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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, 2014**

**GROUP FINANCIAL SUMMARY**

- Operating income for the year ended 31st December, 2014 was approximately RMB700,812,000, an increase of approximately 1.34% from 2013;
- Profit attributable to owners of the Company was approximately RMB2,080,000, a decrease of approximately 42.37% from 2013;
- Basic and diluted earnings per share for the year was approximately RMB0.004 (2013: approximately RMB0.01).
- The Board does not recommend the payment of any dividend in respect of the year ended 31st December, 2014 (2013: 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, 2014, together with the comparative figures for the corresponding period in 2013 as follows:

### Consolidated Statement of Income

For the year ended 31st December, 2014

Item	Notes	Current period RMB	Last period RMB
<b>1. Total operating revenue</b>		<b>700,812,361.47</b>	691,547,439.35
Including: Operating income	5	<b>700,812,361.47</b>	691,547,439.35
<b>2. Total operating cost</b>		<b>698,901,091.90</b>	686,069,558.27
Including: Cost of sales	5	<b>631,578,559.49</b>	614,890,495.98
Business taxes and surcharges		<b>3,376,294.92</b>	2,552,259.38
Distribution costs	6	<b>38,187,801.45</b>	41,060,001.63
Administrative expenses	7	<b>22,747,650.54</b>	20,855,108.51
Finance costs	8	<b>-271,497.76</b>	3,660,417.30
Assets impairment loss	9	<b>3,282,283.26</b>	3,051,275.47
Add: Gain on changes in fair value (loss shall be stated as “-”)		<b>0</b>	0
Investment income (loss shall be stated as “-”)		<b>0</b>	-640,901.45
Including: Investment income from associates and joint venture		<b>0</b>	0
<b>3. Operating profits (loss shall be stated as “-”)</b>		<b>1,911,269.57</b>	4,836,979.63
Add: Non-operating income		<b>2,360,631.30</b>	1,128,145.17
Less: Non-operating expenses		<b>360,203.19</b>	187,628.96
Including: Loss on disposal of non-current assets		<b>159,058.56</b>	0
<b>4. Total profits (total losses shall be stated as “-”)</b>		<b>3,911,697.68</b>	5,777,495.84
Less: Income tax expenses	10	<b>2,461,220.02</b>	2,456,839.20
<b>5. Net profits (net loss shall be stated as “-”)</b>		<b>1,450,477.66</b>	3,320,656.64
Net profit attributable to owners of the Company		<b>2,079,527.41</b>	3,608,965.31
Minority interests		<b>-629,049.75</b>	-288,308.67
<b>6. Earnings per share:</b>			
(1) Basic earnings per share	12	<b>0.004</b>	0.01
(2) Diluted earnings per share	12	<b>0.004</b>	0.01
<b>7. Other comprehensive income</b>		<b>0</b>	0
<b>8. Total comprehensive income</b>		<b>1,450,477.66</b>	3,320,656.64
Total consolidated income attributable to owners of the Company		<b>2,079,527.41</b>	3,608,965.31
Total consolidated income attributable to minority interests		<b>-629,049.75</b>	-288,308.67

## Consolidated Statement of Financial Position

As at 31st December, 2014

Item	Notes	Closing balance RMB	Opening balance RMB
Current assets:			
Cash		109,888,469.36	99,142,903.73
Bill receivables		710,000.00	4,390,000.00
Trade receivables	13	101,737,989.34	75,901,644.70
Prepayments		17,030,537.23	18,665,483.60
Other receivables		31,904,612.90	29,108,428.16
Inventories		577,717,825.72	585,410,041.20
Other current assets		900,224.40	1,185,653.65
Total current assets		<u>839,889,658.95</u>	<u>813,804,155.04</u>
Non-current assets:			
Investment property		8,466,326.72	8,790,168.15
Fixed assets		175,787,453.99	186,159,065.15
Construction in progress		5,854,112.80	10,015,441.50
Intangible assets		12,539,329.98	12,543,379.99
Long-term prepaid expenses		1,396,625.01	1,308,562.74
Deferred income tax assets		1,267,148.09	988,325.03
Other non-current assets		500,000.00	0
Total non-current assets		<u>205,810,996.59</u>	<u>219,804,942.56</u>
Total assets		<u><u>1,045,700,655.54</u></u>	<u><u>1,033,609,097.60</u></u>
Current liabilities:			
Trade payables	14	217,105,852.37	191,428,607.49
Receipts in advance		52,138,574.78	73,667,854.53
Employee remuneration payable		6,161,616.92	4,906,023.08
Taxes payable		6,051,564.32	3,260,946.74
Other payables		21,511,916.39	17,647,304.94
Total current liabilities		<u>302,969,524.78</u>	<u>290,910,736.78</u>

## Consolidated Statement of Financial Position

As at 31st December, 2014

Item	Notes	Closing balance RMB	Opening balance RMB
Non-current liabilities:			
Other non-current liabilities		<u>10,928,621.82</u>	12,050,000.00
Total non-current liabilities		<u>10,928,621.82</u>	12,050,000.00
Total liabilities		<u>313,898,146.60</u>	302,960,736.78
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	34,746,526.80
Retained profits		<u>147,865,043.54</u>	145,785,516.13
Total equity attributable to owners of the Company		<u>717,483,172.98</u>	715,426,075.10
Minority interests		<u>14,319,335.96</u>	15,222,285.72
Total equity of owners		<u>731,802,508.94</u>	730,648,360.82
Total liabilities and equity of owners		<u><u>1,045,700,655.54</u></u>	<u><u>1,033,609,097.60</u></u>

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 1. CORPORATE BACKGROUND

Xinjiang Tianye Water Saving Irrigation System Company Limited (hereinafter referred to as the “Company”) was established by the co-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 27 December 1999, and its headquarters located in Shihezi City, Xinjiang Uygur Autonomous Region. The registration number of its Business License of Enterprise Legal Person is 650000410002177 and its registered capital is RMB519,521,560.00, comprises of 519,521,560 shares of RMB1 each, of which 317,121,560 are domestic shares held by legal persons and 202,400,000 are overseas H shares. The Company transferred its listing from the Growth Enterprise Market (“GEM”) of the Stock Exchange to the Main Board of the Stock Exchange on 24 January 2008, with its Stock Code changed from 8280 to 0840.

The Company is in the plastic product manufacturing industry. Its business scope covers development and promotion of high and new water saving irrigation technologies; pilot testing and promotion of new water saving equipment; technology transfer and servicing for water saving irrigation; development and utilization of computer application software for water saving irrigation; water resources management industry (irrigation and drainage) (Class C professional); production and sale of PVC materials for water supply pipe, PE piping materials and accessories, pressure compensatory drip tape, labyrinth-style drip tape, embedded-style drip tape, agricultural films and drippers; import of scrap steel, scrap copper, scrap aluminum, scrap paper and scrap plastic; recycling and processing of scrap and obsolete plastic; distribution of electrical and mechanical products (other than compact size vehicles) and chemical products (other than dangerous chemical items and highly poisonous items); grade one professional subcontractor for construction of agricultural water saving irrigation project (specific scope is subject to quality certificate); engaging in business of exporting self-produced products and technologies and engaging in business of importing self-consumed machinery and equipment, parts and components, raw and auxiliary materials and technologies, other than goods and technologies under national restrictions to be solely operated by this enterprise or prohibited from import and export; machinery, equipment, building and vehicle leasing; sale of agricultural machinery and fertilizer. Key products include pressure compensatory style drip tape, labyrinth-style drip tape, embedded-style drip tape and drippers, PVC pipelines for water supply, PE pipelines and assemblies.

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

#### 2.1 Basis of preparation

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

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

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

### 3. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES PRIOR

Important: The Company formulated specific accounting policies and accounting estimates in respect of transactions or issues such as receivables bad debt provisions, 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 (“ASBE”), and truly and completely present the financial position, the results of operations and cash flows of the Company.

#### 3.2 Accounting Period

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

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 3 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES PRIOR (Continued)

#### 3.3 Operating cycle

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

#### 3.4 Reporting currency

The reporting currency was Renminbi.

#### 3.5 Preparation basis of consolidated financial statements

The Company includes all subsidiaries under its control in the consolidation scope for consolidated financial statements, which are prepared by the Company pursuant to ASBE NO. 33 — Consolidated financial statements based on the financial statements of the Company and its subsidiaries and other relevant information.

#### 3.6 Changes in Significant Accounting Policies

##### 3.6.1 Content And Reasons for the Change in Accounting Policies

The Company has early adopted five specific accounting standards since 1 January 2013, including ASBE NO. 9 — Employee Remuneration, ASBE NO. 30 — Presentation of Financial Statements, ASBE NO. 33 — Consolidated Financial Statements, which were revised by the Ministry of Finance in 2014, and ASBE NO. 39 — Fair Value Measurement and ASBE NO. 40 — Joint Arrangement, which were newly promulgated by the Ministry of Finance in 2014.

Since 1 July 2014, the Company has adopted ASBE NO. 41 — Disclosure of Interests in Other Entities which was promulgated by the Ministry of Finance in 2014 and the revised ASBE NO. 2 — Long-term Equity Investments. The Company has also adopted ASBE NO. 37 — Presentation of Financial Instrument which was revised by the Ministry of Finance in these financial statements.

The changes in accounting policies were considered and approved at the twelfth meeting of the fourth session of the Board of the Company.

##### 3.6.2 Significantly affected items and amounts in the Financial Statements

#### Significantly affected items and amounts in the Financial Statements

#### Affected amounts Notes

Items in balance sheet as at  
31 December 2013

Deferred income	12,050,000.00	In accordance with the revised ASBE NO. 30 — Presentation of Financial Statements, the Company presented deferred income separately pursuant to presentation requirements, and restated the opening balance with retrospective application to adjust the presentation.
Other non-current liabilities	—12,050,000.00	

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 4. TAXATION

Name of taxpayer	Income tax rate
Xinjiang Tianye Water Saving Irrigation System Company Limited	15%
Gansu Tianye Water Saving Device Co., Ltd*	15%
Akesu Tianye Water Saving Co., Ltd* (阿克蘇天業節水有限公司)	15%
Shihezi Tiancheng Water Saving Device Co., Ltd* (石河子市天誠節水器材有限公司)	15%
Hami Tianye Hongxing Water Saving Irrigation Co., Ltd* (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 was subjected to an EIT tax rate of 15.00% in 2014 as it complied with the requirements of the tax concession policies of the Western Development.
- (2) The subsidiary, Gansu Tianye Water Saving Co., Ltd\* (甘肅天業節水有限公司); was subjected to an EIT tax rate of 15.00% in 2014 as it complied with the requirements of the tax concession policies of the Western Development.
- (3) The subsidiary, Akesu Tianye Water Saving Co., Ltd\* (阿克蘇天業節水有限公司), was subjected to an EIT tax rate of 15.00% in 2014 as it complied with the requirements of the tax concession policies of the Western Development.
- (4) The production operation of agricultural plastic belts for drip irrigation engaged by Shihezi Tiancheng Water Saving Device Co., Ltd\* (石河子市天誠節水器材有限公司), a subsidiary, conforms to order No.9 of the National Development and Reform Commission and Notice of Ministry of Finance, General Administration of Customs and State Administration of Taxation on the Tax Policy for In-depth Implementation of the Western Development Strategy, thus it is subjected to an EIT tax rate of 15.00% during 1 January 2011 to 31 December 2020.
- (5) Hami Tianye Hongxing Water Saving Irrigation Co., Ltd\* (哈密天業紅星節水灌溉有限責任公司), a subsidiary, is a qualified small low-profit enterprise which subjects to an EIT tax rate of 20.00%.

### 5. OPERATING INCOME/COST OF SALES

#### (1) Breakdown

Item	Current period		Corresponding period last year	
	Income	Cost	Income	Cost
Operating income from principal businesses	695,374,304.36	627,994,364.73	684,155,811.74	609,781,830.41
Other operating income	5,438,057.11	3,584,194.76	7,391,627.61	5,108,665.57
Total	<u>700,812,361.47</u>	<u>631,578,559.49</u>	<u>691,547,439.35</u>	<u>614,890,495.98</u>

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

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

Product Breakdown	Current period		Corresponding period last year	
	Income	Cost	Income	Cost
Drip tape and drip assemblies	379,222,561.37	360,097,558.97	346,749,249.79	323,887,259.84
PVC pipes/PE pipes	302,211,512.51	256,805,637.79	308,837,845.73	257,325,768.26
Project income	13,940,230.48	11,091,167.97	28,568,716.22	28,568,802.31
Sub-total	<u>695,374,304.36</u>	<u>627,994,364.73</u>	<u>684,155,811.74</u>	<u>609,781,830.41</u>

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

Name of region	Current period	Corresponding period last year
Xinjiang	505,821,461.20	389,163,622.12
PRC excluding Xinjiang	<u>189,552,843.16</u>	<u>294,992,189.62</u>
Sub-total	<u>695,374,304.36</u>	<u>684,155,811.74</u>

### 6. COST OF SALES

Item	Current period	Corresponding period last year
Salaries, benefits and social security contributions	12,807,456.15	12,736,372.45
Transportation costs	9,171,512.92	10,029,326.39
Service fees	2,836,269.11	4,319,894.08
Sales commission	2,986,234.95	3,393,846.93
Compensation for products transferred out	1,244,748.93	2,144,622.15
Travel expenses	2,124,658.55	2,082,357.61
Warehousing and storage fees	1,252,583.67	1,131,362.22
Tender fee	792,250.49	1,092,039.10
Depreciations	742,386.15	723,532.22
Sale service fee	969,821.43	445,720.83
Others	<u>3,259,879.10</u>	<u>2,960,927.65</u>
Total	<u>38,187,801.45</u>	<u>41,060,001.63</u>



## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 7. ADMINISTRATIVE EXPENSES

#### (1) Breakdown

Item	Current period	Corresponding period last year
Salaries, benefits and social security contributions	14,693,705.44	13,079,168.30
Taxes and levies	1,228,819.83	2,007,047.35
Agency service fees	1,593,586.41	1,177,365.10
Car expenses	763,690.90	669,186.30
Depreciation and amortization charge	770,458.31	632,174.50
Entertainment fees	310,335.50	480,413.31
Losses from work suspension	263,307.32	428,213.58
Travel expenses	574,977.10	384,145.91
Premium for property insurance	596,307.17	331,281.76
Others	1,952,462.56	1,666,112.40
Total	<u>22,747,650.54</u>	<u>20,855,108.51</u>

(2) Included in the administrative expenses for the year was RMB0.65 million of auditor's remuneration (2013: RMB0.65 million).

### 8. FINANCE COSTS

Item	Current period	Corresponding period last year
Interest expenses	—	4,054,888.88
Including: bank borrowings, overdrafts and interest of other loans repayable within 5 years		
Less: interest income	340,701.48	499,542.57
Add: Exchange loss	453.56	1,096.06
Add: Service charge and other expenses	68,750.16	103,974.93
Total	<u>-271,497.76</u>	<u>3,660,417.30</u>

### 9. ASSETS IMPAIRMENT LOSS

Item	Current period	Corresponding period last year
Bad debt loss	1,844,103.51	2,351,733.67
Inventory impairment loss	1,438,179.75	699,541.80
Total	<u>3,282,283.26</u>	<u>3,051,275.47</u>

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 10. INCOME TAX EXPENSES

#### (1) Breakdown

Item	Current period	Corresponding period last year
Current income tax charges	2,759,802.34	2,256,239.51
Deferred income tax charges	<u>-298,582.32</u>	<u>200,599.69</u>
Total	<u><u>2,461,220.02</u></u>	<u><u>2,456,839.20</u></u>

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

Item	Current period
Total profits	3,911,697.68
EIT charges at statutory tax rate of 25.00%	977,924.42
Income tax effect during the tax concessions period	-2,608,812.36
Tax effect of expenses not deductible	-3,521,969.92
Effect of tax payables reduction due to adjustment	
Effect of deductible temporary differences and deductible losses not recognized for deferred income tax asset during the period	6,420,615.27
Effect of prior period income tax adjustment	<u>1,193,462.61</u>
Total	<u><u>2,461,220.02</u></u>

### 11. DIVIDENDS

The Board does not recommend the payment of any dividend in respect of the year ended 31st December, 2014 (2013: Nil).

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 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	2,079,527.41
Non-recurring profit or loss	B	1,674,695.10
Net profits attributable to the ordinary shareholders of the Company after non-recurring profit or loss	C=A-B	404,832.31
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
Basic earnings per share	$M=A/L$	0.004
Basic earnings per share after non-recurring profit or loss	$N=C/L$	0.001

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

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

### 13. TRADE RECEIVABLES

#### 1) Aging analysis

Age	Closing balance	Opening balance
Within 1 year	<b>60,209,226.02</b>	36,848,914.38
1-2 years	<b>17,418,307.09</b>	25,435,419.98
2-3 years	<b>13,112,178.96</b>	8,175,120.05
3-4 years	<b>6,017,420.61</b>	4,306,823.62
4-5 years	<b>3,845,489.99</b>	68,750.00
Over 5 years	<b>1,135,366.67</b>	1,066,616.67
Total	<b><u>101,737,989.34</u></b>	<b><u>75,901,644.70</u></b>

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 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	53,870,480.32	49.18	—	—	53,870,480.32
Bad debt provision made in groups on the basis of an age analysis	31,249,277.17	28.53	7,076,329.05	22.64	24,172,948.12
Individually insignificant but for which bad debt provision has been separately made	24,416,119.68	22.29	721,558.78	2.96	23,694,560.90
<b>Total</b>	<b>109,535,877.17</b>	<b>100.00</b>	<b>7,797,887.83</b>	<b>7.12</b>	<b>101,737,989.34</b>

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	50,186,731.35	61.01	—	—	50,186,731.35
Bad debt provision made in groups on the basis of an age analysis	13,455,375.91	16.36	6,020,506.59	44.74	7,434,869.32
Individually insignificant but for which bad debt provision has been separately made	18,624,439.15	22.63	344,395.12	1.85	18,280,044.03
<b>Total</b>	<b>82,266,546.41</b>	<b>100.00</b>	<b>6,364,901.71</b>	<b>7.74</b>	<b>75,901,644.70</b>

### 14. TRADE PAYABLES

#### Aging analysis

Age	Closing balance	Opening balance
Within 1 year	195,929,546.41	159,269,408.93
1–2 years	15,129,488.69	30,723,155.02
2–3 years	5,049,255.53	282,724.70
Over 3 years	997,561.74	1,153,318.84
<b>Total</b>	<b>217,105,852.37</b>	<b>191,428,607.49</b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULTS OF OPERATIONS

#### Operating income

For the year ended 31st December, 2014, operating income of the Group was approximately RMB700,812,000, an increase of approximately 1.34% from approximately RMB691,547,000 for the year ended 31st December, 2013.

The following table summarises the breakdown of operating income of the Group for each of the two years ended 31st December, 2014 and 31st December, 2013 by products:

Category	For the year ended 31st December, 2014		For the year ended 31st December, 2013		Year-on-year percentage change
	Operating income	% to total	Operating income	% to total	
	RMB'000	%	RMB'000	%	
Drip tape and drip assemblies	379,223	54.11	346,749	50.14	9.37
PVC/PE pipelines	302,211	43.12	308,838	44.66	(2.15)
Provision of installation services	13,940	1.99	28,569	4.13	(51.21)
Other operating income	5,438	0.78	7,391	1.07	(26.42)
Total	<u>700,812</u>	<u>100.00</u>	<u>691,547</u>	<u>100.00</u>	

The change in operating income for the year ended 31st December, 2014 was mainly attributable to growth in sales. For the year ended 31st December, 2014, sales of drip tape and drip assemblies increased by approximately 9.37% to approximately RMB379,223,000, while sales of PVC/PE pipelines decreased by approximately 2.15% to approximately RMB302,211,000. At the same time, the sales volume of drip tape and drip assemblies increased from approximately 27,230 tonnes for the year ended 31st December, 2013 to approximately 28,423 tonnes for the year ended 31st December, 2014, while the sales volume of PVC/PE pipelines decreased from approximately 47,799 tonnes for the year ended 31st December, 2013 to approximately 46,870 tonnes for the year ended 31st December, 2014. The increase in sales volume of drip tape and drip assemblies of the Group was mainly attributable to increased brand awareness and market share. Decrease in sales volume and selling prices of PVC/PE pipelines was due to the impact of international crude oil prices.

#### Cost of sales

For the year ended 31st December, 2014, cost of sales of the Group was approximately RMB631,579,000, an increase of approximately 2.71% from approximately RMB614,890,000 for the year ended 31st December, 2013. Costs of sales for the year ended 31st December, 2014 comprised direct materials costs of approximately RMB540,264,000, direct labour costs of approximately RMB50,164,000 and production overhead of approximately RMB41,151,000, which accounted for approximately 85.54%, 7.94% and 6.52%, respectively, of the total costs of sales for the year under review. Costs of sales for the year ended 31st December, 2013 comprised direct materials costs of approximately RMB527,699,000, direct labour costs of approximately RMB48,207,000 and production overhead of approximately RMB38,984,000, which accounted for approximately 85.82%, 7.84% and 6.34%, respectively, of the total costs of sales for 2013.

## **Non-operating income**

For the year ended 31st December, 2014, non-operating income was approximately RMB2,361,000 and consisted primarily of trade payables written off and government subsidy; comparing to the amount of approximately RMB1,128,000 for the year ended 31st December, 2013, amount mainly represented trade payables written off and gain on disposal of fixed assets.

## **Distribution costs**

Distribution costs were approximately RMB38,188,000 for the year ended 31st December, 2014, representing a decrease of approximately 6.99% from the previous year. The amount accounted for approximately 5.45% of the total operating income for the year ended 31st December, 2014, which was slightly lower than its share of total operating income of approximately 5.94% in the previous year. Distribution costs mainly comprised transportation costs and salaries expenses, etc. For the year ended 31st December, 2014, service fees and transportation costs decreased by approximately 34.34% and 8.55% to approximately RMB2,836,000 and RMB9,172,000, respectively.

## **Administrative expenses**

Administrative expenses increased by approximately 9.07% to approximately RMB22,748,000 for the year ended 31st December, 2014. The amount accounted for approximately 3.25% of total operating income for the year ended 31st December, 2014, which was higher than its share of total operating income of approximately 3.02% in the previous year.

## **Operating profits**

As a result of the factors discussed above, the Group's operating profits for the year ended 31st December, 2014 was approximately RMB1,911,000, representing a decrease of approximately 60.49% from approximately RMB4,837,000 for the corresponding period in the previous year. The Group's gross operating margin (expressed as a percentage of operating profits over the Group's operating income) was approximately 0.70% and 0.27% for the years ended 31st December, 2013 and 2014, respectively.

## **Finance costs**

Finance income for the year ended 31st December 2014 was approximately RMB271,000 and consisted primarily of interest income; comparing to the finance costs for the year ended 31st December, 2013 amounted to approximately RMB3,660,000, amount mainly represented interest expenses. The decrease in finance costs was mainly due to the fact that no bank loan was utilized by the Group during the year.

## **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 decreased by approximately 42.37%, from approximately RMB3,609,000 for the year ended 31st December, 2013 to approximately RMB2,080,000 for the year ended 31st December, 2014. For the two years ended 31st December, 2013 and 2014, the Group's net profit margins were approximately 0.52% and 0.30%, respectively.

## **FUTURE PROSPECT**

During the reporting period, the Chinese government remained supportive to the developments in the agricultural and irrigation engineering sector. However, as the economic growth slowed down and industrial competition intensified (industrial competition is particularly intense in the Xinjiang Region, PRC, where the Group located) which subjected our profit margin to further downward pressure.

The Directors of the Group believed that, development in the agricultural and irrigation industry is still in an up-trend and over competition, although intense, is temporary. In light of this, the Group is going to initiate differentiated competitive strategies, so as to expand the market share of the Group's products by improved customer experience and to achieve reasonable profits.

The Directors of the Group believed that, as the anti-corruption efforts of the Chinese government go further down the road, the visibility of the market will be enhanced. At the same time, the realization of the "governance by laws" vision and the enhanced environmental protection law enforcement efforts, will improve our commercial ecosystem, which is beneficial to the future development of the Group, the Directors are fully confident in the Chinese economic development and also in the ever opening-up Chinese market.

## **INDEBTEDNESS**

### **Borrowings**

As at 31st December, 2014, the Group had no outstanding bank loans (2013: Nil).

### **Commitments**

As at 31st December, 2014, the Group had contracted but not provided for capital commitments of RMB1,610,000 (2013: RMB1,567,000).

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

### **Liquidity ratios**

The current ratio and quick ratio of the Group as at 31st December, 2014 were approximately 2.77 and 0.87, respectively, representing a decrease of 0.03 in current ratio and an increase of 0.08 in quick ratio when compared to 31st December, 2013. This is primarily due to decrease in inventories and increase in trade payables and cash and cash equivalents 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, 2014, 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 RMB3,609,000 (2013: approximately RMB14,333,000), which were in line with the expansion plans of the Group.



## **Capital structure**

For the year ended 31st December, 2014, the gearing ratio (which is defined as total borrowings over total equity) of the Group was approximately zero (2013: zero). This is primarily due to 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, 2014.

## **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, 2014, the Group had no contingent liabilities (2013: Nil).

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

The Group's present operations are mainly carried on in the PRC and all of the Group's monetary assets, loans and transactions are principally denominated in Renminbi ("RMB"). During the year under review, there was no significant fluctuation in the exchange rate of RMB and the Group is not exposed to any significant foreign currency exchange risk in its operations. The Group did not engage in any derivative activities and did not commit to any financial instruments to hedge its statement of financial position exposure in both 2013 and 2014.

## **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, 2014, the Group had 864 employees (2013: 1,169).

## **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 staffs, 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 RMB13,784,000 for the year ended 31st December, 2014.

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 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, 2014, the Group had neither material acquisitions nor disposals of subsidiaries and associated companies.

## **MATERIAL INVESTMENTS**

For the year ended 31st December, 2014, the Group had no material investments.

## **DIVIDEND**

The Board does not recommend the payment of any final dividend for the year ended 31st December, 2014 (2013: Nil).

## **CLOSURE OF REGISTER OF MEMBERS**

The register of the members of the Company will be closed from Saturday, 16th May, 2015 to Friday, 5th June, 2015 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for entitlement to attend and vote at the forthcoming annual general meeting of the Company, all instrument of transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's H Share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable and in any event not later than 4 p.m. on Friday, 15th May, 2015.

## **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, 2014, 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, 2014.

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

For the year ended 31st December, 2014, 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 2014.

## **POST BALANCE SHEET EVENT**

On 23rd March 2015, the Company and Tianye Holdings (a substantial Shareholder) entered into a new master sales agreement and new master purchase agreement ("New Agreements") to renew the master sales agreement and master purchase agreement which were expired on 31st December 2014 ("Old Agreements"). Apart from the annual caps, the terms and conditions of the New Agreements are the same as to the Old Agreements. For details of the New Agreements, please refer to the announcement of the Company dated 23rd March, 2015.

Other than disclosed above, the Group had no significant event occurring after the balance sheet date and up to the date of this annual result announcement.

## **AUDIT COMMITTEE**

The audit committee of the Company reviewed the Group's consolidated annual result for the year ended 31st December, 2014, 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, 2014 with the management.

## **THE ANNUAL REPORT**

The annual report of the Company for the year ended 31st December, 2014 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, 27th March, 2015

*As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Chen Lin (Chairman), Mr. Zhu Jia Ji, Mr. Shao Mao Xu and Mr. Zhang Qiang and four independent non-executive Directors, namely Mr. Mak King Sau, Mr. Qin Ming, Mr. Cao Jian and Mr. Yin Feihu.*

\* *For identification purpose only*