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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)

Audited Annual Results for the Year Ended 31st December, 2019

Reference is made to the announcement of Xinjiang Tianye Water Saving Irrigation System Company Limited (the “**Company**”), together with its subsidiaries (the “**Group**”), dated 31st March, 2020 in relation to the audited annual results of the Group for the year ended 31st December, 2019 (the “**Announcement**”).

The board of directors of the Company (the “**Board**”) is pleased to announce that the Company’s auditor, Pan-China Certified Public Accountants LLP, has completed its auditing process of the annual results for the year ended 31st December, 2019 of the Group (the “**2019 Annual Results**”) in accordance with China Standards on Auditing for Certified Public Accountants.

Save as (i) adjustments of certain items in consolidated income statement; and (ii) further provision of approximately RMB9,991,000 on inventories impairment loss, there were no other significant changes to the 2019 Annual Results contained in the Announcement.

Since more time is required to finalise and arrange for the bulk-printing of the annual report of the Company for the year ended 31st December, 2019 (the “**2019 Annual Report**”) after the completion of the auditing process, the Board hereby announces that the 2019 Annual Report is expected to be published on or before 15th May, 2020.

GROUP FINANCIAL SUMMARY

- The audited operating income for the year ended 31st December, 2019 was approximately RMB624,288,000, an increase of approximately 16.44% from 2018.
- The audited net loss attributable to owners of the parent company for the year ended 31st December, 2019 was approximately RMB47,948,000 (2018: net loss attributable to owners of the parent Company was approximately RMB47,637,000).
- Basic and diluted loss per share for the year was approximately RMB0.0923 (2018: loss of approximately RMB0.0917).

RESULTS

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31st December, 2019, together with the comparative figures for the corresponding period in 2018 as follows. These audited annual financial statements have been reviewed by the audit committee of the Company.

Consolidated Income Statement

For the year ended 31st December, 2019

Item	Notes	Current period RMB	Corresponding period last year RMB
1. Total operating revenue		624,288,061.94	536,156,710.34
Including: Operating income	5	624,288,061.94	536,156,710.34
2. Total operating cost		678,183,734.60	588,584,454.04
Including: Cost of sales	5	540,229,993.72	490,620,405.75
Business taxes and surcharges		4,034,696.18	3,945,389.43
Distribution costs	6	52,722,388.01	39,284,374.87
Administrative expenses	7	43,527,509.34	34,759,918.74
Research and development expenses		5,253,168.26	3,570,440.28
Finance costs	8	-836,803.26	55,170.91
Assets impairment loss	9	33,252,782.35	16,348,754.06
Add: Investment loss		-817,958.32	-14,371.02
Loss on disposal of assets		-328,587.55	-235,343.05
Other gains		5,502,314.69	4,055,599.70

Consolidated Income Statement
For the year ended 31st December, 2019

Item	Notes	Current period RMB	Corresponding period last year RMB
3. Operating losses		-49,539,903.84	-48,621,858.07
Add: Non-operating income		2,576,582.20	1,243,277.07
Less: Non-operating expenses		706,183.77	610,531.53
4. Total losses		-47,669,505.41	-47,989,112.53
Less: Income tax expenses	10	543,653.54	1,446,389.54
5. Net loss		-48,213,158.95	-49,435,502.07
(1) 1. Net loss from continuing operation		-48,213,158.95	-49,435,502.07
2. Net loss from discontinued operation		0	0
(2) 1. Net profit attributable to owners of the parent company		-47,948,484.10	-47,636,809.08
2. Minority interests		-264,674.85	-1,798,692.99
6. Loss per share:			
(1) Basic loss per share	12	-0.0926	-0.0917
(2) Diluted loss per share	12	-0.0926	-0.0917
7. Other comprehensive income		0	0
8. Total comprehensive income		-48,213,158.95	-49,435,502.07
Total consolidated loss attributable to owners of the parent company		-47,948,484.10	-47,636,809.08
Total consolidated income attributable to minority interests		-264,674.85	-1,798,692.99

CONSOLIDATED BALANCE SHEET

As at 31st December, 2019

Item	Notes	Current period RMB	Corresponding period last year RMB
Current assets:			
Cash		63,242,448.73	109,601,975.60
Trade receivables	13	198,433,332.17	213,964,316.50
Prepayments		12,835,641.05	13,888,696.97
Other receivables		23,119,600.39	15,993,338.32
Inventories		368,481,208.36	413,570,287.98
Other current assets		4,394,124.42	3,714,856.58
Total current assets		<u>670,506,355.12</u>	<u>770,733,471.95</u>
Non-current assets:			
Long term equity investment	14	7,585,586.14	7,856,660.42
Fixed assets		141,906,357.63	154,581,546.49
Construction in progress		14,968,683.01	4,513,524.38
Producing bio-assets	15	8,809,551.08	0
Intangible assets		16,699,683.28	13,659,963.36
Long-term deferred expenses		7,261,022.23	3,275,296.43
Deferred income tax assets	16	1,203,866.95	1,081,604.23
Other non-current assets		291,703.20	2,070,700.00
Total non-current assets		<u>198,726,453.52</u>	<u>187,039,295.31</u>
Total assets		<u><u>869,232,808.64</u></u>	<u><u>957,772,767.26</u></u>

CONSOLIDATED BALANCE SHEET

As at 31st December, 2019

Item	Notes	Current period RMB	Corresponding period last year RMB
Current liabilities:			
Short-term borrowings		30,000,000.00	30,000,000.00
Trade payables	17	196,117,145.12	217,513,969.66
Contract liabilities		33,278,348.10	46,759,656.76
Employee remuneration payables		8,314,311.94	9,036,937.94
Tax and levy payables	18	5,043,594.52	5,961,071.48
Other payables		17,932,391.35	22,886,473.68
Other current liabilities		2,601,842.95	0
Total current liabilities		<u>293,287,633.98</u>	<u>332,158,109.52</u>
Non-current liabilities:			
Specific payables		0	0
Deferred income		7,580,656.25	9,036,980.38
Total non-current liabilities		<u>7,580,656.25</u>	<u>9,036,980.38</u>
Total liabilities		<u>300,868,290.23</u>	<u>341,195,089.90</u>
Equity of owners:			
Share capital		519,521,560.00	519,521,560.00
Capital reserve		15,372,472.17	15,372,472.17
Surplus reserves		34,724,097.27	34,724,097.27
Undistributed profit (loss is denoted as “-”)		-10,329,050.11	37,619,433.99
Total equity attributable to owners of the parent company		<u>559,289,079.33</u>	607,237,563.43
Minority interests		<u>9,075,439.08</u>	<u>9,340,113.93</u>
Total equity of owners		<u>568,364,518.41</u>	<u>616,577,677.36</u>
Total liabilities and equity of owners		<u><u>869,232,808.64</u></u>	<u><u>957,772,767.26</u></u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2019

Expressed in RMB

1. CORPORATE BACKGROUND

Xinjiang Tianye Water Saving Irrigation System Company Limited (hereinafter referred to as the “Company”) was co-founded by the joint investment from Xinjiang Tianye Company Limited and Xinjiang Shihezi Yunfa Investment Company Limited (新疆石河子運發投資有限責任公司). It was registered with the Administration for Industry & Commerce of Xinjiang Uygur Autonomous Region on 27th December 1999, and is headquartered in Shihezi City, Xinjiang Uygur Autonomous Region. The creditability code of its Business License of Enterprise Legal Person is 91650000757655578C and its registered capital is RMB519,521,560.00, comprising of 519,521,560 shares of RMB1 each in aggregate, of which 317,121,560 shares are domestic shares held by legal persons and 202,400,000 shares are overseas H shares. The Company transferred its share listing from the Growth Enterprise Market (“GEM”) of the Stock Exchange to the Main Board of the Hong Kong Stock Exchange on 24th January 2008, with its Stock Code changed from 8280 to 0840.

The Company operates in the plastic product manufacturing industry. Its business scope mainly covers production and sales of PVC materials for water supply pipes, PE piping materials and accessories, pressure compensatory drip tapes, labyrinth-style drip tapes, embedded-style drip tapes, and agricultural tapes and drippers.

These financial statements had been approved by the seventh meeting of the sixth session of the Board on 31st March, 2020 for publication.

The Company included 13 subsidiaries, namely, Gansu Tianye Water Saving Device Co., Ltd (hereinafter referred to as “Gansu Tianye”), Gansu Tianye Water Conservancy and Hydropower Company Limited* (hereinafter referred to as “Gansu Tianye Water Conservancy and Hydropower”), Hami Tianye Hongxing Water Saving Irrigation Co., Ltd* (hereinafter referred to as “Hami Tianye”), Kuitun Tiantun Water Saving Co., Ltd* (hereinafter referred to as “Kuitun Water Saving”), Akesu Tianye Water Saving Co., Ltd* (hereinafter referred to as “Akesu Tianye”), Shihezi Tiancheng Water Saving Device Co., Ltd (hereinafter referred to as “Tiancheng Water Saving”), Liaoning Tianye Water Saving Irrigation Co., Ltd* (hereinafter referred to as “Liaoning Tianye”), Xinjiang Tianye Nanjiang Water Saving Agriculture Co., Ltd* (hereinafter referred to as “Nanjiang Water Saving”), Zhongxinnong Modern Water Saving Technology Company Limited* (hereinafter referred to as “Zhongxinnong Water Saving”), Xinjiang Tianye Wisdom Agriculture Technology Company Limited* (hereinafter referred to as “Wisdom Agriculture”), Shihezi Xiyu Water Conservancy and Hydropower Construction and Installation Engineering Co., Ltd.* (hereinafter referred to as “Xiyu Water Conservancy”), and Shihezi Tianye Xiying Water Saving Device Co., Ltd.* (hereinafter referred to as “Xiying Water Saving”) into the consolidated financial statements for the period. For details, please refer to the change in the scope of consolidation and information on interests in other entities as set forth in the notes to these financial statements.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2019

2. BASIS OF PREPARATION FOR THESE FINANCIAL STATEMENTS

2.1 Basis of preparation

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

2.2 Abilities to continue as a going concern

No subsisting event or circumstance would cast material doubts to the going concern assumption of the Company for the 12 months from the end of the reporting period.

3. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Important notice: The Company formulated specific accounting policies and accounting estimates in respect of transactions or issues such as impairment of financial instrument, fixed asset depreciation, depreciation of right-of-use assets, intangible assets amortization and revenue recognition based on the practical situation of production and operation.

3.1 Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements prepared by the Company are in accordance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position, the results of operations and cash flows of the Company.

3.2 Accounting Period

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

3.3 Operating cycle

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

3.4 Reporting currency

Renminbi is being adopted as the functional currency.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2019

3. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

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

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

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

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

3.6 Preparation basis of consolidated financial statements

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

3.7 Significant accounting judgement and estimates

The preparation of the financial statements requires the Company to make estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Key assumptions of the estimates and judgments of uncertainties are reviewed on an ongoing basis by the Company. The effects of changes to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2019

4. TAXATION

Information on income tax rates of taxpayers with various tax rates

Name of taxpayer	Income tax rate (%)
Xinjiang Tianye Water Saving Irrigation System Company Limited, Gansu Tianye Water Saving Co., Ltd* (“ Gansu Tianye ”) (甘肅天業節水有限公司), Akesu Tianye Water Saving Co., Ltd* (“ Akesu Tianye ”) (阿克蘇天業節水有限公司), Shihezi Tiancheng Water Saving Device Co., Ltd* (“ Tiancheng Water Saving ”) (石河子市天誠節水器材有限公司)	15
Hami Tianye Hongxing Water Saving Irrigation Co., Ltd* (“ Hami Tianye ”) (哈密天業紅星節水灌溉有限責任公司) Kuitun Tiantun Water Saving Co., Ltd* (“ Kuitun Water Saving ”) (奎屯天屯節水有限責任公司), Liaoning Tianye Water Saving Irrigation Co., Ltd* (“ Liaoning Tianye ”) (遼寧天業節水灌溉有限公司), Shihezi Tianye Xiyong Water Saving Device Co., Ltd.* (“ Xiyong Water Saving ”) (石河子市天業西營節水器材有限責任公司), Shihezi Xiyu Water Conservancy and Hydropower Construction and Installation Engineering Co., Ltd.* (“ Xiyu Water Conservancy ”) (石河子西域水利水電建築安裝工程有限責任公司), Xinjiang Tianye Wisdom Agriculture Technology Company Limited*(“ Wisdom Agriculture ”) (新疆天業智慧農業科技有限公司) Zhongxinnong Modern Water Saving Technology Company Limited* (“ Zhongxinnong Water Saving ”) (中新農現代節水科技有限公司), Gansu Tianye Water Conservancy and Hydropower Company Limited* (“ Gansu Tianye Water Conservancy and Hydropower ”) (甘肅天業水利水電工程有限公司)	20
Other taxpayers other than the above-mentioned	25

Enterprise income tax (“EIT”)

- (1) The Company and its subsidiaries, Gansu Tianye and Akesu Tianye were subjected to an EIT tax rate of 15% in 2019 as they complied with the requirements of the tax concession policies of the Western Development.
- (2) The production operation of agricultural plastic belts for drip irrigation engaged by Tiancheng Water Saving, a subsidiary, conforms to order No. 9 of the National Development and Reform Commission. Pursuant to the Notice of Ministry of Finance, the General Administration of Customs and the State Administration of Taxation on the Tax Policy for In-depth Implementation of the Western Development Strategy, it is subjected to an EIT tax rate of 15% during 1st January, 2011 to 31st December, 2020.
- (3) The Subsidiaries (including Hami Tianye, Kuitun Water Saving, Liaoning Tianye, Xiyong Water Saving, Xiyu Water Conservancy, Wisdom Agriculture and Zhongxinnong Water Saving) and the sub-subsidiary, Gansu Tianye Water Conservancy and Hydropower, are a qualified small low-profit enterprise, the taxable income of which will be 25% of the total income before being subjected to an EIT tax rate of 20%.
- (4) Nanjiang Water Saving, a subsidiary, meets the conditions stipulated in the Notice of the Ministry of Finance and the State Administration of Taxation on Income Tax Incentives for Newly-established Enterprises in Poverty Areas of Xinjiang, the taxable amount of which is calculated at the statutory tax rate of 25% of corporate income tax is reduced by half from 1st January, 2018 to 31st December, 2020.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2019

5. OPERATING INCOME/COST OF SALES

(1) Breakdown

Item	Current period		Corresponding period last year	
	Income	Cost	Income	Cost
Principal businesses	604,285,027.22	526,180,586.75	521,337,248.33	478,264,456.65
Other businesses	<u>20,003,034.72</u>	<u>14,049,406.7</u>	<u>14,819,462.01</u>	<u>12,355,949.10</u>
Total	<u><u>624,288,061.94</u></u>	<u><u>540,229,993.72</u></u>	<u><u>536,156,710.34</u></u>	<u><u>490,620,405.75</u></u>

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

Product Breakdown	Current period		Corresponding period last year	
	Income	Cost	Income	Cost
Drip tape and drip assemblies	135,089,310.99	133,415,771.79	94,782,838.98	94,642,118.96
PVC pipes/PE pipes	391,561,540.84	319,740,909.87	317,943,087.25	285,336,683.75
Project income	<u>77,634,175.39</u>	<u>73,023,905.09</u>	<u>108,611,322.10</u>	<u>98,285,653.94</u>
Sub-total	<u><u>604,285,027.22</u></u>	<u><u>526,180,586.75</u></u>	<u><u>521,337,248.33</u></u>	<u><u>478,264,456.65</u></u>

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

Name of region	Current period	Corresponding period last year
	Xinjiang	435,730,430.33
PRC excluding Xinjiang	<u>168,554,596.89</u>	<u>141,189,389.07</u>
Sub-total	<u><u>604,285,027.22</u></u>	<u><u>521,337,248.33</u></u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2019

6. DISTRIBUTION COSTS

Item	Current period	Corresponding period last year
Salaries, benefits and social security contributions	13,961,847.35	14,769,781.42
Transportation costs	12,109,841.89	8,699,677.01
Sale service fee	9,473,931.86	6,204,419.17
Warehousing and storage fees	355,113.46	1,716,128.66
Travel expenses	2,777,265.90	1,705,179.13
Tender fee	4,419,947.33	1,356,936.17
Depreciation and amortization charge	1,050,916.35	1,078,403.49
Site fees	—	780,251.66
Advertising fee	616,609.19	390,760.97
Others	7,956,914.68	2,582,837.19
Total	<u>52,722,388.01</u>	<u>39,284,374.87</u>

7. ADMINISTRATIVE EXPENSES

(1) Breakdown

Item	Current period	Restated Corresponding period last year
Salaries, benefits and social security contributions	22,894,194.74	20,671,260.40
Losses from work suspension	3,051,411.66	2,959,998.95
Depreciation and amortization charge	3,617,038.17	2,855,811.45
Agency service fees	3,869,309.06	2,193,032.97
Travel expenses	1,410,722.92	1,003,053.79
Car expenses	505,827.78	477,240.72
Lease fees	811,114.62	739,926.42
Others	7,367,890.39	3,859,594.04
Total	<u>43,527,509.34</u>	<u>34,759,918.74</u>

- (2) Included in the administrative expenses for the year was RMB0.625 million of auditor's remuneration (2018: RMB0.625 million).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2019

8. FINANCE COSTS

Item	Current period	Corresponding period last year
Interest expenses	1,154,925.00	407,943.00
Interest of other loans not fully repayable within 5 years		
Less: Interest income	2,177,886.19	492,644.80
Add: Exchange gain	217.49	607.92
Add: Commission and other expenses	185,940.44	139,264.79
	<u> </u>	<u> </u>
Total	<u><u>-836,803.26</u></u>	<u><u>55,170.91</u></u>

9. ASSETS IMPAIRMENT LOSS

Item	Current period	Corresponding period last year
Bad debt loss	8,111,638.87	3,853,611.04
Inventory impairment	25,141,143.48	9,991,412.94
Impairment loss on fixed assets	0	2,503,730.08
	<u> </u>	<u> </u>
Total	<u><u>33,252,782.35</u></u>	<u><u>16,348,754.06</u></u>

10. INCOME TAX EXPENSES

(1) Breakdown

Item	Current period	Corresponding period last year
Current income tax charges	665,916.26	768,557.49
Deferred income tax charges	-122,262.72	677,832.05
	<u> </u>	<u> </u>
Total	<u><u>543,653.54</u></u>	<u><u>1,446,389.54</u></u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2019

10. INCOME TAX EXPENSES (Continued)

(2) Reconciliation between accounting profit and income tax expenses

Item	Current period	Corresponding period last year
Total profits	-47,669,505.41	-47,989,112.53
EIT charges at the tax rate of 15% applicable to the parent company	-7,150,425.81	-7,198,366.88
Effect of different tax rates applicable to subsidiaries (5% and 10%)	904,532.90	-279,829.85
Effect of prior period income tax adjustment	341,354.27	199,113.13
Tax effect of expenses not deductible	12,570.45	146,584.72
Effect of deductible temporary differences that have not recognized for deferred income tax asset during the prior period	-118,426.73	-87,372.64
Effect of deductible temporary differences or deductible losses that have not recognized for deferred income tax asset during the period (<i>Note</i>)	<u>6,554,048.46</u>	<u>8,666,261.06</u>
Total	<u><u>543,653.54</u></u>	<u><u>1,446,389.54</u></u>

Note: The impact of deferred income tax assets is unrecognized for deductible temporary differences mainly because the subsidiaries suffering losses for the period are unsure whether sufficient taxable profit will be available.

(3) No profits tax in Hong Kong was levied because the Company and its subsidiaries did not generate profits in Hong Kong or gain profits from Hong Kong in 2019 and 2018.

11. DIVIDENDS

The Board does not recommend the payment of any dividend in respect of the year ended 31st December, 2019 (2018: Nil).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2019

12. CALCULATION OF BASIC EARNINGS PER SHARE AND DILUTED EARNINGS PER SHARE

(1) Calculation of basic earnings per share

Item	No.	Current period
Net profits attributable to the ordinary shareholders of the Company	A	-47,948,484.10
Non-recurring profit or loss	B	6,440,958.63
Net profits attributable to the ordinary shareholders of the Company after non-recurring profit or loss	C=A-B	-54,389,442.73
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
Weighted average number of outstanding ordinary shares	$L=D+E+F \times G / K-H \times I / K-J$	519,521,560.00
Basic earnings per share	$M=A/L$	-0.0923
Basic earnings per share after non-recurring profit or loss	$N=C/L$	-0.1047

(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	120,459,757.89	157,325,723.70
1-2 years	66,016,432.98	43,954,095.17
2-3 years	15,672,820.08	16,615,845.95
3-4 years	10,410,550.28	9,078,415.75
4-5 years	4,878,208.37	4,882,321.83
Over 5 years	19,421,664.92	12,754,504.84
Total	<u>236,859,434.52</u>	<u>244,610,907.24</u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2019

13. TRADE RECEIVABLES (Continued)

(2) Breakdown by category

Category	Book balance		Closing balance		Carrying amount
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Individually significant and for which bad debt provision has been separately made	15,058,288.45	6.36	14,534,478.93	96.52	523,809.52
Bad debt provision made in portfolio as per credit risk features	2,923,450.00	1.23	0	0	2,923,450.00
Bad debt provision made in portfolio	218,877,696.07	92.41	23,891,623.42	10.92	194,986,072.65
Total	236,859,434.52	100.00	38,426,102.35	16.22	198,433,332.17

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2019

14. LONG-TERM EQUITY INVESTMENTS

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Investments in associates	<u>7,585,586.14</u>	<u>0</u>	<u>7,585,586.14</u>	7,856,660.42	0	7,856,660.42
Total	<u><u>7,585,586.14</u></u>	<u><u>0</u></u>	<u><u>7,585,586.14</u></u>	<u><u>7,856,660.42</u></u>	<u><u>0</u></u>	<u><u>7,856,660.42</u></u>

15. PRODUCING BIO-ASSETS

(1) Breakdown

Item	Planting Immature	Total
Initial carrying amount		
Opening balance		
Increase during the period		
1) Additions	8,809,551.08	8,809,551.08
Decrease during the period		
1) Disposal		
Closing balance	8,809,551.08	8,809,551.08
Accumulated depreciation		
Opening balance		
Increase during the period		
1) Provision		
Decrease during the period		
1) Disposal		
Closing balance		
Provision for impairment		
Opening balance		
Increase during the period		
1) Provision		
Decrease during the period		
1) Disposal		
Closing balance		
Carrying amount		
Carrying amount at the end of the period	<u><u>8,809,551.08</u></u>	<u><u>8,809,551.08</u></u>
Carrying amount at the beginning of the period	<u><u>0</u></u>	<u><u>0</u></u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December, 2019

16. DEFERRED INCOME TAX ASSETS

Deferred income tax assets un-eliminated

Item	Closing balance		Opening balance	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provision for asset impairment	<u>8,489,749.86</u>	<u>1,203,866.95</u>	7,171,476.68	1,081,604.23
Total	<u><u>8,489,749.86</u></u>	<u><u>1,203,866.95</u></u>	<u>7,171,476.68</u>	<u>1,081,604.23</u>

17. TRADE PAYABLES

Aging analysis

Age	Closing balance	Opening balance
Within 1 year	105,564,152.33	128,258,585.42
1–2 years	34,224,041.81	63,763,263.89
2–3 years	46,813,103.25	14,234,078.36
Over 3 years	9,515,847.73	11,258,041.99
Total	<u><u>196,117,145.12</u></u>	<u>217,513,969.66</u>

18. TAX AND LEVY PAYABLES

Item	Closing balance	Opening balance
VAT	3,847,476.71	4,885,707.09
EIT	114,937.04	368,668.43
Individual income tax withheld	488,273.68	29,931.19
City maintenance and construction tax	282,892.84	373,878.82
Property tax	35,998.64	0
Education surcharge	124,570.55	164,225.04
Local education surcharge	83,047.03	106,983.37
Stamp duty	43,914.18	31,677.54
Vehicle and vessel tax	720.00	0
Environmental protection tax	21,763.85	0
Total	<u><u>5,043,594.52</u></u>	<u>5,961,071.48</u>

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Operating income

For the year ended 31st December, 2019, operating income of the Group was approximately RMB624,288,000 representing an increase of approximately 16.44% from approximately RMB536,157,000 for the year ended 31st December, 2018.

The following table summarises the breakdown of operating income of the Group for each of the two years ended 31st December, 2019 and 31st December, 2018 by products:

Category	For the year ended 31st December, 2019		For the year ended 31st December, 2018		Year-on- year percentage change %
	Operating income RMB'000	% to total Operating income %	Operating income RMB'000	% to total Operating income %	
Drip tape and drip assemblies	135,089	21.64	94,783	17.68	42.52
PVC/PE pipelines	391,562	62.72	317,943	59.30	23.15
Provision of installation services	77,634	12.44	108,611	20.26	-28.52
Other operating income	20,003	3.20	14,820	2.76	34.97
Total	<u>624,288</u>	<u>100.00</u>	<u>536,157</u>	<u>100.00</u>	<u>16.44</u>

For the year ended 31st December, 2019, sales of drip tape and drip assemblies increased by approximately 42.52% to approximately RMB135,089,000, while sales of PVC/PE pipelines slightly increased by approximately 23.15% to approximately RMB391,562,000. At the same time, the sales volume of drip tape and drip assemblies increased from approximately 8,821 tonnes for the year ended 31st December, 2018 to approximately 10,837 tonnes for the year ended 31st December, 2019, while the sales volume of PVC/PE pipelines increased from approximately 33,219 tonnes for the year ended 31st December, 2018 to approximately 39,141 tonnes for the year ended 31st December, 2019. The increase in operating income was mainly attributable to the increase in the sales and selling price of products of the Company in 2019.

Gross profit and gross profit margin

Gross profit and gross profit margin increased from approximately RMB45,536,000 and 8.49% for the year ended 31 December 2018 to approximately RMB84,058,000 and 13.46% for the year ended 31 December 2019, mainly attributable to an increase in the selling price due to growing market demands.

Cost of sales

For the year ended 31st December, 2019, cost of sales of the Group was approximately RMB540,230,000, representing an increase of approximately 10.11% from approximately RMB490,620,000 for the year ended 31st December, 2018. Costs of sales for the year ended 31st December, 2019 comprised direct materials costs of approximately RMB448,507,000, direct labour costs of approximately RMB43,486,000 and production overhead of approximately RMB48,237,000, which accounted for approximately 83.02%, 8.05% and 8.93%, respectively, of the total costs of sales for year 2019. Costs of sales for the year ended 31st December, 2018 comprised direct materials costs of approximately RMB410,453,000, direct labour costs of approximately RMB39,593,000 and production overhead of approximately RMB40,574,000, which accounted for approximately 83.66%, 8.07% and 8.27%, respectively, of the total costs of sales for year 2018.

Non-operating income

Non-operating income for the year ended 31st December, 2019 was approximately RMB2,577,000, which was mainly derived from amounts not payable of approximately RMB2,156,000. For the year ended 31st December, 2018, non-operating income was approximately RMB1,243,000.

Distribution costs

Distribution costs were approximately RMB52,722,000 for the year ended 31st December, 2019, representing an increase of approximately 34.21% from 2018. The amount accounted for approximately 8.45% of the total operating income for the year ended 31st December, 2019, which was slightly higher than its share of total operating income of approximately 7.33% in the previous year. Distribution costs mainly comprised transportation costs, salaries expenses, sales service fee, warehousing and storage fee etc. For the year ended 31st December, 2019, transportation costs increased by 39.20% to RMB12,110,000, while sales service fee and other fees increased to RMB9,474,000 and RMB7,957,000 respectively, representing an increase of 52.70% and 208.07%, which was mainly attributable to the increase in handling costs of RMB2,661,000, material costs of RMB1,366,000, and lease expenses of RMB1,039,000 in other fees, resulting in the increase in distribution costs.

Administrative expenses

Administrative expenses increased by approximately 25.22% to approximately RMB43,528,000 for the year ended 31st December, 2019. The amount accounted for approximately 6.97% of total operating income for the year ended 31st December, 2019, which was slightly higher than its share of total operating income of approximately 6.48% in the previous year. For the year ended 31 December, 2019, salaries benefits fees and depreciation and amortization charges increased to approximately RMB22,894,000 and RMB3,617,000, representing an increase of approximately 10.75% and 26.65%, respectively. Loss from work suspension increased approximately 3.09% to approximately RMB3,051,000, while agency service fees and other fees increased to approximately RMB3,869,000 and approximately RMB7,368,000, representing an increase of approximately 76.44% and approximately 90.90%, respectively, which was mainly due to the increase in service fees of RMB2,209,000 and advertisement fees of RMB362,000 in agency service fees, salaries benefits fees and other fees, resulting in the increase in administrative expenses.

Finance income/costs

Finance income for the year ended 31st December, 2019 was approximately RMB837,000, consisted mainly of interest income, net of interest expense and commission charges, while finance costs for the year ended 31st December, 2018 was approximately RMB55,000, consisted mainly of interest expenses and commission charges.

Assets impairment loss

The assets impairment loss for the years ended 31st December, 2019 was approximately RMB33,253,000, which mainly consisted of inventory impairment loss of approximately RMB25,141,000, and bad debt loss of approximately RMB8,112,000, while the assets impairment loss for the years ended 31st December, 2018 was approximately RMB16,349,000, which mainly consisted of impairment loss on fixed assets of approximately RMB2,504,000, inventory impairment loss of approximately RMB9,991,000 and bad debt loss of approximately RMB3,854,000.

Operating loss

As a result of the factors discussed above, the Group's audited operating loss for the year ended 31st December, 2019 was approximately RMB49,540,000, representing an increase of approximately RMB918,000 from operating loss of approximately RMB48,622,000 for the corresponding period in the previous year. The Group's operating loss ratio (expressed as a percentage of operating loss over the Group's operating income) was approximately an operating loss ratio of 7.94% and an operating profit ratio of 9.07% for the years ended 31st December, 2019 and 2018, respectively.

Net profit/loss attributable to owners of the parent company

As a result of the factors discussed above, the net loss attributable to owners of the parent company increased from net profit of approximately RMB47,637,000 for the year ended 31st December, 2018 to net loss of approximately RMB47,948,000 for the year ended 31st December, 2019. For the two years ended 31st December, 2019 and 2018, the Group's net loss margins were approximately 7.68% and 8.88%, respectively.

FUTURE PROSPECTS

Water resources are the basic natural resources and strategic economic resources related to the national economy and people's livelihood. The distribution of water resources in the PRC is featured by "five more and five less", being "more in total and less in per capita; more in the south and less in the north; more in the east and less in the west; more in summer and autumn and less in winter and spring; more in mountains and less in plains". The water resources are unevenly distributed in space and time, resulting in the prominent contradiction between supply and demand. Agricultural water accounts for more than 60%, but flooding irrigation is adopted in general. The whole society still has a weak awareness of water conservation with extensive use of water and serious waste of water, which not only causes great waste of water, but also affects the production of cash crops per mu. The shortage of water resources has become a bottleneck for ecological civilization construction and sustainable economic and social development.

With the emergence of water shortage, ecological environment and other issues, China has paid more attention to the development of water-saving agriculture. The PRC government promulgated various water-saving plans and implementation schemes successively, emphasizing the necessity to take water-saving as a directional and strategic event, to accelerate the improvement of a set of policy system that promotes agricultural water-saving. Throughout the year of 2019, based on the environment in which policies related to the high-efficiency water-saving industry are implemented, the continuous optimization of water-saving policies and regulations, market mechanisms, and standard systems and the gradual improvement in technical support capabilities and management mechanisms, accelerated the optimization of industry structure and stimulated the rapid development in the water-saving industry. The water-saving industry in the PRC is entering an efficient and scientific development stage. According to the targets in the "National Plan for Sustainable Agricultural Development" 《(全國農業可持續發展規劃)》 issued by the Ministry of Finance, the area of farmland with efficient water-saving irrigation increased by 100 million mu, of which the area of piping transportation water irrigation was 40.15 million mu, the area of sprinkler irrigation was 20.74 million mu, and the area of micro-irrigation was 39.11 million mu. It is planned that by 2020, the area of water-saving irrigation projects will be approximately 700 million mu, the area of high-efficiency water-saving irrigation nationwide will be approximately 360 million mu, and the effective utilization coefficient of irrigated water for farmlands will be 0.55. The huge market capacity and broad market prospects will bring good development opportunities for the development of efficient water-saving irrigation industry.

The Company will continue to look forward to the future to meet new opportunities and challenges, and hold on well at the current situation to lay a good foundation for the future development of the Company.

Development plan for 2020: In 2020, the Group will comprehensively assess the national and efficient water-saving industry policies, strengthen the analysis on market conditions, adjust industrial layout, and enhance the Company's core competitiveness in the market by adopting a series of measures, including the optimization and adjustment in products and business, the rapid expansion of engineering business, the establishment of digital agriculture and agriculture service business and regional planning and construction. In the meantime, the Group will never forget its original intention and will, based on customer needs and by adhering to the management concepts of technology leadership and quality leadership, provide customers with comprehensive technical support and after-sales service and continuously improve its overall strength. The Company will continue to make overall plans based on the goals of the "13th Five-Year Plan" and continue to work hard to achieve various tasks of our business in 2020.

INDEBTEDNESS

Borrowings

As at 31st December, 2019, the Group had outstanding bank loans of RMB30,000,000 (2018: RMB30,000,000).

Commitments

As at 31st December, 2019, the Group had capital commitments contracted for but not provided in the consolidated financial statements of RMB1,518,000 (2018: RMB6,090,000).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity ratios

The current ratio and quick ratio of the Group as at 31st December, 2019 were approximately 2.29 and 1.03, respectively, representing a slight decrease of 0.03 in current ratio and a slight increase of 0.01 in quick ratio when compared to those as at 31st December, 2018.

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, 2019, 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 RMB1,452,000 (2018: approximately RMB12,973,000), which were in line with the expansion plans of the Group.

Capital structure

For the year ended 31st December, 2019, the gearing ratio (which is defined as total borrowings over total equity) of the Group was 5.28% (2018: 4.87%). This was primarily due to the fact that the Group's bank loan amounted to RMB30 million in 2018. The Directors confirm that the Group financed its operations principally from cash generated from its business operations and banking facilities and had not experienced any liquidity problem for the year ended 31st December, 2019.

Funding and treasury policies

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

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

Contingent liabilities

As at 31st December, 2019, the Group had no contingent liabilities (2018: 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, there was no significant fluctuation in the exchange rate of RMB and the Group was not exposed to any significant foreign currency exchange risk in its operations. The Group did not engage in any derivative activities and did not commit to any financial instruments to hedge its statement of financial position exposure in both 2018 and 2019.

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, 2019, the Group had 530 employees (2018: 625) in total.

RETIREMENT BENEFIT SCHEME AND OTHER BENEFITS

The Group provides employee benefits covering old-aged insurance scheme, medical insurance scheme, unemployment insurance scheme, labour injury insurance scheme and maternity insurance scheme (collectively under the social insurance scheme) for its staff, whereby the Group is required to make monthly contributions to these schemes. The Group has no obligation for the payment of retirement and other post-retirement benefits for employees save for the monthly contributions described above. Expenses incurred by the Group in connection with these retirement benefit plans were approximately RMB7,890,000 for the year ended 31st December, 2019.

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

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

For the year ended 31st December, 2019, the Group had neither material acquisitions nor disposals of subsidiaries and associated companies.

MATERIAL INVESTMENTS

For the year ended 31st December, 2019, the Group had no material investments.

DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31st December, 2019 (2018: Nil).

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, 2019, the Group has complied with the code provisions in the “**Corporate Governance Code and Corporate Governance Report**” (the “**Code**”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules, as the code of conduct for securities transactions by the Directors and supervisors of the Company. Following specific enquiry made by the Company, all Directors and supervisors of the Company have confirmed that, except as described below, they have complied with the required standards under the Model Code for the year ended 31st December, 2019.

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

DIRECTORS’ AND SUPERVISORS’ INTERESTS IN A COMPETING BUSINESS

For the year ended 31st December, 2019, 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, 2019.

AUDIT COMMITTEE

The audit committee of the Company reviewed the Group's consolidated annual result for the year ended 31st December, 2019, 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, 2019 with the management.

AUDITORS

The Company has appointed Pan China Certified Public Accountants LLP as the auditor of the Company and to audit the financial statements for the year ended 31st December, 2019.

THE ANNUAL REPORT

The annual report of the Company for the year ended 31st December, 2019 will be dispatched to the shareholders of the Company and published on the website of the Stock Exchange (<http://www.hkexnews.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, 27 April, 2020

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

* *For identification purpose only*