amounted to RMB886,424.18.

2) Other significant receivables written off during the current period

Name of entity	Nature	Write-off amount	Reason for write-off	Write-off procedures performed	Whether the amount was arising from related party transactions
Aral Water Saving	Current account	886,424.18	Deregistration	Business deregistration	Yes
Sub-total		886,424.18			

3) Information on the write off of other receivables

For details, please refer to the information of Note XII (II) Other Events.

(4) Category of other receivables by nature

Nature	Closing balance	Opening balance
Security deposits	**892,122.49**	1,910,701.69
Amounts due from subsidiaries	**94,960,854.32**	90,383,672.85
Provisional accounts receivables	**555,418.86**	351,371.25
Total	**96,408,395.67**	92,645,745.79

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

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

2. Other receivables *(continued)*

(5) Top 5 other receivables

Name of entity	Nature	Book balance	Aging	Percentage in the balance of other receivables (%)	Bad-debt provision
Akesu Tianye	Current account	49,891,596.21	Within 1 year and 1–3 years	51.75	
Tiancheng Water Saving	Current account	20,826,941.27	Within 1 year and 1–5 years	21.60	
Kuitun Water Saving	Current account	18,192,253.61	Within 1 year and 1–2 years	18.87	
Xiying Water Saving	Current account	2,720,000.00	Within 1 year	2.82	
Liaoning Yianye	Current account	1,680,992.17	Within 1 year	1.74	
Sub-total		93,311,783.26		96.79	

3. Long-term equity investments

(1) Breakdown

Item	Closing balance		
	Book balance	Provision for impairment	Carrying amount
Investments in subsidiaries	198,985,620.47	25,421,001.93	173,564,618.54
Investments in associates	7,856,660.42		7,856,660.42
Total	206,842,280.89	25,421,001.93	181,421,278.96

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

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

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

(1) Breakdown (continued)

(continued from the previous table)

Item	Opening balance Book balance	Provision for impairment	Carrying amount
Investments in subsidiaries	179,485,270.74	30,611,832.20	148,873,438.54
Investments in associates	7,856,660.42		7,856,660.42
Total	187,341,931.16	30,611,832.20	156,730,098.96

(2) Investments in subsidiaries

Investee	Opening balance	Increase during the period	Decrease during the period	**Closing balance**	Provision for impairment Closing balance
Hami Tianye	11,549,490.47			**11,549,490.47**	4,656,161.32
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	392,680.00		**10,652,680.00**	7,319,332.94
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		
Liaoning Tianye	10,000,000.00			**10,000,000.00**	826,256.38
Zhongxinnong Water Saving	5,900,000.00			**5,900,000.00**	
Wisdom Agriculture	700,000.00			**700,000.00**	12,719.05
Nanjiang Water Saving	20,000,000.00			**20,000,000.00**	606,532.24
Xiyu Water Conservancy		4,798,300.00		**4,798,300.00**	
Xiying Water Saving		6,970,200.00		**6,970,200.00**	
Shaya Tianye		15,000,000.00		**15,000,000.00**	
Sub-total	179,485,270.74	27,161,180.00	7,660,830.27	**198,985,620.47**	25,421,001.93

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

(一) 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: Increase	Decrease	Investment profit and loss recognized with the equity method	Adjustment of other consolidated return
Associates					
Xinjiang Tianye Ecological Technology Company Limited*	5,000,000.00				
Jianshui Runnong Water Supply Co., Ltd.	2,675,186.49			181,473.93	
Total	7,675,186.49			181,473.93	

(continued from the previous table)

Investee	Increase or decrease during the period: Other change to Equity	Cash dividends or profit distribution declared	Provision for impairment	Others	Closing balance	Provision for impairment closing balance
Associates						
Xinjiang Tianye Ecological Technology Company Limited*					**5,000,000.00**	
Jianshui Runnong Water Supply Co., Ltd.					**2,856,660.42**	
Total					**7,856,660.42**	

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 Parent Company

1. Operating income/operating cost

Item	Current period		Corresponding period last year	
	Income	Cost	Income	Cost
Income form principal businesses	**216,029,634.81**	**198,294,584.81**	288,656,674.04	254,765,616.98
Income from other businesses	**22,593,235.93**	**21,572,455.53**	12,022,042.58	11,297,167.58
Total	**238,622,870.74**	**219,867,040.34**	300,678,716.62	266,062,784.56

2. Research and development expenses

Item	Current period	Corresponding period last year
Employee remuneration	**1,517,600.87**	2,727,461.58
Travel expenses	**894,743.64**	737,508.37
Depreciation and amortization charges	**390,530.51**	215,727.64
Materials	**381,024.00**	219,919.28
Other expenses	**177,870.06**	403,009.06
Total	**3,361,769.08**	4,303,625.93

3. Investment income

Item	Current period	Corresponding period last year
Return on long-term equity investment accounted with the equity method	**181,473.93**	–91,873.28
Return on long-term equity investment accounted with the cost method	**7,153,964.36**	
Total	**7,335,438.29**	–91,873.28

XIV. OTHER SUPPLEMENTAL INFORMATION

(I) Non-recurring profit and loss

1. Breakdown of non-recurring profit and loss

(1) Breakdown

Item	Amount	Note
Profit and loss from disposal of non-current asset, include	–431,188.00	
unauthorized approval of write-off portion of provision for asset impairment, or with no official approval documents, or accidental tax rebate and exemption		
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	4,071,116.94	
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		
Profit and loss from commissioned investment or asset management		
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		
Reversal of receivables impairment provision with impairment test performed separately		

XIV. OTHER SUPPLEMENTAL INFORMATION *(continued)*

(I) Non-recurring profit and loss *(continued)*

1. Breakdown of non-recurring profit and loss *(continued)*

(1) Breakdown

Item	Amount	Note
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	632,745.54	
Other profit and loss items in line with the definition of non-recurring profits and losses		
Sub-total	4,272,674.48	
Less: Affected amount of EIT (decrease is denoted as "–")	477,173.78	
Affected amount of minority interest (after tax)	324,676.32	
Net non-recurring profit or loss attributable to owners of the Parent Company	3,470,824.38	

(2) Description of major non-recurring profit and loss items

For details on government grants included in the profit or loss for the current period, please refer to Note V (II) 9 to the financial statement.

(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	–7.55	–0.0917	–0.0917
Net profits attributable to the ordinary shareholders of the Company after non-recurring profit or loss	–8.10	–0.0984	–0.0984

XIV. OTHER SUPPLEMENTAL INFORMATION *(continued)*

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

2. Calculation of weighted average return on net asset

Item	No.	Current period
Net profits attributable to the ordinary shareholders of the Company	A	–47,636,809.08
Non-recurring profit or loss	B	3,470,824.38
Net profits attributable to the ordinary shareholders of the Company after non-recurring profit or loss	C=A-B	–51,107,633.46
Opening balance of net asset attributable to the ordinary shareholders of the Company	D	654,699,342.63
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 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 accumulated from the month after the month of addition or reduction of net assets to the end of the reporting period	J2	
Number of months during the reporting period	K	12
Weighted average net asset	L= D+A/2+ E×F/ K-G×H/K±I×J/K	630,880,938.09
Weighted average return on net asset	M=A/L	–7.55%
Weighted average return on net asset after non-recurring profit or loss	N=C/L	–8.10%

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	No.	Current period
Net profits attributable to the ordinary shareholders of the Company	A	–47,636,809.08
Non-recurring profit or loss	B	3,470,824.38
Net profits attributable to the ordinary shareholders of the Company after non-recurring profit or loss	C=A-B	–51,107,633.46
Opening 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×G/K-H×I/K-J	519,521,560.00
Basic earnings per share	M=A/L	–0.0917
Basic earnings per share after non-recurring profit or loss	N=C/L	–0.0984

(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

29th March, 2019

The table below summarizes the audited results, assets and liabilities of the Group for the years ended 31st December, 2018, 2017, 2016, 2015 and 2014.

RESULTS

	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Turnover	**536,157**	738,121	671,402	667,448	700,812
Total comprehensive (loss)/ income attributable to owners of the Parent Company	**(47,637)**	1,349	(57,339)	(6,794)	2,080

ASSETS AND LIABILITIES

	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Total assets	**957,773**	1,003,334	983,306	1,032,432	1,045,700
Total liabilities	**341,195**	337,103	318,953	309,624	313,898
Minority interest	**(9,340)**	(11,532)	(11,002)	(12,119)	(14,319)
Total equity attributable to owners of the Parent Company	**607,238**	654,699	653,351	710,689	717,483

Property Interests held by the Group in the PRC

For the year ended 31 December 2018

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