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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, 2017

GROUP FINANCIAL SUMMARY

- Operating income for the year ended 31st December, 2017 was approximately RMB738,121,000, an increase of approximately 9.94% from 2016.
- Net profit attributable to owners of the Company for the year ended 31st December, 2017 was approximately RMB1,349,000 (2016: net loss attributable to owners of the Company was approximately RMB57,339,000).
- Basic and diluted earnings per share for the year was approximately RMB0.0026 (2016: basic and diluted loss per share of approximately RMB0.110).
- The Board does not recommend the payment of any dividend in respect of the year ended 31st December, 2017 (2016: 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, 2017, together with the comparative figures for the corresponding period in 2016 as follows:

Consolidated Income Statement

For the year ended 31st December, 2017

Item	Notes	Current period RMB	Restated Corresponding period last year RMB
1. Total operating revenue		738,120,525.79	671,401,919.12
Including: Operating income	5	738,120,525.79	671,401,919.12
2. Total operating cost		737,987,118.99	737,060,016.75
Including: Cost of sales	5	658,119,017.93	630,786,107.74
Business taxes and surcharges		4,365,555.47	4,724,211.98
Distribution costs	6	38,306,247.63	44,353,233.18
Administrative expenses	7	31,508,440.61	32,042,523.56
Finance costs	8	-1,615,253.64	-373,630.31
Assets impairment loss	9	7,303,110.99	25,527,570.60
Add: Gain on changes in fair value (loss shall be stated as “-”)		0	379,489.65
Investment income (loss shall be stated as “-”)		-91,873.28	2,797,442.09
Gain on disposal of assets		0	140,529.83
Other gains		2,150,418.85	0
3. Operating profits (loss shall be stated as “-”)		2,191,952.37	-62,340,636.06
Add: Non-operating income		304,466.15	3,053,654.55
Less: Non-operating expenses		104,187.31	163,696.74
4. Total profits (total losses shall be stated as “-”)		2,392,231.21	-59,450,678.25
Less: Income tax expenses	10	514,174.28	3,402,930.25

Consolidated Income Statement

For the year ended 31st December, 2017

Item	Notes	Current period	Corresponding period last year
		RMB	RMB
5. Net profits (net loss shall be stated as “-”)		1,878,056.93	-62,853,608.50
Net profit attributable to owners of the Company		1,348,652.13	-57,338,617.49
Minority interests		529,404.80	-5,514,991.01
6. Earnings (loss) per share:			
(1) Basic earnings per share	12	0.0026	-0.110
(2) Diluted earnings per share	12	0.0026	-0.110
7. Other comprehensive income		0	0
8. Total comprehensive income		1,878,056.93	-62,853,608.50
Total consolidated income attributable to owners of the Company		1,348,652.13	-57,338,617.49
Total consolidated income attributable to minority interests		529,404.80	-5,514,991.01

Consolidated Balance Sheet
As at 31st December, 2017

Item	<i>Notes</i>	Closing balance RMB	Opening balance RMB
Current assets:			
Cash		118,213,806.23	153,915,653.26
Bills receivables		0	1,400,000.00
Trade receivables	13	215,217,541.14	122,680,169.02
Prepayments		8,773,329.07	10,637,929.21
Other receivables		30,059,848.98	24,524,723.50
Inventories		435,116,690.84	474,709,231.54
Assets held for sales		206,610.00	0
Other current assets		3,887,891.72	6,003,724.89
		<hr/>	<hr/>
Total current assets		811,475,717.98	793,871,431.42
Non-current assets:			
Long term equity investment	14	7,675,186.49	2,767,059.77
Fixed assets		164,681,198.71	157,803,470.78
Construction in progress		3,996,158.12	14,956,003.12
Intangible assets		12,081,639.18	12,624,724.14
Long-term deferred expenses		1,664,977.15	1,107,866.40
Deferred income tax assets	15	1,759,436.28	175,137.33
		<hr/>	<hr/>
Total non-current assets		191,858,595.93	189,434,261.54
		<hr/>	<hr/>
Total assets		1,003,334,313.91	983,305,692.96
		<hr/> <hr/>	<hr/> <hr/>

Consolidated Balance Sheet
As at 31st December, 2017

Item	<i>Notes</i>	Closing balance RMB	Opening balance RMB
Current liabilities:			
Trade payables	16	254,483,099.10	187,472,303.28
Receipts in advance		42,145,925.47	88,621,576.20
Employee remuneration payables		7,422,721.10	7,318,025.13
Tax and levy payables	17	3,564,119.24	836,711.13
Other payables		20,617,104.66	25,775,682.78
		<u>328,232,969.57</u>	<u>310,024,298.52</u>
Total current liabilities			
Non-current liabilities:			
Deferred income		8,870,514.79	8,928,621.82
		<u>8,870,514.79</u>	<u>8,928,621.82</u>
Total non-current liabilities			
		<u>337,103,484.36</u>	<u>318,952,920.34</u>
Total liabilities			
Equity of owners:			
Share capital		519,521,560.00	519,521,560.00
Capital reserve		15,372,472.17	15,372,472.17
Surplus reserves		34,724,097.27	34,724,097.27
Undistributed profit		85,081,213.19	83,732,561.06
		<u>654,699,342.63</u>	<u>653,350,690.50</u>
Total equity attributable to owners of the Company			
Minority interests		11,531,486.92	11,002,082.12
		<u>666,230,829.55</u>	<u>664,352,772.62</u>
Total equity of owners			
		<u>1,003,334,313.91</u>	<u>983,305,692.96</u>
Total liabilities and equity of owners			

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2017

Expressed in RMB

1. CORPORATE BACKGROUND

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 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 sales of PVC materials for water supply pipes, PE piping materials and accessories, pressure compensatory drip tapes, labyrinth-style drip tapes, embedded-style drip tapes, and 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

No 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

Important: The Company formulated specific accounting policies and accounting estimates in respect of transactions or issues such as bad debt provisions for trade receivables, fixed asset depreciation, intangible assets amortization and revenue recognition based on the practical situation of production and operation.

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, 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, 2017

3. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

3.3 Operating cycle

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

3.4 Reporting currency

Renminbi is being adopted as the functional currency.

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.

3.7 Changes in Significant Accounting Policies

1. The Company has adopted the “Accounting Standards for Business Enterprises No. 42 — Non-current Assets Held for Sale, Disposal Groups and Discontinued Operation” formulated by the Ministry of Finance from 28 May 2017 and the revised “Accounting Standards for Business Enterprises No. 16 — Government Grants” from 12 June 2017. The changes in these accounting policies have been dealt with using the prospective application method.
2. The preparation of the 2017 statements of the Company follows the “Notice from the Ministry of Finance on the Revision of the Format for Issuing General Enterprise Financial Statements” (Cai Kuai 2017 No. 30) to change the gains and losses on disposal of non-current assets and the gains and losses from exchange of non-monetary assets under the “non-operating income” and the “non-operating expense” as the “gains on disposal of assets”. The changes in such accounting policy have been dealt with by using the retrospective adjustment method. The non-operating income for 2016 decreased by RMB140,529.83, and the gains on disposal of assets increased by RMB140,529.83.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2017

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”)

- (1) The Company and its subsidiaries, Gansu Tianye, Akesu Tianye and Kuitun Water Saving were subjected to an EIT tax rate of 15% in 2017 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 the No. 9 Order 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 2017.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2017

5. OPERATING INCOME/COST OF SALES

(1) Breakdown

Item	Current period		Corresponding period last year	
	Income	Cost	Income	Cost
Income from principal businesses	704,414,046.39	628,712,622.38	640,263,827.72	603,285,898.22
Income from other businesses	<u>33,706,479.40</u>	<u>29,406,395.55</u>	<u>31,138,091.40</u>	<u>27,500,209.52</u>
Total	<u>738,120,525.79</u>	<u>658,119,017.93</u>	<u>671,401,919.12</u>	<u>630,786,107.74</u>

(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	294,254,451.31	269,184,213.28	299,163,730.73	317,145,590.12
PVC pipes/PE pipes	317,772,558.96	273,010,319.35	325,252,148.37	270,513,746.76
Project income	<u>92,387,036.12</u>	<u>86,518,089.75</u>	<u>15,847,948.62</u>	<u>15,626,561.34</u>
Sub-total	<u>704,414,046.39</u>	<u>628,712,622.38</u>	<u>640,263,827.72</u>	<u>603,285,898.22</u>

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

Name of region	Current period		Corresponding period last year
	Income	Cost	Income
Xinjiang	585,345,078.90		452,124,964.92
PRC excluding Xinjiang	<u>119,068,967.49</u>		<u>188,138,862.80</u>
Sub-total	<u>704,414,046.39</u>		<u>640,263,827.72</u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2017

6. DISTRIBUTION COSTS

Item	Current period	Corresponding period last year
Salaries, benefits and social security contributions	13,909,850.85	13,242,789.93
Transportation costs	10,456,357.49	12,740,457.87
Sale service fee	5,292,969.71	5,942,203.40
Warehousing and storage fees	2,043,025.05	2,099,644.00
Travel expenses	1,324,401.98	899,548.08
Depreciation and amortization charge	1,026,171.50	1,031,745.45
Advertising fee	924,086.25	1,648,328.59
Site fees	912,983.51	1,013,200.64
Tender fee	902,872.99	1,637,124.47
Others	1,513,528.30	4,098,190.75
Total	<u>38,306,247.63</u>	<u>44,353,233.18</u>

7. ADMINISTRATIVE EXPENSES

(1) Breakdown

Item	Current period	Corresponding period last year
Salaries, benefits and social security contributions	18,124,127.37	16,552,036.65
Technology development fee	4,503,944.54	497,056.75
Losses from work suspension	2,160,109.26	4,858,191.73
Depreciation and amortization charge	1,087,393.56	1,199,343.27
Agency service fees	1,267,290.68	1,887,443.03
Travel expenses	983,835.92	1,214,728.26
Car expenses	509,457.82	453,826.70
Lease fees	167,898.47	1,513,745.96
Taxes (note)	0	930,893.16
Others	2,704,382.99	2,935,258.05
Total	<u>31,508,440.61</u>	<u>32,042,523.56</u>

Note: According to the Regulations for the Accounting Treatment of VAT (Cai Kuai 2016 No. 22) and the Interpretation of Issues Concerning Regulations for the Accounting Treatment of VAT issued by the Ministry of Finance, the Company listed the “property tax”, “land use tax”, “stamp duty”, and “vehicle and vessel use tax” for the period from May to December 2016 and the year ended 2017 as “taxes and surcharges”, while the amount incurred prior to May 2016 remained listed as items under the “administrative expenses”.

- (2) Included in the administrative expenses for the year was RMB0.625 million of auditor’s remuneration (2016: RMB0.65 million).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2017

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	633,194.62	453,907.94
Less: Exchange gain	-1,044,145.28	-2,497.17
Add: Commission and other expenses	62,086.26	82,774.80
	<u>62,086.26</u>	<u>82,774.80</u>
Total	<u>-1,615,253.64</u>	<u>-373,630.31</u>

9. ASSETS IMPAIRMENT LOSS

Item	Current period	Corresponding period last year
Bad debt loss	5,005,526.29	13,704,872.13
Inventory impairment loss	2,210,957.79	6,325,711.40
Impairment loss on fixed assets	0	5,496,987.07
Impairment loss on assets held for sales	86,626.91	0
	<u>86,626.91</u>	<u>0</u>
Total	<u>7,303,110.99</u>	<u>25,527,570.60</u>

10. INCOME TAX EXPENSES

(1) Breakdown

Item	Current period	Corresponding period last year
Current income tax charges	2,098,473.23	2,260,347.66
Deferred income tax charges	-1,584,298.95	1,142,582.59
	<u>-1,584,298.95</u>	<u>1,142,582.59</u>
Total	<u>514,174.28</u>	<u>3,402,930.25</u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2017

10. INCOME TAX EXPENSES (Continued)

(2) Reconciliation between accounting profit and income tax expenses

Item	Current period	Corresponding period last year
Total profits	2,392,231.21	-59,450,678.25
EIT charges at the tax rate of 15% applicable to the parent company	358,834.68	-8,917,601.74
Effect of different tax rates applicable to subsidiaries (5% and 10%)	-317,238.58	-38,192.89
Effect of prior period income tax adjustment	274,740.72	2,540,699.69
Tax effect of expenses not deductible	669,695.44	1,788,129.08
Effect of deductible temporary differences that have not recognized for deferred income tax asset during the prior period	-726,811.61	-81,862.93
Effect of deductible temporary differences or deductible losses that have not recognized for deferred income tax asset during the period (<i>Note</i>)	254,953.63	8,111,759.04
Total	<u>514,174.28</u>	<u>3,402,930.25</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 2017 and 2016.

11. DIVIDENDS

The Board does not recommend the payment of any dividend in respect of the year ended 31st December, 2017 (2016: Nil).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2017

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	1,348,652.13
Non-recurring profit or loss	B	1,993,267.17
Net profits attributable to the ordinary shareholders of the Company after non-recurring profit or loss	C=A-B	-644,615.04
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	$M=A/L$	0.0026
Basic earnings per share after non-recurring profit or loss	$N=C/L$	-0.0012

(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	169,816,980.61	94,119,063.54
1-2 years	26,816,206.25	17,159,206.65
2-3 years	10,182,556.97	9,404,623.05
3-4 years	5,100,518.38	615,754.57
4-5 years	665,080.90	1,292,331.00
Over 5 years	2,636,198.03	89,190.21
Total	215,217,541.14	122,680,169.02

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2017

13. TRADE RECEIVABLES (Continued)

2) Breakdown by category

Category	Book balance		Closing balance Bad-debt provision		Carrying amount
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Individually significant and for which bad debt provision has been separately made	0	0	0	0	0
Bad debt provision made in portfolio as per credit risk features	242,363,363.37	100.00	27,145,822.23	11.20	215,217,541.14
Individually insignificant but for which bad debt provision has been separately made	0	0	0	0	0
Total	242,363,363.37	100.00	27,145,822.23	11.20	215,217,541.14

(Continued from above)

Category	Book balance		Opening balance Bad-debt provision		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	100.00	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
Total	145,187,186.60	100.00	22,507,017.58	15.50	122,680,169.02

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2017

14 LONG-TERM EQUITY INVESTMENTS

Item	Book Balance	Closing balance		Book Balance	Opening balance	
		Provision for impairment	Carrying amount		Provision for impairment	Carrying amount
Investments in subsidiaries	5,190,830.27	5,190,830.27	0	5,190,830.27	5,190,830.27	0
Investments in associates	<u>7,675,186.49</u>	<u>0</u>	<u>7,675,186.49</u>	<u>2,767,059.77</u>	<u>0</u>	<u>2,767,059.77</u>
Total	<u>12,866,016.76</u>	<u>5,190,830.27</u>	<u>7,675,186.49</u>	<u>7,957,890.04</u>	<u>5,190,830.27</u>	<u>2,767,059.77</u>

15. DEFERRED INCOME TAX ASSETS

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	<u>9,550,247.00</u>	<u>1,759,436.28</u>	<u>724,099.33</u>	<u>175,137.33</u>
Total	<u>9,550,247.00</u>	<u>1,759,436.28</u>	<u>724,099.33</u>	<u>175,137.33</u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2017

16. TRADE PAYABLES

Aging analysis

Age	Closing balance	Opening balance
Within 1 year	209,260,037.03	164,873,402.26
1–2 years	30,610,750.85	5,358,879.45
2–3 years	4,084,444.31	12,918,871.44
Over 3 years	10,527,866.91	4,321,150.13
Total	<u>254,483,099.10</u>	<u>187,472,303.28</u>

17. TAX AND LEVY PAYABLES

Item	Closing balance	Opening balance
VAT	2,578,487.17	127,698.75
EIT	376,742.78	346,408.59
Individual income tax withheld	114,938.86	32,895.20
City maintenance and construction tax	242,277.30	87,391.94
Property tax	36,000.00	36,000.00
Education surcharge	103,484.09	37,453.69
Local education surcharge	66,489.41	35,900.10
Stamp duty	45,699.63	132,962.86
Total	<u>3,564,119.24</u>	<u>836,711.13</u>

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Operating income

For the year ended 31st December, 2017, operating income of the Group was approximately RMB738,121,000, representing an increase of approximately 9.94% from approximately RMB671,402,000 for the year ended 31st December, 2016.

The following table summarises the breakdown of operating income of the Group for each of the two years ended 31st December, 2017 and 31st December, 2016 by products:

Category	For the year ended 31st December, 2017		For the year ended 31st December, 2016		Year-on- year percentage change
	Operating income <i>RMB'000</i>	% to total Operating income %	Operating income <i>RMB'000</i>	% to total Operating income %	
Drip tape and drip assemblies	294,255	39.86	299,164	44.56	-1.64
PVC/PE pipelines	317,773	43.05	325,252	48.44	-2.30
Provision of installation services	92,387	12.52	15,848	2.36	482.96
Other operating income	33,706	4.57	31,138	4.64	8.25
Total	<u>738,121</u>	<u>100.00</u>	<u>671,402</u>	<u>100.00</u>	<u>9.94</u>

For the year ended 31st December, 2017, sales of drip tape and drip assemblies slightly decreased by approximately 1.64% to approximately RMB294,255,000, while sales of PVC/PE pipelines decreased by approximately 2.30% to approximately RMB317,773,000. At the same time, the sales volume of drip tape and drip assemblies decreased from approximately 20,204 tonnes for the year ended 31st December, 2016 to approximately 19,515 tonnes for the year ended 31st December, 2017, while the sales volume of PVC/PE pipelines decreased from approximately 48,307 tonnes for the year ended 31st December, 2016 to approximately 38,945 tonnes for the year ended 31st December, 2017. The increase in operating income was mainly attributable to expansion of the installation service business during 2017.

Cost of sales

For the year ended 31st December, 2017, cost of sales of the Group was approximately RMB658,119,000, representing an increase of approximately 4.33% from approximately RMB630,786,000 for the year ended 31st December, 2016. 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. 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.

Non-operating income

For the year ended 31st December, 2016, non-operating income was approximately RMB3,054,000 and consisted mainly of long-term payments and government grants. Non-operating income for the year ended 31st December, 2017 was approximately RMB304,000 and consisted mainly of amounts not payable. Due to changes in the accounting standards, government grants were recorded in gains from other investments.

Distribution costs

Distribution costs were approximately RMB38,306,000 for the year ended 31st December, 2017, representing a decrease of approximately 13.63% from 2016. The amount accounted for approximately 5.19% of the total operating income for the year ended 31st December, 2017, which was slightly lower than its share of total operating income of approximately 6.61% 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, 2017, transportation costs, sales service fee and other fees decreased to RMB10,456,000, RMB5,293,000 and RMB1,514,000, representing a decrease of 17.93%, 10.92% and 63.06%.

Administrative expenses

Administrative expenses decreased by approximately 1.67% to approximately RMB31,508,000 for the year ended 31st December, 2017. The amount accounted for approximately 4.27% of total operating income for the year ended 31st December, 2017, which was lower than its share of total operating income of approximately 4.77% in the previous year. For the year ended 31 December, 2017, our technology development fee increased by approximately 806.24% to approximately RMB4,504,000, which was offset by a decrease in the following expenses. Loss from work suspension and lease fees dropped to approximately RMB2,160,000 and approximately RMB168,000, representing a decrease of approximately 55.54% and approximately 88.90%, respectively. Due to changes in the accounting policies, in 2017, taxes were listed as “taxes and surcharges” (2016: RMB931,000).

Finance costs

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

Operating profit

As a result of the factors discussed above, the Group's operating profit for the year ended 31st December, 2017 was approximately RMB2,191,952, representing an increase of approximately RMB64,533,000 from operating loss of approximately RMB62,341,000 for the corresponding period in the previous year. The Group's operating profit/loss ratio (expressed as a percentage of operating profit/loss over the Group's operating income) was approximately an operating loss ratio of -9.29% and an operating profit ratio of 0.30% for the years ended 31st December, 2016 and 2017, respectively.

Net profit attributable to owners of the Company

As a result of the factors discussed above, the net profit attributable to owners of the Company increased by approximately RMB58,688,000, from net loss of approximately RMB57,339,000 for the year ended 31st December, 2016 to net profit of approximately RMB1,349,000 for the year ended 31st December, 2017. For the two years ended 31st December, 2016 and 2017, the Group's net loss/profit margins were approximately -8.54% and 0.18%, respectively.

FUTURE PROSPECTS

During the reporting period, faced with water resources shortage, extensive irrigation resulted in noticeable issues including, low utilization of water resources and changing ecosystem in rural areas, the Chinese government introduced agricultural water saving as an important way to achieve water saving, increase efficiency and control pollution, and further enhanced the comprehensive utilization of water resources by increasing its investment in farmland water conservancy, irrigation construction, efficient water-saving irrigation and facility-supported farming, while effectively improving the ecological environment. However, as China's economy shifted from a high-speed growth stage to a high quality development stage, the Group's economic benefits were directly affected by increasingly intensified competition in the water-saving business and a conflict between the demand and the supply.

The Directors of the Group believe that since the Chinese government has introduced the water-saving agriculture as a regional strategy for developing a healthy national economy, the area of efficient water-saving irrigation will be increased by 100 million mu in recent years, indicating a broad market and development landscape for the water-saving industry. Therefore, by adhering to the development concept of “transformation and upgrading, innovation-driven, green development” and leveraging on our brand and technology advantages, the Group further increased its investment in scientific and technological research and development and actively developed large-diameter pipe products, with a view to fully promote product diversification, differentiation and high-end development through continuous innovation and upgrading of new products and new technologies. The Group captured the opportunity of green development to further expand the application of new products and new technologies in the market of China. Meanwhile, the Group actively participated in the construction of projects related to ecological and environmental improvement and comprehensive utilization of water resources organized by the Chinese government so as to comprehensively enhance the competitiveness and influence of the Group in both domestic and oversea markets.

INDEBTEDNESS

Borrowings

As at 31st December, 2017, the Group had no outstanding bank loans (2016: Nil).

Commitments

As at 31st December, 2017, the Group had contracted but not provided for capital commitments of RMB1,785,000 (2016: RMB1,795,000).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity ratios

The current ratio and quick ratio of the Group as at 31st December, 2017 were approximately 2.47 and 1.15, respectively, representing a slight decrease of 0.09 in current ratio and a slight increase of 0.12 in quick ratio when compared to those as at 31st December, 2016.

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, 2017, capital expenditures of the Group in respect of acquisition of property, plant and equipment, deposit paid for acquisition of property, plant and equipment and prepaid lease payment amounted to approximately RMB11,180,000 (2016: approximately RMB12,935,000), which were in line with the expansion plans of the Group.

Capital structure

For the year ended 31st December, 2017, the gearing ratio (which is defined as total borrowings over total equity) of the Group was zero (2016: 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, 2017.

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, 2017, the Group had no contingent liabilities (2016: 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 2016 and 2017.

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, 2017, the Group had 790 employees (2016: 795).

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 RMB9,535,076 for the year ended 31st December, 2017.

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, 2017, the Group had neither material acquisitions nor disposals of subsidiaries and associated companies.

MATERIAL INVESTMENTS

For the year ended 31st December, 2017, the Group had no material investments.

DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31st December, 2017 (2016: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of the members of the Company will be closed from Friday, 25th May, 2018 to Friday, 15th June, 2018 (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, 24th May, 2018.

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, 2017, 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, 2017.

DIRECTORS' AND SUPERVISORS' INTERESTS IN A COMPETING BUSINESS

For the year ended 31st December, 2017, 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, 2017.

AUDIT COMMITTEE

The audit committee of the Company reviewed the Group's consolidated annual result for the year ended 31st December, 2017, 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, 2017 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, 2017.

THE ANNUAL REPORT

The annual report of the Company for the year ended 31st December, 2017 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, 29th March, 2018

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*