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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, 2011**

**GROUP FINANCIAL SUMMARY**

- Turnover for the year ended 31st December, 2011 was approximately RMB690,416,000, an increase of approximately 17.32% from 2010;
- Profit for the year ended 31st December, 2011 was approximately RMB19,274,000, an increase of approximately 18.91% from 2010, the profit attributable to owners of the Company was approximately RMB18,956,000, an increase of approximately 10.52% from 2010;
- Basic and diluted earnings per share for the year was approximately RMB3.6 cents (2010: approximately RMB3.3 cents).

## 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, 2011, together with the comparative figures for the corresponding period in 2010 as follows:

### Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2011

	Notes	2011 RMB'000 (Audited)	2010 RMB'000 (Audited)
Turnover	5	690,416	588,491
Cost of sales		<u>(605,487)</u>	<u>(520,877)</u>
Gross profit		84,929	67,614
Other operating income	5	7,816	5,093
Distribution costs		(32,869)	(25,640)
Administrative expenses		(29,775)	(21,846)
Other operating expenses		<u>(1,080)</u>	<u>(1,212)</u>
Profit from operations		29,021	24,009
Finance costs	6	<u>(5,152)</u>	<u>(3,156)</u>
Profit before taxation	7	23,869	20,853
Taxation	8	<u>(4,595)</u>	<u>(4,644)</u>
Profit and total comprehensive income for the year		<u><u>19,274</u></u>	<u><u>16,209</u></u>
Profit and total comprehensive income attributable to:			
Owners of the Company		18,956	17,151
Non-controlling interests		<u>318</u>	<u>(942)</u>
		<u><u>19,274</u></u>	<u><u>16,209</u></u>
Dividends	9	<u>—</u>	<u>—</u>
Earnings per share — basic and diluted	10	<u><u>RMB3.6 cents</u></u>	<u><u>RMB3.3 cents</u></u>

## Consolidated Statement of Financial Position

As at 31st December, 2011

	<i>Notes</i>	<b>2011</b> <b>RMB'000</b> <b>(Audited)</b>	2010 <b>RMB'000</b> <b>(Audited)</b>
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment		<b>218,327</b>	216,133
Prepaid lease payments		<b>13,048</b>	13,346
Goodwill		<b>98</b>	98
		<u><b>231,473</b></u>	<u>229,577</u>
<b>Current Assets</b>			
Inventories		<b>614,982</b>	468,635
Trade and bill receivables	11	<b>39,952</b>	102,575
Prepayments, deposits and other receivables		<b>155,800</b>	95,581
Bank balances and cash		<b>61,391</b>	125,801
		<u><b>872,125</b></u>	<u>792,592</u>
<b>Total Assets</b>		<u><b>1,103,598</b></u>	<u>1,022,169</u>
<b>EQUITY</b>			
Share capital		<b>519,522</b>	519,522
Reserves		<b>179,983</b>	163,161
Equity attributable to owners of the Company		<b>699,505</b>	682,683
Non-controlling interests		<b>15,217</b>	17,299
<b>Total Equity</b>		<u><b>714,722</b></u>	<u>699,982</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade payables	12	<b>132,986</b>	93,763
Accruals and other payables		<b>134,453</b>	140,405
Tax payables		<b>1,437</b>	5,895
Short-term bank borrowings		<b>120,000</b>	80,000
Derivative financial liabilities		<b>—</b>	2,124
		<u><b>388,876</b></u>	<u>322,187</u>
<b>Total Liabilities</b>		<u><b>388,876</b></u>	<u>322,187</u>
<b>Total equity and liabilities</b>		<u><b>1,103,598</b></u>	<u>1,022,169</u>
<b>Net current assets</b>		<u><b>483,249</b></u>	<u>470,405</u>
<b>Total assets less current liabilities</b>		<u><b>714,722</b></u>	<u>699,982</u>
<b>Net assets</b>		<u><b>714,722</b></u>	<u>699,982</u>

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2011

## 1. GENERAL INFORMATION

新疆天業節水灌溉股份有限公司 Xinjiang Tianye Water Saving Irrigation System Company Limited (the “Company”) is a joint stock limited liability company established in the People’s Republic of China (the “PRC”) on 27 December 1999. On 28 February 2006, the Company’s H Shares were listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and were withdrawn from the GEM on 23 January 2008. On 24 January 2008, the Company’s H shares are listed on the Main Board of the Stock Exchange.

The Company’s immediate holding company is Xinjiang Tianye Company Limited (“Tianye Company”) (新疆天業股份有限公司), a company established in the PRC with its shares listed on the Shanghai Securities Exchange, Xinjiang Tianye (Group) Limited (“Tianye Holdings”) (新疆天業(集團)股份有限公司), a private limited company established in the PRC, is the holding company of the Tianye Company and is the ultimate holding company of the Company.

The Company and its subsidiaries are engaged in the design, manufacture, installation and sale of irrigation system and equipment.

Hereinafter, the Company and its subsidiaries are collectively referred to as the “Group”. Tianye Holdings and its subsidiaries other than the Group is hereinafter collectively referred to as the “Tianye Holdings Group”.

The consolidated financial statements are presented in Renminbi (“RMB”) which is also the functional currency of the Group.

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (HKFRSs)

The following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) have been applied by the Group in the current year and have affected the presentation and disclosures set out in these consolidated financial statements. The impact of the application of the new and revised HKFRSs is discussed below.

### 2.1 Standards and Interpretations adopted in the current period

In the current year, the Group has adopted the following new standards, amendments and interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKIPCA”) which are relevant to and effective for the Group’s financial period beginning on 1 January 2011:

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation — Classification of Rights Issues</i>
HK(IFRIC) — Int 14 Amendments	Amendments to HK(IFRIC) — Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC) — Int 19 <i>Improvements to HKFRSs 2010</i>	<i>Extinguishing Financial Liabilities with Equity Instruments</i> Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised) and the amendment to HKAS 1 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on the consolidated financial statements.

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.
- Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial instruments: Disclosures. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the consolidated financial statements in the current and previous periods.

## 2.2 Standards and Interpretations in issued but not yet adopted

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the consolidated financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> <sup>1</sup>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Transfers of Financial Assets</i> <sup>1</sup>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities</i> <sup>4</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>6</sup>
HKFRS 10	<i>Consolidated Financial Statements</i> <sup>4</sup>
HKFRS 11	<i>Joint Arrangements</i> <sup>4</sup>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> <sup>4</sup>
HKFRS 13	<i>Fair Value Measurement</i> <sup>4</sup>
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income</i> <sup>3</sup>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes — Deferred Tax: Recovery of Underlying Assets</i> <sup>2</sup>
HKAS 19 (2011)	<i>Employee Benefits</i> <sup>4</sup>
HKAS 27 (2011)	<i>Separate Financial Statements</i> <sup>4</sup>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> <sup>4</sup>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities</i> <sup>5</sup>
HK(IFRIC) — Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i> <sup>4</sup>

- 1 Effective for annual periods beginning on or after 1 July, 2011
- 2 Effective for annual periods beginning on or after 1 January, 2012
- 3 Effective for annual periods beginning on or after 1 July, 2012
- 4 Effective for annual periods beginning on or after 1 January, 2013
- 5 Effective for annual periods beginning on or after 1 January, 2014
- 6 Effective for annual periods beginning on or after 1 January, 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. The consolidated financial statements also include the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

### 4. SEGMENT INFORMATION

The chief executive officer, being the chief operating decision maker of the Group, regularly reviews revenue analysis by business operations, including the design, manufacture, installation and sale of irrigation system and equipment. However, other than revenue analysis, no operating results of the Group as a whole to make decisions about resource allocation. The operation of the Group constitutes one single reportable segment under HKFRS 8 and accordingly, no separate segment information is prepared.

The chief executive officer assesses segment profit using a measure of operating profit. The measurement policies that the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs. Segment assets and liabilities under HKFRS 8 are the same as the assets and liabilities reported in the financial statements under HKFRSs which are all attributable to the design, manufacture, installation and sale of irrigation system and equipment.

#### **Geographical information**

The Group's operations are substantially located in PRC. The direct export sales made by the Group contributed to less than 10% of the total revenues and results of the Group for both years. Further, the segment assets and capital expenditure by geographical area in which the assets are located are substantially located in the PRC. Accordingly, no geographical segment is presented.

#### **Information about major customers**

The Group's customer base includes one (2010: two) customers with whom transactions have accounted for approximately 10% or above of the Group's revenues. In 2011, revenues from this customer amount to approximately RMB67,204,000 (2010: RMB154,711,000).

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

An analysis of revenue, other income and gains is as follows:

	<b>Group</b>	
	<b>2011</b>	2010
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
(a) Revenue		
Drip film and drip assemblies	395,297	365,569
PVC/PE pipelines	295,119	222,922
	<u>690,416</u>	<u>588,491</u>
(b) Other income:		
Gain from futures contracts transactions	4,897	1,937
Gain on disposal on property, plant and Equipment	—	507
Reversal of impairment losses on trade receivables	—	2,144
Bank interest income	645	274
Others	2,274	231
	<u>7,816</u>	<u>5,093</u>
Total revenue	<u><u>698,232</u></u>	<u><u>593,584</u></u>

## 6. FINANCE COSTS

	<b>Group</b>	
	<b>2011</b>	2010
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Interest on bank loans and overdrafts wholly repayable within one year	<u><u>5,152</u></u>	<u><u>3,156</u></u>

## 7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	<b>Group</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Cost of inventories sold		
— including write-down of inventories to net realisable value	<b>492,076</b>	426,984
Amortisation of prepaid lease payments	<b>298</b>	319
Depreciation of property, plant and equipment		
— Owned assets	<b>23,830</b>	35,862
Operating lease payments in respect of:		
— Land and buildings	<b>1,331</b>	1,464
Auditors' remuneration	<b>650</b>	650
Staff costs (including directors' remuneration)		
— Wages and salaries	<b>33,564</b>	32,828
— Defined contribution scheme	<b>6,335</b>	3,150
Research and development costs	<b>816</b>	302
Impairment loss recognised on trade receivables	<b>2,182</b>	12
Loss on disposal of property, plant and equipment	—	(507)
Net (gain)/loss on change in fair value of derivative financial instruments	<b>(4,488)</b>	2,116

## 8. TAXATION

	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Charge for the year	<b>4,595</b>	4,652
Over provision in previous years	—	(8)
	<b>4,595</b>	4,644

The Group is not subject to Hong Kong Profits Tax as the Group's income neither arises in, nor is derived from Hong Kong.

During the two years ended 31 December 2011, pursuant to the relevant laws and regulations in the PRC, the Company and its subsidiaries were subject to PRC Enterprise Income Tax ("EIT") of 25%, except for subsidiaries disclosed below.

<b>Name of entity</b>	<b>2011</b>	2010
The Company	<b>12%</b>	11%
甘肅天業節水器材有限公司 ("Gansu Tianye")	<b>15%</b>	15%
新疆阿拉爾天農節水灌溉有限責任公司 ("Alaer Tiannong")	<b>25%</b>	15%
哈密天業紅星節水灌溉有限責任公司 ("Hami Tianye")	<b>25%</b>	15%

## 9. DIVIDENDS

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2011 (2010: Nil).

## 10. EARNINGS PER SHARE

The calculations of basic earnings per share are based on the Group's profit attributable to the owners of the Company of approximately RMB18,956,000 (2010: RMB17,151,000) and on the weighted average number of 519,521,560 (2010: 519,521,560) ordinary shares in issue during the year.

No diluted earnings per share has been presented as there had been no dilutive potential ordinary shares in both years.

## 11. TRADE AND BILL RECEIVABLES

The fair values of trade and bill receivables are as follows:

	<b>Group</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Trade receivables	<b>47,163</b>	107,196
Bill receivables	<b>500</b>	909
Less: Provision for impairment of trade receivables	<b>(7,711)</b>	(5,530)
	<b>39,952</b>	102,575

Sales to farmer unions are normally on cash basis. The credit term to other customers is normally one year. The Group's trade and bill receivables (less impairment) with the following aging analysis presented based on the invoice date:

	<b>Group</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Within 1 year	<b>25,997</b>	79,604
1–2 years	<b>13,955</b>	22,971
	<b>39,952</b>	102,575

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The movement in the provision for impairment of trade receivables is as follows:

	<b>Group</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
At 1 January 2011/2010	<b>5,530</b>	8,061
Amount written off during the year	—	(399)
Amount recovered during the year	—	(2,144)
Impairment loss recognised	<b>2,181</b>	12
At 31 December 2011/2010	<b>7,711</b>	5,530

## 11. TRADE AND BILL RECEIVABLES (continued)

Included in the Group's trade receivable balance are debtors with a carrying amount of approximately RMB22,497,000 (2010: RMB22,971,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. Receivables that were past due but not impaired were all aged over one year but within 2 years and related to a number of individual customers that have a good track record with the Group and were state-controlled entities which have good creditability. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances which are still considered fully recoverable. The Group does not hold any collateral over these balances.

Bill receivables aged within one year from the respective reporting dates. The directors consider that the carrying amounts of bill receivable approximated their fair values because of their short-term of maturities.

## 12. TRADE PAYABLES

An ageing analysis of trade payables at the end of the reporting period, based on invoice date, is as follows:

	<b>Group</b>	
	<b>2011</b>	2010
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
0–180 days	<b>61,181</b>	49,043
181–360 days	<b>31,526</b>	25,271
1–2 years	<b>36,445</b>	13,706
Over 2 years	<b>3,834</b>	5,743
	<hr/> <b>132,986</b> <hr/>	<hr/> 93,763 <hr/>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview

As a pioneer in providing one-stop solutions for water saving irrigation system in the PRC, the Group is principally engaged in the design, manufacturing and sales of drip films, PVC/PE pipelines and drip assemblies used in water saving irrigation system. The Group is also engaged in the provision of installation services of water saving irrigation system for its customers. Drip irrigation system plays a significant role in water conservation. It is a slow water delivery system in which every drop of water can be applied to the soil surface near the root of plant. The burden of deciding the timing of irrigation and the required amount of water can be relieved from the properly designed automatic drip irrigation system. The potential and importance of water saving irrigation system have been recognised by both the PRC government and producers of agricultural products in the PRC.

The drip films sold by the Group can be categorised into three types, including (i) single-sided labyrinth-style drip films; (ii) embedded-style drip films; and (iii) heavy flow compensatory style drip films.

Along with the opportunities and challenges, the Group may face certain risks involved in its business. Fluctuation in raw materials prices will lead to an increase in the costs of the Group's products, thus lowering their competitiveness. In the short term, the Group relies on its key management and personnel. The Group also relies on the stable business relationships with certain major customers. In view of these, the Group will continue to maintain good relationships with its staff and will continue to provide training to its staff. Moreover, the Group will continue to place great emphasis on its after-sales services to its customers and will widen its customer bases by expanding its sales and distribution network.

## RESULTS OF OPERATIONS

### Turnover

For the year ended 31st December, 2011, turnover of the Group was approximately RMB690,416,000, an increase of approximately 17.32% from approximately RMB588,491,000 for the year ended 31st December, 2010.

The following table summarises the breakdown of the total turnover of the Group for each of the two years ended 31st December, 2011 by products:

Category	For the year ended 31st December, 2011		For the year ended 31st December, 2010		Year-on- year percentage change %
	Turnover RMB'000	% to total turnover %	Turnover RMB'000	% to total turnover %	
Drip films and drip assemblies	395,297	57.25	365,569	62.11	8.13
PVC/PE pipelines	295,119	42.75	222,922	37.89	32.39
Total	<u>690,416</u>	<u>100.00</u>	<u>588,491</u>	<u>100.00</u>	

The change in turnover for the year ended 31st December, 2011 was mainly attributable to the effect of an expansion of farmland fitted with the water saving irrigation products of the Group. For the year ended 31st December, 2011, sales of drip films and drip assemblies increased by approximately

8.13% to approximately RMB395,297,000, while sales of PVC/PE pipelines increase by approximately 32.39% to approximately RMB295,119,000. At the same time, the sales volume of drip films and drip assemblies increased from approximately 28,564 tonnes for the year ended 31st December, 2010 to approximately 30,667 tonnes for the year ended 31st December, 2011, while the sales volume of PVC pipelines increased from approximately 35,445 tonnes for the year ended 31st December, 2010 to approximately 40,483 tonnes for the year ended 31st December, 2011. The increase in the sales volume of the Group's products was mainly attributable to the growth in demand for water saving irrigation system in the PRC.

### **Cost of sales**

For the year ended 31st December, 2011, cost of sales of the Group was approximately RMB605,487,000, an increase of approximately 16.24% from approximately RMB520,877,000 for the year ended 31st December, 2010. Costs of sales for the year ended 31st December, 2011 comprised direct materials costs of approximately RMB492,076,000, direct labour costs of approximately RMB19,376,000 and production overhead of approximately RMB94,035,000, which accounted for approximately 81.27%, 3.20% and 15.53%, respectively, of the total costs of sales for the year under review. Costs of sales for the year ended 31st December, 2010 comprised direct materials costs of approximately RMB426,984,000, direct labour costs of approximately RMB18,301,000 and production overhead of approximately RMB75,592,000, which accounted for approximately 81.98%, 3.51% and 14.51%, respectively, of the total costs of sales for 2010.

### **Gross profit**

The Group realised a gross profit of approximately RMB84,929,000 for the year ended 31st December, 2011, an increase of approximately RMB17,315,000 from approximately RMB67,614,000 for the year ended 31st December, 2010. The Group's gross profit margin increased from approximately 11.48% for the year ended 31st December, 2010 to approximately 12.30% for the year ended 31st December, 2011. The increase in gross profit margin was mainly due to the increase in selling price of PVC pipelines by approximately 6.63% during the year when compared with those of last year which increased the overall gross profit margin for 2011.

### **Other operating income**

Other operating income consists primarily of bank interest income and gain from futures contracts transactions. Such income had increased from approximately RMB5,093,000 for the year ended 31st December, 2010 to approximately RMB7,816,000 for the year ended 31st December, 2011.

### **Distribution costs**

Distribution costs were approximately RMB32,869,000 for the year ended 31st December, 2011, an increase of approximately 28.19%. The amount accounted for approximately 4.76% of the total turnover for the year ended 31st December, 2011, higher than its share of total turnover of approximately 4.35% in the previous year. Distribution costs mainly comprised transportation costs, salaries expenses, sales commission and entertainment fees, etc. For the year ended 31st December, 2011, sales-related transportation costs increased by approximately 78.08% to approximately RMB11,260,000, and salaries expenses and sales commission increased by approximately 21.01% and 62.38% to approximately RMB7,521,000 and RMB4,459,000, respectively, while entertainment fees increased by approximately 70.00% to approximately RMB1,109,000.

## **Administrative expenses**

Administrative expenses increased by approximately 36.29% to approximately RMB29,775,000 for the year ended 31st December, 2011. The amount accounted for approximately 4.31% of total turnover for the year ended 31st December, 2011, higher than its share of total turnover of approximately 3.71% in the previous year. For the year ended 31st December, 2011, staff retirement contribution increased by 3.76 times to approximately RMB6,335,000 and salary costs decreased by approximately 3.2% to approximately RMB6,666,000.

## **Profit from operations**

As a result of the factors discussed above, the Group's profit from operations for the year ended 31st December, 2011 was approximately RMB29,021,000, representing an increase of approximately 20.88% from approximately RMB24,009,000 for the corresponding period in the previous year. The Group's gross operating margin (expressed as a percentage of profit from operations over the Group's turnover) was approximately 4.07% and 4.20% for the years ended 31st December, 2010 and 2011, respectively.

## **Finance costs**

Finance costs for the year ended 31st December, 2011 amounted to approximately RMB5,152,000, representing an increase of 63.24% as compared to the corresponding period in the previous year. Increase in finance costs were mainly resulted from the increase in loan amount and lending rate during the year.

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

As a result of the factors discussed above, the profit attributable to owners of the Company increased by approximately 10.52%, from approximately RMB17,151,000 for the year ended 31st December, 2010 to approximately RMB18,956,000 for the year ended 31st December, 2011. For the two years ended 31st December, 2010 and 2011, the Group's net profit margins were approximately 2.91% and 2.75%, respectively.

## **INDEBTEDNESS**

### **Borrowings**

As at 31st December, 2011, the Group had outstanding bank loans of RMB120,000,000 (2010: RMB80,000,000), which will due within a year at floating interest rates by reference to rate of the People's Bank of China plus 5% to 10% per annum.

As at 31st December, 2011, the Group's borrowings, amounted to RMB80,000,000 (2010: RMB80,000,000) and RMB40,000,000 (2010: Nil) were secured by the corporate guarantees given by Xinjiang Tianye (Group) Limited ("Tianye Holdings") and Xinjiang Tianye Company Limited ("Tianye Company") respectively.

All guarantees as at 31st December, 2011 provided by Tianye Holdings will be released on or before 15th December, 2012.

Guarantees in respect of the Group's borrowings of RMB30,000,000 and RMB10,000,000 provided by Tianye Company will be released on or before 12th October, 2012 and 16th November, 2012 respectively.

## **Commitments**

As at 31st December, 2011, the Group had contracted but not provided for capital commitments of RMB12,600,000 (2010: Nil).

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

### **Liquidity ratios**

The current ratio and quick ratio of the Group as at 31st December, 2011 were approximately 2.24 and 0.66, respectively, representing a decrease of 0.22 and 0.34 respectively when compared to 31st December, 2010. This is primarily due to increase in bank borrowings during the year under review.

### **Financial resources**

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

### **Capital expenditures**

For the year ended 31st December, 2011, 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 RMB26,024,000 (2010: approximately RMB19,105,000), which were in line with the expansion plans of the Group.

### **Capital structure**

For the year ended 31st December, 2011, the gearing ratio (which is defined as total borrowings over total equity) of the Group was approximately 15.51% (2010: approximately 11.42%). This is primarily due to the increase in bank loans and increase in equity as a result of increase in profit 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, 2011.

### **Funding and treasury policies**

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

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

### **Contingent liabilities**

As at 31st December, 2011, the Group had no contingent liabilities (2010: Nil).

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

The Group's present operations are mainly carried out in the PRC and all of the Group's monetary assets, loans and transactions are principally denominated in Renminbi ("RMB"). During the year, there was no significant fluctuation in the exchange rate of RMB and the Group is not exposed to

any significant foreign currency exchange risk in its operations. The Group did not engage in any derivative activities and did not commit to any financial instruments to hedge its statement of financial position exposure in both 2010 and 2011.

## **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, 2011, the Group had 1,253 employees (2010: 1,356).

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

For the year ended 31st December, 2011, the Group had neither material acquisitions nor disposals of subsidiaries and associated companies.

## **MATERIAL INVESTMENTS**

For the year ended 31st December, 2011, the Group had no material investments (2010: Nil).

## **DIVIDEND**

The Directors do not recommend the payment of any final dividend for the year ended 31st December, 2011 (2010: Nil).

## **CLOSURE OF REGISTER OF MEMBERS**

The register of the members of the Company will be closed from Saturday, 28th April, 2012 to Friday, 18th May, 2012 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for entitlement to attend and vote at the forthcoming annual general meeting of the Company, all instrument of transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's H Share registrar in Hong Kong, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable and in any event not later than 4 p.m. on Friday, 27th April, 2012.

## **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, 2011, the Group has complied with the provisions in the "Code on Corporate Governance Practices" (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").

## **PROSPECTS**

In October 2011, the "Water-Saving Drip Irrigation Technology Innovation Project" of the Group won the National Science and Technology Advancement Second Class Award, which indicates the further affirmation of the leading position of the Group's water-saving drip irrigation technology in the sector. The Group popularizes these "affordable, applicable and adaptable" highly efficient agriculture water-saving technologies among farmers in regions such as China's Liaoning Province, Jilin Province, Heilongjiang Province and Guangxi Province, and such technologies have played a

prominent role in agricultural water conservation, improving crop production and increasing peasant income. Thus, they are increasingly recognized by local governments and numerous peasant consumers.

The traditional agricultural planting patterns of the agricultural sector in China have been changed by using the Group's highly efficient agriculture water-saving technologies, which have also effectively led the agricultural sector the development of mechanization, scalization and high efficiency. With these technologies, the Group has shifted its development direction from a simply agricultural water-saving products supplier to an innovative constructor of agricultural production technologies.

In the opinion of the Directors of the Group, the investment in the agricultural water conservancy in China will reveal a growth trend in the next five years. The Directors of the Group believe that the business of the Group will be accordingly well developed.

## **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. Following specific enquiry made by the Company, all Directors have confirmed that they have complied with the required standards under the Model Code for the year ended 31st December, 2011.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with the management, the consolidated financial statements of the Group for the year ended 31st December, 2011, the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters.

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

For the year ended 31st December, 2011, 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.

## **THE ANNUAL REPORT**

The annual report of the Company for the year ended 31st December, 2011 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 staffs 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\***  
**Hou Guo Jun**  
*Chairman*

Xinjiang, the PRC, 23rd March, 2012

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

\* *For identification purpose only*