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**新疆天业节水灌溉股份有限公司**  
**XINJIANG TIANYE WATER SAVING IRRIGATION SYSTEM COMPANY LIMITED\***

*(a joint stock limited company incorporated in the People's Republic of China)*

**(Stock Code: 840)**

**Annual Results for the Year Ended 31st December, 2012**

**GROUP FINANCIAL SUMMARY**

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

## RESULTS

The board (the “Board”) of directors (the “Directors”) of Xinjiang Tianye Water Saving Irrigation System Company Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2012, together with the comparative figures for the corresponding period in 2011 as follows:

### Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2012

Item	Notes	Current period RMB	Last period RMB
<b>1. Operating revenue</b>		<b>762,836,791.23</b>	690,415,862.45
Including: Operating income	4	<b>762,836,791.23</b>	690,415,862.45
<b>2. Operating cost</b>		<b>756,227,364.97</b>	672,140,675.51
Including: Cost of sales	4	<b>680,333,238.28</b>	605,486,879.49
Business taxes and surcharges		<b>4,020,349.34</b>	920,064.67
Distribution costs		<b>46,518,432.73</b>	39,240,704.01
Administrative expenses	5	<b>20,250,690.39</b>	20,567,657.95
Finance costs	6	<b>5,309,539.36</b>	4,843,259.45
Assets impairment loss	7	<b>-154,885.13</b>	1,082,109.94
Add: Gain on changes in fair value (loss shall be stated as “-”)		—	4,487,625.00
Investment income (loss shall be stated as “-”)		<b>-472,500.00</b>	410,100.00
Including: Investment income from associates and jointly controlling entities		—	—
<b>3. Operating profits (loss shall be stated as “-”)</b>		<b>6,086,926.26</b>	23,172,911.94
Add: Non-operating income		<b>2,320,935.40</b>	2,258,935.14
Less: Non-operating expenses		<b>2,424,363.84</b>	806,844.55
Including: Loss on disposal of non-current assets		—	—
<b>4. Total profits (loss shall be stated as “-”)</b>		<b>5,983,497.82</b>	24,625,002.53
Less: Income tax expenses	8	<b>2,771,197.40</b>	4,503,038.02
<b>5. Net profits (loss shall be stated as “-”)</b>		<b>3,212,300.42</b>	20,121,964.51
Attributable to owners of the Company		<b>3,211,391.48</b>	21,238,390.30
Attributable to non-controlling interests		<b>908.94</b>	-1,116,425.79
<b>6. Earnings per share:</b>			
(1) Basic earnings per share	10	<b>0.01</b>	0.04
(2) Diluted earnings per share	10	<b>0.01</b>	0.04
<b>7. Other comprehensive income</b>		—	—
<b>8. Total comprehensive income</b>		<b>3,212,300.42</b>	20,121,964.51
Attributable to owners of the Company		<b>3,211,391.48</b>	21,238,390.30
Attributable to non-controlling interests		<b>908.94</b>	-1,116,425.79

## Consolidated Statement of Financial Position

As at 31st December, 2012

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

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

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2012

### 1. CORPORATE BACKGROUND

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

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

### 2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS

#### 2.1. Basis of preparation

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

#### 2.2. Statement of compliance

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

#### 2.3. Financial year

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

#### 2.4. Reporting currency

The reporting currency was Renminbi.

#### 2.5. Preparation basis of consolidated financial statements

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

## 2.6 Change in accounting standards

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

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

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

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

## 3. TAXATION

### Enterprise income tax (“EIT”)

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

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

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

#### 4. OPERATING INCOME/OPERATING EXPENSES

##### (1) Details

Item	Current period	Last period
Operating income from principal activities	762,836,791.23	628,046,482.25
Other operating income	—	—
Operating expenses	680,333,238.28	605,486,879.49

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

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

##### (3) Operating income/operating expenses from principal activities (by region)

Name of region	Current period	Last period
Xinjiang	475,660,479.25	406,838,240.75
PRC excluding Xinjiang	287,176,311.98	278,074,493.24
Overseas	—	5,503,128.46
Sub-total	<u>762,836,791.23</u>	<u>690,415,862.46</u>

#### 5. ADMINISTRATIVE EXPENSES

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

**6. FINANCE COSTS**

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

**7. ASSETS IMPAIRMENT LOSS**

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

**8. INCOME TAX EXPENSES**

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

**9. DIVIDENDS**

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



## 10. CALCULATIONS OF BASIC AND DILUTED EARNINGS PER SHARE

### (1) Calculations of basic earnings per share

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

### (2) Calculations of diluted earnings per share

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

## 11. TRADE RECEIVABLES

### (1) Details

#### 1) Details by category

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

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

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

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

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

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

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

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

(2) Trade receivables actually written off for the period

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

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

## 12. TRADE PAYABLES

(1) Details

Age	Closing balance	Opening balance
Within 1 year	165,824,191.15	108,915,235.96
1–2 years	817,239.03	236,427.47
2–3 years	124,980.97	1,149,625.93
Over 3 years	2,092,250.99	2,684,481.17
Sub-total	<u>168,858,662.14</u>	<u>112,985,770.53</u>
Item	Closing balance	Opening balance
Payment for goods	<u>168,858,662.14</u>	<u>112,985,770.53</u>
Total	<u>168,858,662.14</u>	<u>112,985,770.53</u>

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

## CHANGE IN ACCOUNTING STANDARDS

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

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

For differences between the owners’ equity as at 31 December 2011 and net profit for the year of 2011 prepared under the ASBE and those prepared under the HKFRS, please refer to Note 2.6 to the financial statements in this announcement.

## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULTS OF OPERATIONS

#### Turnover

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

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

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

The change in turnover for the year ended 31st December, 2012 was mainly attributable to the effect of an expansion of farmland fitted with the water saving irrigation products of the Group. For the year ended 31st December, 2012, sales of drip films and drip assemblies increased by approximately 20.91% to approximately RMB477,943,000, while sales of PVC/PE pipelines decreased by approximately 5.33% to approximately RMB279,398,000. At the same time, the sales volume of drip films and drip assemblies increased from approximately 30,667 tonnes for the year ended 31st December, 2011 to

approximately 36,307 tonnes for the year ended 31st December, 2012, while the sales volume of PVC/PE pipelines increased from approximately 40,483 tonnes for the year ended 31st December, 2011 to approximately 41,027 tonnes for the year ended 31st December, 2012. The increase in the sales volume of the Group's products was mainly attributable to the growth in demand for water saving irrigation system in the PRC.

### **Cost of sales**

For the year ended 31st December, 2012, cost of sales of the Group was approximately RMB680,333,000, an increase of approximately 12.36% from approximately RMB605,487,000 for the year ended 31st December, 2011. Costs of sales for the year ended 31st December, 2012 comprised direct materials costs of approximately RMB581,140,000, direct labour costs of approximately RMB49,936,000 and production overhead of approximately RMB49,257,000, which accounted for approximately 85.42%, 7.34% and 7.24%, respectively, of the total costs of sales for the year under review. Costs of sales for the year ended 31st December, 2011 comprised direct materials costs of approximately RMB492,076,000, direct labour costs of approximately RMB19,376,000 and production overhead of approximately RMB94,035,000, which accounted for approximately 81.27%, 3.20% and 15.53%, respectively, of the total costs of sales for 2011.

### **Non-operating income**

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

### **Distribution costs**

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

### **Administrative expenses**

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

### **Operating profits**

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

## **Finance costs**

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

## **Profit attributable to owners of the Company**

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

## **PROSPECTS**

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

## **INDEBTEDNESS**

### **Borrowings**

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

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

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

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

### **Commitments**

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

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

### **Liquidity ratios**

The current ratio and quick ratio of the Group as at 31st December, 2012 were approximately 2.45 and 0.79, respectively, representing an increase of 0.06 and 0.09 respectively when compared to 31st December, 2011. This is primarily due to decrease in bank borrowings during the year under review.

### **Financial resources**

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

### **Capital expenditures**

For the year ended 31st December, 2012, capital expenditures of the Group in respect of acquisition of property, plant and equipment, deposit paid for acquisition of property, plant and equipment and prepaid lease payment amounted to approximately RMB6,091,000 (2011: approximately RMB26,024,000), which were in line with the expansion plans of the Group.

### **Capital structure**

For the year ended 31st December, 2012, the gearing ratio (which is defined as total borrowings over total equity) of the Group was approximately 13.70% (2011: approximately 16.75%). This is primarily due to the decrease in bank loans and increase in equity during the year. The Directors confirm that the Group financed its operations principally from cash generated from its business operations and banking facilities and had not experienced any liquidity problem for the year ended 31st December, 2012.

### **Funding and treasury policies**

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

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

### **Contingent liabilities**

As at 31st December, 2012, the Group had no contingent liabilities (2011: Nil).

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

The Group's present operations are mainly carried on in the PRC and all of the Group's monetary assets, loans and transactions are principally denominated in Renminbi ("RMB"). During the year under review, there was no significant fluctuation in the exchange rate of RMB and the Group is not exposed to any significant foreign currency exchange risk in its operations. The Group did not engage in any derivative activities and did not commit to any financial instruments to hedge its statement of financial position exposure in both 2011 and 2012.



## **EMPLOYEE AND SALARY POLICIES**

The Directors considered the quality of employees as the most critical factor in maintaining the Group's business growth and enhancing our profitability. The Group offers salary packages with reference to the performance and working experience of individual employees, and the prevailing market rates. As at 31st December, 2012, the Group had 1,258 employees (2011: 1,253).

## **MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES**

For the year ended 31st December, 2012, the Group had neither material acquisitions nor disposals of subsidiaries and associated companies.

## **MATERIAL INVESTMENTS**

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

## **DIVIDEND**

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

## **CLOSURE OF REGISTER OF MEMBERS**

The register of the members of the Company will be closed from Saturday, 11th May, 2013 to Friday, 31st May, 2013 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for entitlement to attend and vote at the forthcoming annual general meeting of the Company, all instrument of transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's H Share registrar in Hong Kong, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable and in any event not later than 4 p.m. on Friday, 10th May, 2013.

## **CORPORATE GOVERNANCE PRACTICES**

The Group believes that the application of rigorous corporate governance practices can lead to the improvement in its accountability and transparency of the Group and, thus, further instill confidence of its shareholders and the public. Throughout the financial year ended 31st December, 2012, the Group has complied with the code provisions in the "Corporate Governance Code and Corporate Governance Report" (the "**Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

## **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, 2012.



## **AUDIT COMMITTEE**

The Audit Committee has reviewed with the management, the consolidated financial statements of the Group for the year ended 31st December, 2012, the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters.

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

For the year ended 31st December, 2012, the Directors are not aware of any business or interest of the Directors, the Supervisors, the management, Shareholders and their respective associates (as defined under the Listing Rules) that competes or may compete (directly or indirectly) with the business of the Group and any other conflicts of interests which any such persons has or may have with the Group.

## **PRE-EMPTIVE RIGHTS**

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

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31st December 2012.

## **THE ANNUAL REPORT**

The annual report of the Company for the year ended 31st December, 2012 will be dispatched to the shareholders of the Company and published on the website of the Stock Exchange (<http://www.hkexnews.com.hk>) and the Company (<http://www.tianyejieshui.com.cn>) in due course.

## **APPRECIATION**

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

By order of the Board  
**Xinjiang Tianye Water Saving Irrigation System Company Limited\***  
**Yin Xiu Fa**  
Chairman

Xinjiang, the PRC, 28th March, 2013

*As at the date of this announcement, the Board comprises six executive Directors, namely Mr. Yin Xiu Fa (Chairman), Mr. Shi Xiang Shen, Mr. Li Shuang Quan, Mr. Zhu Jia Ji, Mr. Shao Mao Xu and Mr. Chen Lin and five independent non-executive Directors, namely Mr. He Lin Wang, Mr. Xia Jun Min, Mr. Gu Lie Feng, Mr. Mak King Sau and Mr. Wang Yun.*

\* For identification purpose only