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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, 2018

GROUP FINANCIAL SUMMARY

- Operating income for the year ended 31st December, 2018 was approximately RMB536,157,000, an decrease of approximately 27.36% from 2017.
- Net loss attributable to owners of the parent Company for the year ended 31st December, 2018 was approximately RMB47,637,000 (2017: net profit attributable to owners of the parent Company was approximately RMB1,349,000).
- Basic and diluted loss per share for the year was approximately RMB0.0917 (2017: basic and diluted earnings per share of approximately RMB0.0026).
- The Board does not recommend the payment of any dividend in respect of the year ended 31st December, 2018 (2017: 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, 2018, together with the comparative figures for the corresponding period in 2017 as follows:

Consolidated Income Statement

For the year ended 31st December, 2018

Item	Notes	Current period RMB	Restated Corresponding period last year RMB
1. Total operating revenue		536,156,710.34	738,120,525.79
Including: Operating income	5	536,156,710.34	738,120,525.79
2. Total operating cost		588,584,454.04	737,987,118.99
Including: Cost of sales	5	490,620,405.75	658,119,017.93
Business taxes and surcharges		3,945,389.43	4,365,555.47
Distribution costs	6	39,284,374.87	38,306,247.63
Administrative expenses	7	34,759,918.74	27,204,814.68
Research and development expenses		3,570,440.28	4,303,625.93
Finance costs	8	55,170.91	-1,615,253.64
Assets impairment loss	9	16,348,754.06	7,303,110.99
Add: Gain on changes in fair value (loss shall be stated as “-”)		0	0
Investment income (loss shall be stated as “-”)		-14,371.02	-91,873.28
Gain on disposal of assets		-235,343.05	0
Other gains		4,055,599.70	2,150,418.85
3. Operating profits (loss shall be stated as “-”)		-48,621,858.07	2,191,952.37
Add: Non-operating income		1,243,277.07	304,466.15
Less: Non-operating expenses		610,531.53	104,187.31
4. Total profits (total losses shall be stated as “-”)		-47,989,112.53	2,392,231.21
Less: Income tax expenses	10	1,446,389.54	514,174.28

Item	<i>Notes</i>	Current period <i>RMB</i>	Restated Corresponding period last year <i>RMB</i>
5. Net profits (net loss shall be stated as “-”)		-49,435,502.07	1,878,056.93
(1) 1. Net profits from continuing operation		-49,435,502.07	1,910,029.39
2. Net profits from discontinued operation		0	-31,972.46
(2) 1. Net profit attributable to owners of the parent		-47,636,809.08	1,348,652.13
2. Company Minority interests		-1,798,692.99	529,404.80
6. Earnings (loss) per share:			
(1) Basic earnings per share	12	-0.0917	0.0026
(2) Diluted earnings per share	12	-0.0917	0.0026
7. Other comprehensive income		0	0
8. Total comprehensive income		-49,435,502.07	1,878,056.93
Total consolidated income attributable to owners of the parent Company		-47,636,809.08	1,348,652.13
Total consolidated income attributable to minority interests		<u>-1,798,692.99</u>	<u>529,404.80</u>

CONSOLIDATED BALANCE SHEET

As at 31st December, 2018

Item	Notes	Closing balance RMB	Opening balance RMB
Current assets:			
Cash		109,601,975.60	118,213,806.23
Trade receivables	13	213,964,316.50	215,217,541.14
Prepayments		13,888,696.97	8,773,329.07
Other receivables		15,993,338.32	30,059,848.98
Inventories		413,570,287.98	435,116,690.84
Assets held for sales		0	206,610.00
Other current assets		3,714,856.58	3,887,891.72
Total current assets		<u>770,733,471.95</u>	<u>811,475,717.98</u>
Non-current assets:			
Long term equity investment	14	7,856,660.42	7,675,186.49
Fixed assets		154,581,546.49	164,681,198.71
Construction in progress		4,513,524.38	3,996,158.12
Intangible assets		13,659,963.36	12,081,639.18
Long-term deferred expenses		3,275,296.43	1,664,977.15
Deferred income tax assets	15	1,081,604.23	1,759,436.28
Other non-current assets		2,070,700.00	0
Total non-current assets		<u>187,039,295.31</u>	<u>191,858,595.93</u>
Total assets		<u><u>957,772,767.26</u></u>	<u><u>1,003,334,313.91</u></u>

CONSOLIDATED BALANCE SHEET

As at 31st December, 2018

Item	Notes	Closing balance RMB	Opening balance RMB
Current liabilities:			
Short-term borrowings		30,000,000.00	0
Trade payables	16	217,513,969.66	254,483,099.10
Receipts in advance		46,759,656.76	42,145,925.47
Employee remuneration payables		9,036,937.94	7,422,721.10
Tax and levy payables	17	5,961,071.48	3,564,119.24
Other payables		<u>22,886,473.68</u>	<u>20,617,104.66</u>
Total current liabilities		<u>332,158,109.52</u>	<u>328,232,969.57</u>
Non-current liabilities:			
Deferred income		<u>9,036,980.38</u>	<u>8,870,514.79</u>
Total non-current liabilities		<u>9,036,980.38</u>	<u>8,870,514.79</u>
Total liabilities		<u>341,195,089.90</u>	<u>337,103,484.36</u>
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		<u>37,619,433.99</u>	<u>85,081,213.19</u>
Total equity attributable to owners of the Company		607,237,563.43	654,699,342.63
Minority interests		<u>9,340,113.93</u>	<u>11,531,486.92</u>
Total equity of owners		<u>615,577,677.36</u>	<u>666,230,829.55</u>
Total liabilities and equity of owners		<u>957,772,767.26</u>	<u>1,003,334,313.91</u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2018

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 shares are domestic shares held by legal persons and 202,400,000 shares 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 notice: 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, 2018

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 The accounting treatment of business combinations involving enterprises under common control and business combinations not involving enterprises under common control

1. *The accounting treatment of business combinations involving enterprises under common control*

The assets and liabilities acquired by our company during business combination shall be measured according to the book value of the assets and liabilities of the merged party, including the final controlling party's acquisition of the merged party, in the consolidated financial statements of the final controlling party. The difference between the net assets book value acquired in the merger and the book value of the combined consideration value or the total value of the issued shares should be adjusted by the equity premium in the capital surplus, if it is not enough, adjust retained earnings.

2. *The accounting treatment of business combinations not involving enterprises under common control*

The excess of the consideration paid for business combination over the share of the attributable net identifiable assets of the acquiree, measured at fair value at the combination date, was recognised as goodwill. In case the fair value of the consideration paid is less than the fair value of the share of the attributable net identifiable assets of the acquiree, a review of the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities of the acquiree and the consideration paid for the combination is conducted. If the review indicates that the fair value of the consideration paid is indeed less than the fair value of the share of the attributable net identifiable assets of the acquiree, the difference is recognised in current profit or loss.

3.6 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.

3.7 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, 2018

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 2018 as they complied with the requirements of the tax concession policies of the Western Development.
- (2) The production operation of agricultural plastic belts for drip irrigation engaged by Tiancheng Water Saving, a subsidiary, conforms to 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 2018.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2018

5. OPERATING INCOME/COST OF SALES

(1) Breakdown

Item	Current period		Corresponding period last year	
	Income	Cost	Income	Cost
Income from principal businesses	521,337,248.33	478,264,456.65	704,414,046.39	628,712,622.38
Income from other businesses	<u>14,819,462.01</u>	<u>12,355,949.10</u>	<u>33,706,479.40</u>	<u>29,406,395.55</u>
Total	<u>536,156,710.34</u>	<u>490,620,405.75</u>	<u>738,120,525.79</u>	<u>658,119,017.93</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	94,782,838.98	94,642,118.96	294,254,451.31	269,184,213.28
PVC pipes/PE pipes	317,943,087.25	285,336,683.75	317,772,558.96	273,010,319.35
Project income	<u>108,611,322.10</u>	<u>98,285,653.94</u>	<u>92,387,036.12</u>	<u>86,518,089.75</u>
Sub-total	<u>521,337,248.33</u>	<u>478,264,456.65</u>	<u>704,414,046.39</u>	<u>628,712,622.38</u>

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

Name of region	Current period		Corresponding period last year	
	Income	Cost	Income	Cost
Xinjiang	380,147,859.26		585,345,078.90	
PRC excluding Xinjiang	<u>141,189,389.07</u>		<u>119,068,967.49</u>	
Sub-total	<u>521,337,248.33</u>		<u>704,414,046.39</u>	

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2018

6. DISTRIBUTION COSTS

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

7. ADMINISTRATIVE EXPENSES

(1) Breakdown

Item	Current period	Corresponding period last year
Salaries, benefits and social security contributions	20,671,260.40	18,124,127.37
Losses from work suspension	2,959,998.95	2,160,109.26
Depreciation and amortization charge	2,855,811.45	1,087,393.56
Agency service fees	2,193,032.97	1,267,290.68
Travel expenses	1,003,053.79	983,835.92
Car expenses	477,240.72	509,457.82
Lease fees	739,926.42	167,898.47
Others	3,859,594.04	2,904,701.60
Total (numbers not updated)	<u>34,759,918.74</u>	<u>27,204,814.68</u>

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2018

8. FINANCE COSTS

Item	Current period	Corresponding period last year
Interest expenses	407,943.00	—
Interest of other loans not fully repayable within 5 years		
Less: Interest income	492,644.80	633,194.62
Less: Exchange gain	607.92	-1,044,145.28
Add: Commission and other expenses	139,264.79	62,086.26
	<u> </u>	<u> </u>
Total	<u>55,170.91</u>	<u>-1,615,253.64</u>

9. ASSETS IMPAIRMENT LOSS

Item	Current period	Corresponding period last year
Bad debt loss	3,853,611.04	5,005,526.29
Inventory impairment	9,991,412.94	2,210,957.79
Impairment loss on fixed assets	2,503,730.08	0
Impairment loss on assets held for sales	0	86,626.91
	<u> </u>	<u> </u>
Total	<u>16,348,754.06</u>	<u>7,303,110.99</u>

10. INCOME TAX EXPENSES

(1) Breakdown

Item	Current period	Corresponding period last year
Current income tax charges	768,557.49	2,098,473.23
Deferred income tax charges	677,832.05	-1,584,298.95
	<u> </u>	<u> </u>
Total	<u>1,446,389.54</u>	<u>514,174.28</u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2018

10. INCOME TAX EXPENSES (Continued)

(2) Reconciliation between accounting profit and income tax expenses

Item	Current period	Corresponding period last year
Total profits	-47,989,112.53	2,392,231.21
EIT charges at the tax rate of 15% applicable to the parent company	-7,198,366.88	358,834.68
Effect of different tax rates applicable to subsidiaries (5% and 10%)	-279,829.85	-317,238.58
Effect of prior period income tax adjustment	199,113.13	274,740.72
Tax effect of expenses not deductible	146,584.72	669,695.44
Effect of deductible temporary differences that have not recognized for deferred income tax asset during the prior period	-87,372.64	-726,811.61
Effect of deductible temporary differences or deductible losses that have not recognized for deferred income tax asset during the period (Note)	8,666,261.06	254,953.63
Total	<u>1,446,389.54</u>	<u>514,174.28</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 2018 and 2017.

11. DIVIDENDS

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2018

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	-47,636,809.08
Non-recurring profit or loss	B	3,470,824.38
Net profits attributable to the ordinary shareholders of the Company after non-recurring profit or loss	C=A-B	-51,107,633.46
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	$M=A/L$	-0.0917
Basic earnings per share after non-recurring profit or loss	$N=C/L$	-0.0984

(2) Calculation of diluted earnings per share

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

13. TRADE RECEIVABLES

(1) Aging analysis

Age	Closing balance	Opening balance
Within 1 year	157,325,723.70	169,816,980.61
1-2 years	43,954,095.17	26,816,206.25
2-3 years	16,615,845.95	10,182,556.97
3-4 years	9,078,415.75	5,100,518.38
4-5 years	4,882,321.83	665,080.90
Over 5 years	12,754,504.84	2,636,198.03
Total	<u>244,610,907.24</u>	<u>215,217,541.14</u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2018

13. TRADE RECEIVABLES (Continued)

(2) Breakdown by category

Category	Book balance		Closing balance		Carrying amount
	Amount	Percentage (%)	Bad-debt provision Amount	Percentage of provision (%)	
Individually significant and for which bad debt provision has been separately made	13,767,201.67	5.63	13,653,977.71	99.18	113,223.96
Bad debt provision made in portfolio as per credit risk features	2,600,000.00	1.06	0	0	2,600,000.00
Individually insignificant but for which bad debt provision has been separately made	228,243,705.57	93.31	16,992,613.03	7.45	211,251,092.54
Total	244,610,907.24	100.00	30,646,590.74	12.53	213,964,316.50

(Continued from above)

Category	Book balance		Opening balance		Carrying amount
	Amount	Percentage (%)	Bad-debt provision 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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2018

14 LONG-TERM EQUITY INVESTMENTS

Item	Closing balance			Opening balance		
	Book Balance	Provision for impairment	Carrying amount	Book Balance	Provision for impairment	Carrying amount
Investments in associates	<u>7,856,660.42</u>	<u>0</u>	<u>7,856,660.42</u>	7,675,186.49	0	<u>7,675,186.49</u>
Total	<u><u>7,856,660.42</u></u>	<u><u>0</u></u>	<u><u>7,856,660.42</u></u>	<u><u>7,675,186.49</u></u>	<u><u>0</u></u>	<u><u>7,675,186.49</u></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>7,171,476.68</u>	<u>1,081,604.23</u>	9,550,247.00	<u>1,759,436.28</u>
Total	<u><u>7,171,476.68</u></u>	<u><u>1,081,604.23</u></u>	<u><u>9,550,247.00</u></u>	<u><u>1,759,436.28</u></u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2018

16. TRADE PAYABLES

Aging analysis

Age	Closing balance	Opening balance
Within 1 year	128,258,585.42	209,260,037.03
1–2 years	63,763,263.89	30,610,750.85
2–3 years	14,234,078.36	4,084,444.31
Over 3 years	11,258,041.99	10,527,866.91
Total	<u>217,513,969.66</u>	<u>254,483,099.10</u>

17. TAX AND LEVY PAYABLES

Item	Closing balance	Opening balance
VAT	4,885,707.09	2,578,487.17
EIT	368,668.43	376,742.78
Individual income tax withheld	29,931.19	114,938.86
City maintenance and construction tax	373,878.82	242,277.30
Property tax	0	36,000.00
Education surcharge	164,225.04	103,484.09
Local education surcharge	106,983.37	66,489.41
Stamp duty	31,677.54	45,699.63
Total	<u>5,961,071.48</u>	<u>3,564,119.24</u>

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Operating income

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

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

Category	For the year ended 31st December, 2018		For the year ended 31st December, 2017		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	94,783	17.68	294,255	39.86	-67.79
PVC/PE pipelines	317,943	59.30	317,773	43.05	0.05
Provision of installation services	108,611	20.26	92,387	12.52	17.56
Other operating income	14,820	2.76	33,706	4.57	-56.03
Total	<u>536,157</u>	<u>100.00</u>	<u>738,121</u>	<u>100.00</u>	<u>-27.36</u>

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

Cost of sales

For the year ended 31st December, 2018, cost of sales of the Group was approximately RMB490,620,000, representing an decrease of approximately 25.45% from approximately RMB658,119,000 for the year ended 31st December, 2017. Costs of sales for the year ended 31st December, 2018 comprised direct materials costs of approximately RMB410,453,000, direct labour costs of approximately RMB39,593,000 and production overhead of approximately RMB40,574,000, which accounted for approximately 83.66%, 8.07% and 8.27%, respectively, of the total costs of sales for year 2018. Costs of sales for the year ended 31st December, 2017 comprised direct materials costs of approximately RMB547,687,000, direct labour costs of approximately RMB54,755,000 and production overhead of approximately RMB55,677,000, which accounted for approximately 83.22%, 8.32% and 8.46%, respectively, of the total costs of sales for year 2016.

Non-operating income

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

Distribution costs

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

Administrative expenses

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

Finance costs

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

Assets impairment loss

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

Operating profit

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

Net profit/loss attributable to owners of the parent Company

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

FUTURE PROSPECTS

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

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

INDEBTEDNESS

Borrowings

As at 31st December, 2018, the Group had outstanding bank loans of RMB30,000,000 (2017: Nil).

Commitments

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity ratios

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

Financial resources

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

Capital expenditures

For the year ended 31st December, 2018, capital expenditures of the Group in respect of acquisition of property, plant and equipment, deposit paid for acquisition of property, plant and equipment and prepaid lease payment amounted to approximately RMB12,973,000 (2017: approximately RMB11,180,000), which were in line with the expansion plans of the Group.

Capital structure

For the year ended 31st December, 2018, the gearing ratio (which is defined as total borrowings over total equity) of the Group was 4.87% (2017: zero). This is primarily due to the fact that the Group's bank loan amounted to RMB30 million in 2018. The Directors confirm that the Group financed its operations principally from cash generated from its business operations and banking facilities and had not experienced any liquidity problem for the year ended 31st December, 2018.

Funding and treasury policies

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

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

Contingent liabilities

As at 31st December, 2018, the Group had no contingent liabilities (2017: Nil).

Exposure to fluctuations in exchange rates and related hedges

The Group's present operations are mainly carried on in the PRC and all of the Group's monetary assets, loans and transactions are principally denominated in Renminbi ("RMB"). During the year under review, there was no significant fluctuation in the exchange rate of RMB and the Group was not exposed to any significant foreign currency exchange risk in its operations. The Group did not engage in any derivative activities and did not commit to any financial instruments to hedge its statement of financial position exposure in both 2017 and 2018.

EMPLOYEE AND SALARY POLICIES

The Directors considered the quality of employees as the most critical factor in maintaining the Group's business growth and enhancing our profitability. The Group offers salary packages with reference to the performance and working experience of individual employees, and the prevailing market rates. As at 31st December, 2018, the Group had 625 employees (2017: 790).

RETIREMENT BENEFIT SCHEME AND OTHER BENEFITS

The Group provides employee benefits covering old-aged insurance scheme, medical insurance scheme, unemployment insurance scheme, labour injury insurance scheme and maternity insurance scheme (collectively under the social insurance scheme) for its staff, whereby the Group is required to make monthly contributions to these schemes. The Group has no obligation for the payment of retirement and other post-retirement benefits for employees save for the monthly contributions described above. Expenses incurred by the Group in connection with these retirement benefit plans were approximately RMB13,159,000 for the year ended 31st December, 2018.

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

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

For the year ended 31st December, 2018, the Group had neither material acquisitions nor disposals of subsidiaries and associated companies.

MATERIAL INVESTMENTS

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

DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

The register of the members of the Company will be closed from Friday, 24th May, 2019 to Friday, 14th June, 2019 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for entitlement to attend and vote at the forthcoming annual general meeting of the Company, all instrument of transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's H Share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable and in any event not later than 4:30 p.m. on Thursday, 23rd May, 2019.

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, 2018, the Group has complied with the code provisions in the "Corporate Governance Code and Corporate Governance Report" (the "**Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

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, except as described below, they have complied with the required standards under the Model Code for the year ended 31st December, 2018.

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN A COMPETING BUSINESS

For the year ended 31st December, 2018, the Directors are not aware of any business or interest of the Directors, the Supervisors, the management shareholders and their respective associates (as defined under the Listing Rules) that competes or may compete (directly or indirectly) with the business of the Group and any other conflicts of interests which any such persons has or may have with the Group.

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, 2018.

AUDIT COMMITTEE

The audit committee of the Company reviewed the Group's consolidated annual result for the year ended 31st December, 2018, including the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters as well as the audited financial statements for the year ended 31st December, 2018 with the management.

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, 2018.

THE ANNUAL REPORT

The annual report of the Company for the year ended 31st December, 2018 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, 29 March, 2019

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Chen Lin (Chairman), Mr. Huang Dong and Mr. Tan Xinmin, and four independent non-executive Directors, namely Mr. Yin Feihu, Mr. Qin Ming, Ms. Gu Li and Mr. Hung Ee Tek.

* *For identification purpose only*