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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, 2016**

**GROUP FINANCIAL SUMMARY**

- Operating income for the year ended 31st December, 2016 was approximately RMB671,402,000, an increase of approximately 0.59% from 2015.
- Net loss attributable to owners of the Company for the year ended 31st December, 2016 was approximately RMB57,339,000 (2015: net loss attributable to owners of the Company was approximately RMB6,794,000).
- Basic and diluted loss per share for the year was approximately RMB0.110 (2015: basic and diluted earnings per share of approximately RMB0.013).
- The Board does not recommend the payment of any dividend in respect of the year ended 31st December, 2016 (2015: Nil).

## 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, 2016, together with the comparative figures for the corresponding period in 2015 as follows:

### Consolidated Income Statement

For the year ended 31st December, 2016

Item	Notes	Current period RMB	Last period RMB
<b>1. Total operating revenue</b>		<b>671,401,919.12</b>	667,448,233.21
Including: Operating income	5	<b>671,401,919.12</b>	667,448,233.21
<b>2. Total operating cost</b>		<b>737,060,016.75</b>	684,576,617.83
Including: Cost of sales	5	<b>630,786,107.74</b>	608,638,571.23
Business taxes and surcharges		<b>4,724,211.98</b>	2,032,750.09
Distribution costs	6	<b>44,353,233.18</b>	41,672,153.67
Administrative expenses	7	<b>32,042,523.56</b>	25,291,958.03
Finance costs	8	<b>-373,630.31</b>	-255,272.97
Assets impairment loss	9	<b>25,527,570.60</b>	7,196,457.78
Add: Gain on changes in fair value (loss shall be stated as “-”)		<b>379,489.65</b>	-379,489.65
Investment income (loss shall be stated as “-”)		<b>2,797,442.09</b>	5,537,650.93
<b>3. Operating profits (loss shall be stated as “-”)</b>		<b>-62,481,165.89</b>	-11,970,223.34
Add: Non-operating income		<b>3,194,184.38</b>	6,199,371.94
Less: Non-operating expenses		<b>163,696.74</b>	501,561.35
<b>4. Total profits (total losses shall be stated as “-”)</b>		<b>-59,450,678.25</b>	-6,272,412.75
Less: Income tax expenses	10	<b>3,402,930.25</b>	1,221,777.91
<b>5. Net profits (net loss shall be stated as “-”)</b>		<b>-62,853,608.50</b>	-7,494,190.66
Net profit attributable to owners of the Company		<b>-57,338,617.49</b>	-6,793,864.99
Minority interests		<b>-5,514,991.01</b>	-700,325.67
<b>6. Earnings (loss) per share:</b>			
(1) Basic earnings per share	12	<b>-0.110</b>	-0.013
(2) Diluted earnings per share	12	<b>-0.110</b>	-0.013
<b>7. Other comprehensive income</b>		<b>0</b>	0
<b>8. Total comprehensive income</b>		<b>-62,853,608.50</b>	-7,494,190.66
Total consolidated income attributable to owners of the Company		<b>-57,338,617.49</b>	-6,793,864.99
Total consolidated income attributable to minority interests		<b>-5,514,991.01</b>	-700,325.67

**Consolidated Balance Sheet**  
As at 31st December, 2016

Item	Notes	Closing balance RMB	Opening balance RMB
Current assets:			
Cash		153,915,653.26	119,409,562.95
Bill receivables		1,400,000.00	1,230,000.00
Trade receivables	13	122,680,169.02	89,930,937.59
Prepayments		10,637,929.21	24,692,728.93
Other receivables		24,524,723.50	25,511,819.43
Inventories		474,709,231.54	565,701,953.06
Other current assets		6,003,724.89	2,296,120.01
		<hr/>	<hr/>
Total current assets		793,871,431.42	828,773,121.97
		<hr/>	<hr/>
Non-current assets:			
Long term equity investment		2,767,059.77	2,801,090.14
Investment property		0	8,135,753.19
Fixed assets		157,803,470.78	155,316,428.77
Construction in progress		14,956,003.12	21,897,634.04
Intangible assets		12,624,724.14	13,191,307.26
Long-term prepaid expenses		1,107,866.40	999,163.23
Deferred income tax assets		175,137.33	1,317,719.92
		<hr/>	<hr/>
Total non-current assets		189,434,261.54	203,659,096.55
		<hr/>	<hr/>
Total assets		<u>983,305,692.96</u>	<u>1,032,432,218.52</u>
		<hr/>	<hr/>
Current liabilities:			
Financial liabilities at FVTPL for the current period		0	379,489.65
Trade payables	14	187,472,303.28	209,249,563.31
Receipts in advance		88,621,576.20	66,392,456.70
Employee remuneration payable		7,318,025.13	6,589,881.94
Taxes payable		836,711.13	2,893,787.70
Other payables		25,775,682.78	14,389,937.23
		<hr/>	<hr/>
Total current liabilities		310,024,298.52	299,895,116.53
		<hr/>	<hr/>

**Consolidated Balance Sheet**  
*As at 31st December, 2016*

<b>Item</b>	<i>Notes</i>	<b>Closing balance</b> <i>RMB</i>	Opening balance <i>RMB</i>
Non-current liabilities:			
Deferred revenue		<b>8,928,621.82</b>	9,728,621.82
Total non-current liabilities		<b>8,928,621.82</b>	9,728,621.82
Total liabilities		<b>318,952,920.34</b>	309,623,738.35
Equity of owners:			
Share capital		<b>519,521,560.00</b>	519,521,560.00
Capital reserve		<b>15,372,472.17</b>	15,372,472.17
Surplus reserves		<b>34,724,097.27</b>	34,724,097.27
Retained profits		<b>83,732,561.06</b>	141,071,178.55
Total equity attributable to owners of the Company		<b>653,350,690.50</b>	710,689,307.99
Minority interests		<b>11,002,082.12</b>	12,119,172.18
Total equity of owners		<b>664,352,772.62</b>	722,808,480.17
Total liabilities and equity of owners		<b>983,305,692.96</b>	1,032,432,218.52

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2016

Expressed in RMB

### 1. CORPORATE BACKGROUND

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

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

### 2. BASIS OF PREPARATION FOR THESE FINANCIAL STATEMENTS

#### 2.1 Basis of preparation

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

#### 2.2 Abilities to continue as a going concern

None subsisting event or circumstance would cast material doubts to the going concern assumption of the Company for the 12 months from the end of the reporting period.

### 3. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

#### 3.1 Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements prepared by the Company are in accordance with the Accounting Standards for Business Enterprises (“ASBE”), and truly and completely present the financial position, the results of operations and cash flows of the Company.

#### 3.2 Accounting Period

The accounting year starts on 1st January and ends on 31st December.

## **NOTES TO FINANCIAL STATEMENTS**

*For the year ended 31st December, 2016*

### **3. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)**

#### **3.3 Operating cycle**

The operating cycle that the Company does business is shorter. The Company treats the 12-month as the criteria for the classification of the liquidity of assets and liabilities.

#### **3.4 Reporting currency**

The reporting currency was Renminbi.

#### **3.5 Preparation basis of consolidated financial statements**

The Company includes all subsidiaries under its control in the consolidation scope for 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.

#### **3.6 Significant accounting judgement 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 in the period in which the estimate is revised and in any future periods affected.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2016

### 4. TAXATION

#### Information on income tax rates of taxpayers with various tax rates

Name of taxpayer	Income tax rate (%)
Xinjiang Tianye Water Saving Irrigation System Company Limited, Gansu Tianye Water Saving Co., Ltd* (“Gansu Tianye”) (甘肅天業節水有限公司), Akesu Tianye Water Saving Co., Ltd* (“Akesu Tianye”) (阿克蘇天業節水有限公司), Shihezi Tiancheng Water Saving Device Co., Ltd* (“Tiancheng Water Saving”) (石河子市天誠節水器材有限公司), Kuitun Tiantun Water Saving Co., Ltd* (“Kuitun Water Saving”) (奎屯天屯節水有限責任公司), Zhongxinnong Modern Water Saving Technology Company Limited* (“Zhongxinnong Water Saving”) (中新農現代節水科技有限公司)	15
Hami Tianye Hongxing Water Saving Irrigation Co., Ltd* (“Hami Tianye”) (哈密天業紅星節水灌溉有限責任公司)	20
Other taxpayers other than the above-mentioned	25

#### Enterprise income tax (“EIT”)

- The Company and its subsidiaries, Gansu Tianye, Akesu Tianye and Kuitun Water Saving were subjected to an EIT tax rate of 15% in 2016 as it complied with the requirements of the tax concession policies of the Western Development.
- 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.
- 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%.
- Zhongxinnong Water Saving, a subsidiary mainly engaged in promotion and application of high-efficiency water saving technology, which belongs to “Promotion and Application of High-efficiency Water Transportation, Distribution and Conservation and Irrigation Technology” of Article 18 “Water Conservancy” under the Class I “Encouraged Category” of “Catalogue for the Guidance of Industrial Restructuring”, was subjected to an EIT tax rate of 15% in 2016.

### 5. OPERATING INCOME/COST OF SALES

#### (1) Breakdown

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

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2016

### 5. OPERATING INCOME/COST OF SALES (Continued)

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

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

#### (3) Operating income from principal businesses (by region)

Name of region	Current period	Corresponding period last year
Xinjiang	452,124,964.92	500,685,591.11
PRC excluding Xinjiang	188,138,862.80	151,147,714.58
Sub-total	<u>640,263,827.72</u>	<u>651,833,305.69</u>

### 6. DISTRIBUTION COSTS

Item	Current period	Corresponding period last year
Salaries, benefits and social security contributions	13,242,789.93	15,572,880.75
Transportation costs	12,740,457.87	11,684,194.63
Sale service fee	5,942,203.48	3,786,107.86
Warehousing and storage fees	2,099,644.00	2,153,946.40
Advertising fee	1,648,328.59	483,750.00
Tender fee	1,637,124.47	1,648,092.94
Depreciations	1,031,745.45	1,217,378.75
Site fees	1,013,200.64	671,912.69
Travel expenses	899,548.00	1,632,654.46
Others	4,098,190.75	2,821,235.19
Total	<u>44,353,233.18</u>	<u>41,672,153.67</u>



## NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2016

### 7. ADMINISTRATIVE EXPENSES

#### (1) Breakdown

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

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

### 8. FINANCE COSTS

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

### 9. ASSETS IMPAIRMENT LOSS

Item	Current period	Corresponding period last year
Bad debt loss	13,704,872.13	823,795.29
Inventory impairment loss	6,325,711.40	6,372,662.49
Impairment loss on fixed assets	5,496,987.07	0
Total	<u>25,527,570.60</u>	<u>7,196,457.78</u>

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2016

### 10. INCOME TAX EXPENSES

#### (1) Breakdown

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

#### (2) Reconciliation between accounting profit and income tax expenses

Item	Current period	Corresponding period last year
Total profits	-59,450,678.24	-6,272,412.75
EIT charges at the tax rate of 15% applicable to the parent company	-8,917,601.74	-940,861.91
Effect of different tax rates adopted by subsidiaries (5% and 10%)	-38,192.89	-67,922.80
Tax effect of expenses not deductible	1,788,129.08	67,349.01
Effect of deductible temporary differences that have not recognized for deferred income tax asset during the prior period	-81,862.93	-232,055.76
Effect of deductible temporary differences or deductible losses that have not recognized for deferred income tax asset during the period ( <i>Note</i> )	8,111,759.04	1,977,047.41
Effect of prior period income tax adjustment	2,540,699.69	418,221.96
Total	<u>3,402,930.25</u>	<u>1,221,777.91</u>

Note: The impact of deferred income tax assets is unrecognized for deductible temporary differences mainly because the subsidiaries suffering losses for the period are unsure whether sufficient taxable profit will be available.

#### (3) No profits tax in Hong Kong was levied because the Company and its subsidiaries did not generate profits in Hong Kong or gain profits from Hong Kong in 2016 and 2015.

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2016

### 11. DIVIDENDS

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

### 12. 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	-57,338,617.49
Non-recurring profit or loss	B	6,236,377.35
Net profits attributable to the ordinary shareholders of the Company after non-recurring profit or loss	C=A-B	-63,574,994.84
Open balance of total number of share	D	519,521,560.00
Number of shares increased due to capitalization of capital reserve or distribution of shares and dividend	E	
Number of shares increased due to new shares issuance or conversion of debt to capital	F	
Number of months accumulated from the month after 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 reduction of shares to the end of the reporting period	I	
Share reduction during the period	J	
Number of months during the period	K	12.00
Weighted average number of outstanding ordinary shares	$L=D+E+F \times G / K-H \times I / K-J$	519,521,560.00
Basic earnings per share	$M=A/L$	-0.1104
Basic earnings per share after non-recurring profit or loss	$N=C/L$	-0.1224

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

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

### 13. TRADE RECEIVABLES

#### 1) Aging analysis

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

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2016

### 13. TRADE RECEIVABLES (Continued)

#### 2) Breakdown by category

Category	Book balance		Closing balance		Carrying amount
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Individually significant and for which bad debt provision has been separately made	0	0.00	0	0.00	0
Bad debt provision made in portfolio as per credit risk features	145,187,186.60	100	22,507,017.58	15.50	122,680,169.02
Individually insignificant but for which bad debt provision has been separately made	0	0.00	0	0.00	0
<b>Total</b>	<b>145,187,186.60</b>	<b>100</b>	<b>22,507,017.58</b>	<b>15.50</b>	<b>122,680,169.02</b>

(Continued from above)

Category	Book balance		Opening balance		Carrying amount
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Individually significant and for which bad debt provision has been separately made	0	0.00	0	0.00	0
Bad debt provision made in portfolio as per credit risk features	98,656,250.20	100.00	8,725,312.61	8.84	89,930,937.59
Individually insignificant but for which bad debt provision has been separately made	0	0.00	0	0.00	0
<b>Total</b>	<b>98,656,250.20</b>	<b>100.00</b>	<b>8,725,312.61</b>	<b>8.84</b>	<b>89,930,937.59</b>

### 14. TRADE PAYABLES

#### Aging analysis

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULTS OF OPERATIONS

#### Operating income

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

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

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

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

#### Cost of sales

For the year ended 31st December, 2016, cost of sales of the Group was approximately RMB630,786,000, representing an increase of approximately 3.64% from approximately RMB608,639,000 for the year ended 31st December, 2015. Costs of sales for the year ended 31st December, 2016 comprised direct materials costs of approximately RMB520,903,000, direct labour costs of approximately RMB52,481,000 and production overhead of approximately RMB57,402,000, which accounted for approximately 82.58%, 8.32% and 9.10%, respectively, of the total costs of sales for year 2016. Costs of sales for the year ended 31st December, 2015 comprised direct materials costs of approximately RMB523,622,000, direct labour costs of approximately RMB44,267,000 and production overhead of approximately RMB40,750,000, which accounted for approximately 86.03%, 7.27% and 6.70%, respectively, of the total costs of sales for year 2015.

## **Non-operating income**

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

## **Distribution costs**

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

## **Administrative expenses**

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

## **Finance costs**

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

## **Operating loss**

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

## **Net loss attributable to owners of the Company**

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

## **FUTURE PROSPECTS**

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

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

## **INDEBTEDNESS**

### **Borrowings**

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

### **Commitments**

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

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

### **Liquidity ratios**

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

### **Financial resources**

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

### **Capital expenditures**

For the year ended 31st December, 2016, capital expenditures of the Group in respect of acquisition of property, plant and equipment, deposit paid for acquisition of property, plant and equipment and prepaid lease payment amounted to approximately RMB12,935,000 (2015: approximately RMB16,241,000), which were in line with the expansion plans of the Group.

## **Capital structure**

For the year ended 31st December, 2016, the gearing ratio (which is defined as total borrowings over total equity) of the Group was zero (2015: zero). This is primarily due to the fact that the Group did not have any bank loan during the year. The Directors confirm that the Group financed its operations principally from cash generated from its business operations and banking facilities and had not experienced any liquidity problem for the year ended 31st December, 2016.

## **Funding and treasury policies**

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

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

## **Contingent liabilities**

As at 31st December, 2016, the Group had no contingent liabilities (2015: Nil).

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

The Group's present operations are mainly carried on in the PRC and all of the Group's monetary assets, loans and transactions are principally denominated in Renminbi ("RMB"). During the year under review, there was no significant fluctuation in the exchange rate of RMB and the Group was not exposed to any significant foreign currency exchange risk in its operations. The Group did not engage in any derivative activities and did not commit to any financial instruments to hedge its statement of financial position exposure in both 2015 and 2016.

## **EMPLOYEE AND SALARY POLICIES**

The Directors considered the quality of employees as the most critical factor in maintaining the Group's business growth and enhancing our profitability. The Group offers salary packages with reference to the performance and working experience of individual employees, and the prevailing market rates. As at 31st December, 2016, the Group had 795 employees (2015: 806).

## **RETIREMENT BENEFIT SCHEME AND OTHER BENEFITS**

The Group provides employee benefits covering old-aged insurance scheme, medical insurance scheme, unemployment insurance scheme, labour injury insurance scheme and maternity insurance scheme (collectively under the social insurance scheme) for its staff, whereby the Group is required to make monthly contributions to these schemes. The Group has no obligation for the payment of retirement and other post-retirement benefits for employees save for the monthly contributions described above. Expenses incurred by the Group in connection with these retirement benefit plans were approximately RMB9,938,000 for the year ended 31st December, 2016.

The Group provides its staff in Hong Kong with a provident fund scheme in compliance with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). The Group is responsible for contributing 5% of the salary of the employees (up to a maximum of HK\$1,500 per month in respect of each employee) on a monthly basis to the fund.



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

For the year ended 31st December, 2016, the Group had neither material acquisitions nor disposals of subsidiaries and associated companies.

## **MATERIAL INVESTMENTS**

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

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

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

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

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

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

## **DIVIDEND**

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

## **CLOSURE OF REGISTER OF MEMBERS**

The register of the members of the Company will be closed from Friday, 26th May, 2017 to Thursday, 15th June, 2017 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for entitlement to attend and vote at the forthcoming annual general meeting of the Company, all instrument of transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's H Share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable and in any event not later than 4 p.m. on Thursday, 25th May, 2017.

## **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, 2016, the Group has complied with the code provisions in the "Corporate Governance Code and Corporate Governance Report" (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, as the code of conduct for securities transactions by the Directors and supervisors of the Company. Following specific enquiry made by the Company, all Directors and supervisors of the Company have confirmed that they have complied with the required standards under the Model Code for the year ended 31st December, 2016.

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

For the year ended 31st December, 2016, the Directors are not aware of any business or interest of the Directors, the Supervisors, the management, Shareholders and their respective associates (as defined under the Listing Rules) that competes or may compete (directly or indirectly) with the business of the Group and any other conflicts of interests which any such persons has or may have with the Group.

## **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, 2016.

## **AUDIT COMMITTEE**

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

## AUDITORS

The Company has appointed Pan China Certified Public Accountants LLP as the auditor of the Company and to audit the financial statements for the year ended 31st December, 2016.

## THE ANNUAL REPORT

The annual report of the Company for the year ended 31st December, 2016 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\***  
**Chen Lin**  
*Chairman*

Xinjiang, the PRC, 31st March, 2017

*As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Chen Lin (Chairman), Mr. Zhang Qiang, Mr. Li He and Mr. Yang Wan Sen, and three independent non-executive Directors, namely Mr. Yin Feihu, Mr. Qin Ming and Mr. Mak King Sau.*

\* *For identification purpose only*