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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, 2013

GROUP FINANCIAL SUMMARY

- Operating income for the year ended 31st December, 2013 was approximately RMB691,547,000, a decrease of approximately 9.35% from 2012;
- Profit attributable to owners of the Company was approximately RMB3,609,000, an increase of approximately 12.39% from 2012;
- Basic and diluted earnings per share for the year was approximately RMB0.01 (2012: approximately RMB0.01).
- The Board does not recommend the payment of any dividend in respect of the year ended 31st December, 2013 (2012: 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, 2013, together with the comparative figures for the corresponding period in 2012 as follows:

Consolidated Statement of Income

For the year ended 31st December, 2013

Item	Notes	Current period RMB	Last period RMB
1. Total operating revenue		691,547,439.35	762,836,791.23
Including: Operating income	4	691,547,439.35	762,836,791.23
2. Total operating cost		686,069,558.27	756,277,364.97
Including: Cost of sales	4	614,890,495.98	680,333,238.28
Business taxes and surcharges		2,552,259.38	4,020,349.34
Distribution costs		41,060,001.63	46,518,432.73
Administrative expenses	5	20,855,108.51	20,250,690.39
Finance costs	6	3,660,417.30	5,309,539.36
Assets impairment loss	7	3,051,275.47	-154,885.13
Add: Gain on changes in fair value (loss shall be stated as “-”)		0	0
Investment income (loss shall be stated as “-”)		-640,901.45	-472,500.00
Including: Investment income from associates and joint venture		0	0
3. Operating profits (loss shall be stated as “-”)		4,836,979.63	6,086,926.26
Add: Non-operating income		1,128,145.17	2,320,935.40
Less: Non-operating expenses		187,628.96	2,424,363.84
Including: Loss on disposal of non-current assets		0	0
4. Total profits (total losses shall be stated as “-”)		5,777,495.84	5,983,497.82
Less: Income tax expenses	8	2,456,839.20	2,771,197.40
5. Net profits (net loss shall be stated as “-”)		3,320,656.64	3,212,300.42
Net profit attributable to owners of the Company		3,608,965.31	3,211,391.48
Minority interests		-288,308.67	908.94
6. Earnings per share:			
(1) Basic earnings per share	10	0.01	0.01
(2) Diluted earnings per share	10	0.01	0.01
7. Other comprehensive income		0	0
8. Total comprehensive income		3,320,656.64	3,212,300.42
Total consolidated income attributable to owners of the Company		3,608,965.31	3,211,391.48
Total consolidated income attributable to minority interests		-288,308.67	908.94

Consolidated Statement of Financial Position

As at 31st December, 2013

Item	Notes	Closing balance RMB	Opening balance RMB
Current assets:			
Cash		99,142,903.73	111,742,324.15
Bill receivables		4,390,000.00	2,850,000.00
Trade receivables	11	75,901,644.70	132,920,975.31
Prepayments		18,665,483.60	16,720,944.27
Other receivables		29,108,428.16	16,367,505.81
Inventories		585,410,041.20	594,536,112.40
Other current assets		1,185,653.65	3,711,731.76
Total current assets		<u>813,804,155.04</u>	<u>878,849,593.70</u>
Non-current assets:			
Investment property		8,790,168.15	9,117,375.63
Fixed assets		186,159,065.15	162,498,571.21
Construction in progress		10,015,441.50	31,624,135.66
Construction materials		0	103,397.78
Intangible assets		12,543,379.99	12,840,445.81
Long-term prepaid expenses		1,308,562.74	501,843.25
Deferred income tax assets		988,325.03	1,188,924.72
Other non-current assets		0	4,506,000.00
Total non-current assets		<u>219,804,942.56</u>	<u>222,380,694.06</u>
Total assets		<u>1,033,609,097.60</u>	<u>1,101,230,287.76</u>
Current liabilities:			
Short-term borrowings		0	100,000,000.00
Bill payables		0	0
Trade payables	12	191,428,607.49	168,858,662.14
Receipts in advance		73,667,854.53	66,273,003.68
Employee remuneration payable		4,906,023.08	3,674,031.04
Taxes payable		3,260,946.74	5,332,419.69
Other payables		17,647,304.94	15,206,623.46
Total current liabilities		<u>290,910,736.78</u>	<u>359,344,740.01</u>

Consolidated Statement of Financial Position*As at 31st December, 2013*

Item	<i>Notes</i>	Closing balance RMB	Opening balance RMB
Non-current liabilities:			
Other non-current liabilities		<u>12,050,000.00</u>	12,050,000.00
Total non-current liabilities		<u>12,050,000.00</u>	12,050,000.00
Total liabilities		<u>302,960,736.78</u>	371,394,740.01
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		34,746,526.80	34,746,526.80
Retained profits		<u>145,785,516.13</u>	142,176,550.82
Total equity attributable to owners of the Company		715,426,075.10	711,817,109.79
Minority interests		<u>15,222,285.72</u>	18,018,437.96
Total equity of owners		<u>730,648,360.82</u>	729,835,547.75
Total liabilities and equity of owners		<u><u>1,033,609,097.60</u></u>	<u><u>1,101,230,287.76</u></u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. CORPORATE BACKGROUND

Xinjiang Tianye Water Saving Irrigation System Company Limited (the “Company”) is a joint stock limited liability company founded through co-investment by Xinjiang Tianye Company Limited (“Tianye Company”) and Xinjiang Shihezi Yunfa Investment Company Limited (新疆石河子運發投資有限責任公司) on 27 December 1999, its Corporate Business License No. is 650000410002177. Registered capital of the Company is RMB519,521,560.00 comprising 519,521,560 shares of a nominal value of RMB1 each, of which 317,121,560 domestic shares and 202,400,000 overseas H shares. Since 24 January 2008, listing of the Company’s H shares has been transferred from the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) to the Main Board of the Stock Exchange with its Stock Code changed from 8280 to 0840.

The Company is primarily engaged in plastic product manufacturing, business scope covering development and marketing of high and new water saving irrigation technologies; interim testing and marketing of advanced water saving fittings; technology transfer and service for water saving irrigation; development and utilization of computer application software for water saving irrigation; production and sales of PVC pipelines for water supply, PE pipelines and assemblies, pressure compensatory style drip films, labyrinth-style drip films, embedded-style drip films, agricultural plastic 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 goods (other than compact size vehicles) and chemical goods (other than dangerous chemical items and highly poisonous items); hydraulic industry (irrigation and drainage) (Class C); grade one subcontractor for construction of water saving irrigation project (specific scope is subject to quality certificate); business of exporting products and technologies produced by this enterprise itself and business of importing machinery and equipment, parts and components, raw and auxiliary materials and technologies required by this enterprise, other than goods and technologies solely operated by this enterprise or prohibited from import and export by the State. Main products are including pressure compensatory style drip films, labyrinth-style drip films, embedded-style drip films and drippers, PVC pipelines for water supply, PE pipelines and assemblies.

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS

2.1. Basis of preparation

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

2.2. Statement of compliance

The financial statements prepared by the Company are in accordance with the requirement of the Accounting Standards for Business Enterprises (“ASBE”). The Company has early adopted five concrete standards since 1 January 2013, namely ASBE 9 — Employee compensation, ASBE 30 — Presentation of financial Statements, ASBE 33 — Consolidated financial statements which are revised by the Ministry of Finance in 2014 and ASBE 39 — Fair value measurements and ASBE 40 — Joint Arrangements which are newly promulgated by the Ministry of Finance to give a true and complete view of the related information about the financial positions, operating results and cash flows of the Company.

2.3. Financial year

The financial year of the Company is from 1 January to 31 December of each calendar year.

2.4. Reporting currency

The reporting currency was Renminbi.

2.5. 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 33 — Consolidated financial statements based on the financial statements of the Company and its subsidiaries and other relevant information, adjusted long-term equity investments in subsidiaries using the equity method.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. TAXATION

Enterprise income tax (“EIT”)

- (1) The Company is subject to an EIT tax rate of 15%.

Pursuant to “State Administration of Taxation of Shihezi Economic and Technology Development Zone in Xinjiang Uygur Autonomous Region Kai Guo Shui (Shi Kai) Guo Shui Jian Mian Bei Zi [2012] No.117” (新疆維吾爾自治區石河子經濟技術開發區國家稅務局開國稅(石開)國稅減免備字[2012]117號文), the Company was granted a reduced EIT tax rate of 15.00% for the period from 1 January 2011 to 31 December 2013 as a hi-tech enterprise under Article 28 of the Law of the PRC on Enterprise Income Tax and Articles 5 and 19 of Measures for the Administration of Tax Deduction or Exemption (for Trial Implementation).

- (2) The Company’s subsidiary, Gansu Tianye Water Saving Device Co., Ltd* (甘肅天業節水器材有限公司), was granted an EIT tax rate of 15.00% for 2013 as it qualified for tax concessions relating to the Western Development.
- (3) The Company’s subsidiary, Akesu Tianye Water Saving Co., Ltd* (阿克蘇天業節水有限公司), has made the Registration and Filing for EIT Preferential Project on 21 May 2013, thus it was granted an EIT tax rate of 15.00% for 2013 as it qualified for tax concessions relating to the Western Development.
- (4) Activities of production of agricultural plastic belts for drip irrigation of Shihezi Tiancheng Water Saving Device Co., Ltd* (石河子市天誠節水器材有限公司), the Company’s subsidiary, conform to order No.9 of the National Development and Reform Commission and Circular 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 from 1 January 2011 to 31 December 2020, it subjects to an EIT tax rate of 15.00%.
- (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), the Company’s subsidiary, is a qualified small-scaled and minimal profit enterprise which subjects to an EIT tax rate of 20.00%.
- (6) Save for the Company and its subsidiaries, Gansu Tianye Water Saving Device Co., Ltd* (甘肅天業節水器材有限公司), Akesu Tianye Water Saving Co., Ltd* (阿克蘇天業節水有限公司) and Shihezi Tiancheng Water Saving Device Co., Ltd* (石河子市天誠節水器材有限公司), were subject to an EIT tax rate of 15.00% and Hami Tianye Hongxing Water Saving Irrigation Co., Ltd* (哈密天業紅星節水灌溉有限責任公司) was subject to an EIT tax rate of 20.00%, other subsidiaries were subject to an EIT tax rate of 25.00%.

4. OPERATING INCOME/COST OF SALES

(1) Details

Item	Current period	Last period
Operating income from principal activities	684,155,811.74	762,836,791.23
Other operating income	7,391,627.61	—
Cost of sales	614,890,495.98	680,333,238.28

(2) Operating income/cost of sales from principal activities (by product)

Product	Current period		Last period	
	Income	Expenses	Income	Expenses
Drip films and drip assemblies	346,749,249.79	323,887,259.84	477,943,169.33	425,567,327.36
PVC/PE pipelines	308,837,845.73	257,325,768.26	279,398,155.25	251,114,509.41
Provision of installation services	28,568,716.22	28,568,802.31	5,495,466.65	3,651,401.51
Sub-total	684,155,811.74	609,781,830.41	762,836,791.23	680,333,238.28

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. OPERATING INCOME/COST OF SALES (Continued)

(3) Operating income/cost of sales from principal activities (by region)

Name of region	Current period	Last period
Xinjiang	389,163,622.12	475,660,479.25
PRC excluding Xinjiang	294,992,189.62	287,176,311.98
Sub-total	<u>684,155,811.74</u>	<u>762,836,791.23</u>

5. ADMINISTRATIVE EXPENSES

Item	Current period	Last period
Salaries, benefits and social security contributions	13,079,168.30	12,186,810.82
Agency service fees	1,177,365.10	1,725,249.51
Taxes and levies	2,007,047.35	1,544,599.79
Depreciation and amortisation charge	632,174.50	804,902.14
Technology development fees	110,465.49	35,635.00
Car expenses	669,186.30	794,345.05
Premium for property insurance	331,281.76	496,922.65
Entertainment fees	480,413.31	677,244.78
Travel expenses	384,145.91	249,274.51
Losses of work suspension	428,213.58	150,651.37
Other	1,555,646.91	1,585,054.77
Total	<u>20,855,108.51</u>	<u>20,250,690.39</u>

6. FINANCE COSTS

Item	Current period	Last period
Interest expenses	4,054,838.88	5,614,565.00
Less: Interest income	499,542.57	395,964.39
Add: Exchange loss	1,096.06	5,049.36
Add: Service charge and other expenses	103,974.93	85,889.39
Total	<u>3,660,417.30</u>	<u>5,309,539.36</u>

7. ASSETS IMPAIRMENT LOSS

Item	Current period	Last period
Bad debt loss	2,351,733.67	-425,269.92
Inventory impairment loss	699,541.80	270,384.79
Total	<u>3,051,275.47</u>	<u>-154,885.13</u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2013

8. INCOME TAX EXPENSES

(1) Item

	Current period	Last period
Current income tax calculated under tax laws and relevant requirements	2,256,239.51	2,211,589.21
Deferred income tax adjustment	200,599.69	559,608.19
	<u>2,456,839.20</u>	<u>2,771,197.40</u>
Total	<u>2,456,839.20</u>	<u>2,771,197.40</u>

(2) The adjustment table of income tax expenses and of accounting profit

Item	Current period	Last period
Total profits	5,777,495.84	5,983,497.82
EIT fees at tax rate of 25.00% (last year: 25.00%)	1,444,373.96	1,495,874.46
Income tax effect of being in the tax concessions period)	(587,925.02)	(240,068.53)
Tax effect of expenses not deductible	832,740.34	438,622.11
Tax effect reduced due to tax adjustment	(215,385.36)	(54,552.66)
Tax effect of deductible losses and deductible temporary differences not recognised	200,599.69	559,608.19
Income tax adjustment of last year	771,409.12	429,254.76
Effect of different tax rates of subsidiaries	11,026.47	142,459.08
	<u>2,456,839.20</u>	<u>2,771,197.40</u>
Total	<u>2,456,839.20</u>	<u>2,771,197.40</u>

9. DIVIDENDS

The Board does not recommend the payment of any dividend in respect of the year ended 31st December, 2013 (2012: Nil).

10. CALCULATIONS OF BASIC AND DILUTED EARNINGS PER SHARE

(1) Calculations of basic earnings per share

Item	Number	Year of 2013
Net profits attributable to the ordinary shareholders of the Company	A	3,608,965.31
Total number of shares at beginning of the period	B	519,521,560.00
Increase in number of shares due to transfer from reserves to capital or distribution of scrip dividend	C	—
Increase in number of shares due to issuance of new shares or convertibles	D	—
Number of months from the month after increase in shares to end of reporting period	E	—
Decrease in number of shares due to repurchase	F	—
Number of months from the month after decrease in shares to the end of reporting period	G	—
Reduction in number of shares during the reporting period	H	—
Number of months in the reporting period	I	12.00
Weighted average number of outstanding ordinary shares	$J = \frac{B+C+D \times E}{I - F \times G / I - H}$	519,521,560.00
Basic earnings per share	$K = A / J$	0.01

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2013

10. CALCULATIONS OF BASIC AND DILUTED EARNINGS PER SHARE (Continued)

(2) Calculations of diluted earnings per share

Calculations of diluted earnings per share are the same as the calculations of basic earnings per share.

11. TRADE RECEIVABLES

(1) Details

1) Details by category

Category	Closing balance			
	Book value		Bad-debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	50,186,731.35	61.01	0	0
For which bad debt provision made on a group basis:				
— Aging analysis group	13,455,375.91	16.36	6,020,506.59	44.74
Individually insignificant but for which bad debt provision has been separately made	18,624,439.15	22.63	344,395.12	1.85
Total	<u>82,266,546.41</u>	<u>100.00</u>	<u>6,364,901.71</u>	<u>7.74</u>

Category	Opening balance			
	Book value		Bad-debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	105,032,704.25	75.37	179,365.52	0.17
For which bad debt provision made on a group basis:				
— Aging analysis group	17,656,256.58	12.67	6,250,334.51	35.40
Individually insignificant but for which bad debt provision has been separately made	16,661,714.51	11.96	0	0
Total	<u>139,350,675.34</u>	<u>100.00</u>	<u>6,429,700.03</u>	<u>4.61</u>

2) Trade receivables individually significant and for which bad debt provision has been separately made

Trade receivables	Book value	Bad-debt provision	Provision percentage (%)	Reason for provision
Sales of goods	50,186,731.35	0	0	Bad debt provision has been separately made for state land treatment project and government tendering project
Sub-total	<u>50,186,731.35</u>	<u>0</u>	<u>0</u>	

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2013

11. TRADE RECEIVABLES (Continued)

(1) Details (Continued)

3) Trade receivables for which bad debt provision has been made using the aging analysis method in the group

Age	Closing balance			Opening balance		
	Book value	Percentage	Bad-debt	Book value	Percentage	Bad-debt
	Amount	(%)	provision	Amount	(%)	provision
Within 1 year	5,776,846.66	42.94	57,768.47	7,542,123.86	42.72	75,421.24
1-2 years	3,431,582.28	25.50	1,715,791.15	7,878,438.91	44.62	3,939,219.46
2-3 years	3,963,503.12	29.46	3,963,503.12	895,436.05	5.07	895,436.05
3-4 years	2,750.00	0.02	2,750.00	239,041.07	1.35	239,041.07
4-5 years	90,724	0.67	90,724.00	1,101,216.69	6.24	1,101,216.69
Over 5 years	189,969.85	1.41	189,969.85	0	0	0
Sub-total	<u>13,455,375.91</u>	<u>100.00</u>	<u>6,020,506.59</u>	<u>17,656,256.58</u>	<u>100.00</u>	<u>6,250,334.51</u>

4) Trade receivables individually insignificant but for which bad debt provision has been separately made at the period-end

Trade receivables	Book value	Bad-debt provision	Provision percentage (%)	Reason for provision
Sales of goods	18,624,439.15	344,395.12	1.85	Bad debt provision has been separately made for state land treatment project and government tendering project
Sub-total	<u>18,624,439.15</u>	<u>344,395.12</u>	<u>1.85</u>	

(2) Trade receivables actually written off for the period

Name of entity	Nature of trade receivables	Amount written off	Reason for write-off	Arising from connected transaction
Red Star Second Site of Farm 13 (農十三師紅星二場)	Sales of goods	658,711.50	Unrecoverable	No
Sub-total		<u>658,711.50</u>		

(3) There were no amounts due from shareholders or other related parties holding 5% or more in the voting shares of the Company at the period-end.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2013

12. TRADE PAYABLES

(1) Details

Age	Closing balance	Opening balance
Within 1 year	159,269,408.93	165,824,191.15
1–2 years	30,723,155.02	817,239.03
2–3 years	282,724.70	124,980.97
Over 3 years	1,153,318.84	2,092,250.99
Sub-total	<u>191,428,607.49</u>	<u>168,858,662.14</u>

(2) Amounts due to shareholders or other related parties holding 5% or more in the voting shares of the Company at the period-end.

Name of entity	Closing balance	Opening balance
Marketing Center of Xinjiang Tianye (Group) Co., Ltd. (新疆天業(集團)有限公司營銷管理中心)	65,876,752.58	0
Beijing Tianye Luzhou Technology and Development Co., Ltd (北京天業綠洲科技發展有限公司)	<u>484,608.93</u>	<u>484,608.93</u>
Sub-total	<u>66,361,361.51</u>	<u>484,608.93</u>

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Operating income

For the year ended 31st December, 2013, operating income of the Group was approximately RMB691,547,000, a decrease of approximately 9.35% from approximately RMB762,837,000 for the year ended 31st December, 2012.

The following table summarises the breakdown of operating income of the Group for each of the two years ended 31st December, 2013 and 31st December, 2012 by products:

Category	For the year ended 31st December, 2013		For the year ended 31st December, 2012		Year-on-year percentage change %
	Operating income RMB'000	% to total Operating income %	Operating income RMB'000	% to total Operating income %	
Drip films and drip assemblies	346,749	50.14	477,943	62.65	(27.45)
PVC/PE pipelines	308,838	44.66	279,398	36.63	10.54
Provision of installation services	28,569	4.13	5,496	0.72	419.81
Other operating income	7,391	1.07	—	0.00	100.00
Total	<u>691,547</u>	<u>100.00</u>	<u>762,837</u>	<u>100.00</u>	

The change in operating income for the year ended 31st December, 2013 was mainly attributable to intensified market competition and decreased selling prices. For the year ended 31st December, 2013, sales of drip films and drip assemblies decreased by approximately 27.45% to approximately RMB346,749,000, while sales of PVC/PE pipelines increased by approximately 10.54% to approximately RMB308,838,000. At the same time, the sales volume of drip films and drip assemblies decreased from approximately 36,307 tonnes for the year ended 31st December, 2012 to approximately 27,230 tonnes for the year ended 31st December, 2013, while the sales volume of PVC/PE pipelines increased from approximately 41,027 tonnes for the year ended 31st December, 2012 to approximately 47,799 tonnes for the year ended 31st December, 2013. The increase in the sales volume of PVC/PE pipelines was mainly attributable to reliable quality which lead to growth in demand for the products.

Cost of sales

For the year ended 31st December, 2013, cost of sales of the Group was approximately RMB614,890,000, a decrease of approximately 9.62% from approximately RMB680,333,000 for the year ended 31st December, 2012. 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 the year under review. Costs of sales for the year ended 31st December, 2012 comprised direct materials costs of approximately RMB581,140,000, direct labour costs of approximately RMB49,936,000 and production overhead of approximately RMB49,257,000, which accounted for approximately 85.42%, 7.34% and 7.24%, respectively, of the total costs of sales for 2012.

Non-operating income

For the year ended 31st December, 2013, non-operating income was approximately RMB1,128,000 and consisted primarily of trade payables written off and gain on disposal of fixed assets; comparing to the amount of approximately RMB2,321,000 for the year ended 31st December, 2012, amount mainly represented trade payables written off and government grants.

Distribution costs

Distribution costs were approximately RMB41,060,000 for the year ended 31st December, 2013, representing a decrease of approximately 11.73% from the previous year. The amount accounted for approximately 5.94% of the total operating income for the year ended 31st December, 2013, which was lower than its share of total operating income of approximately 6.10% in the previous year. Distribution costs mainly comprised transportation costs and salaries expenses, etc. For the year ended 31st December, 2013, salaries expenses and transportation costs decreased by approximately 11.06% and 4.51% to approximately RMB12,736,000 and RMB10,029,000, respectively.

Administrative expenses

Administrative expenses increased by approximately 2.98% to approximately RMB20,855,000 for the year ended 31st December, 2013. The amount accounted for approximately 3.02% of total operating income for the year ended 31st December, 2013, which was higher than its share of total operating income of approximately 2.65% in the previous year. For the year ended 31st December, 2013, administrative expenses mainly comprised salaries and tax expenses.

Operating profits

As a result of the factors discussed above, the Group's operating profits for the year ended 31st December, 2013 was approximately RMB4,837,000, representing a decrease of approximately 20.54% from approximately RMB6,087,000 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 0.80% and 0.70% for the years ended 31st December, 2012 and 2013, respectively.

Finance costs

Finance costs for the year ended 31st December, 2013 amounted to approximately RMB3,660,000, representing a decrease of 31.06% as compared to the corresponding period in the previous year. The decrease in finance costs was mainly resulted from the decrease in average loan amount 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 increased by approximately 12.39%, from approximately RMB3,211,000 for the year ended 31st December, 2012 to approximately RMB3,609,000 for the year ended 31st December, 2013. For the two years ended 31st December, 2012 and 2013, the Group's net profit margins were approximately 0.42% and 0.52%, respectively.

FUTURE PROSPECT

During the reporting period, the Chinese government continued to implement its encouragement policies for irrigation and water conservancy project. However, funds arrived late in some regions due to the slowdown of the speed of economic growth, which affected the commencement of the project. In addition, affected by the fierce competition in the industry, the selling price of the Group's products dropped and resulted in the decrease of sales income.

The directors of the Group believe that China's economic growth will slow down in the coming two years. In response to the changing environment, the Group will focus on developing customers with high credit rating, and apply prudent financial policies to ensure the Group a solid cash flow.

As the Government conducted stricter supervision on the agricultural water-saving projects, the directors of the Group believe that with our concept of "developing affordable and applicable water-saving equipment to farmers" as well as our pragmatic operating style, the Group is better positioned to seize the chance to expand its market share in this environment, and to achieve a solid development.

INDEBTEDNESS

Borrowings

As at 31st December, 2013, the Group had outstanding bank loans of zero (2012: RMB100,000,000).

As at 31st December, 2012, the Group's borrowings amounted to RMB50,000,000 (2013: Zero) and RMB50,000,000 (2013: Zero) 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, 2012 provided by Tianye Holdings were released on or before 25th December, 2013.

All guarantees in respect of the Group's borrowings of RMB50,000,000 as at 31st December, 2012 provided by Tianye Company were released on or before 28th May, 2013.

Commitments

As at 31st December, 2013, the Group had contracted but not provided for capital commitments of RMB1,567,000 (2012: RMB7,130,000).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity ratios

The current ratio and quick ratio of the Group as at 31st December, 2013 were approximately 2.79 and 0.72, respectively, representing an increase of 0.33 and 0.02 respectively when compared to 31st December, 2012. This is primarily due to decrease 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, 2013, 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 RMB14,333,000 (2012: approximately RMB6,091,000), which were in line with the expansion plans of the Group.

Capital structure

For the year ended 31st December, 2013, the gearing ratio (which is defined as total borrowings over total equity) of the Group was approximately zero (2012: 13.70%). This is primarily due to the decrease in bank loans 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, 2013.

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, 2013, the Group had no contingent liabilities (2012: 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 2012 and 2013.

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, 2013, the Group had 1,169 employees (2012: 1,258).

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the period, Shihezi Development Zone Tianye Water Saving Engineering Installation Co., Ltd* (石河子開發區天業節水工程安裝有限責任公司), a subsidiary of the Company, finished its liquidation as at 20 December 2013. Thus it will not be included in the consolidated financial statement from the date of its liquidation.

During the period, Xinjiang Aral Tiannong Water Saving Irrigation Co., Ltd* (新疆阿拉爾天農節水灌溉有限責任公司), a subsidiary of the Company, established a liquidation team and conducted liquidation procedure after the shareholders' negotiation as at 31 May 2013. Thus it will not be included in the consolidated financial statements from the date of setting up liquidation team.

Other than disclosed above, for the year ended 31st December, 2013, the Group had neither material acquisitions nor disposals of subsidiaries and associated companies.

MATERIAL INVESTMENTS

Liaoning Tianye Water Saving Irrigation Co., Ltd* (遼寧天業節水灌溉有限公司) was established by the Company during the period, and the registration procedure required by the Industrial and Commercial Administration was properly completed and the business license was obtained at 2 September 2013, with the registration No. of 211241000011698. The registered capital of the Company was RMB10,000,000.00, while the Company contributed RMB10,000,000.00, accounting for 100.00% of its registered capital and substantially control over it, thus the subsidiary was included in the Company's consolidated financial statements from its establishment.

Other than disclosed above, for the year ended 31st December, 2013, the Group had no material investments (2012: Nil).

DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31st December, 2013 (2012: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of the members of the Company will be closed from Saturday, 3rd May, 2014 to Friday, 23rd May, 2014 (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 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong (before 31st March 2014); Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong (on or after 31st March 2014) as soon as practicable and in any event not later than 4 p.m. on Friday, 2nd May, 2014.

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, 2013, 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, 2013.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management, the consolidated financial statements of the Group for the year ended 31st December, 2013, 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, 2013, 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 2013.

THE ANNUAL REPORT

The annual report of the Company for the year ended 31st December, 2013 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*
Li Shuang Quan
Chairman

Xinjiang, the PRC, 25th March, 2014

As at the date of this announcement, the Board comprises five executive Directors, namely Mr. Li Shuang Quan (Chairman), Mr. Zhu Jia Ji, Mr. Shao Mao Xu, Mr. Chen Lin 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*