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Taizhou Water Group Co., Ltd.*
台州市水務集團股份有限公司

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1542)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2022

INTERIM RESULTS HIGHLIGHTS:

For the six months ended 30 June 2022:

- Revenue amounted to approximately RMB236 million, representing a decrease of approximately 9.2% over the same period of last year.
- Profit for the period amounted to approximately RMB37.6 million, representing a decrease of approximately 45.3% over the same period of last year.
- Profit attributable to owners of the Company amounted to approximately RMB31.6 million, representing a decrease of approximately 48.1% over the same period of last year.
- Basic earnings per share amounted to approximately RMB0.16.
- The Board did not recommend the distribution of an interim dividend for the six months ended 30 June 2022.

The board (the “**Board**”) of directors (the “**Directors**”) of Taizhou Water Group Co., Ltd. (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2022 (the “**Reporting Period**”). The content of this interim results announcement has been prepared in accordance with applicable disclosure requirements under the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in relation to preliminary announcements of the unaudited interim results and the Hong Kong Financial Reporting Standards (the “**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants. The relevant unaudited interim results have also been reviewed and confirmed by the Board and the audit committee of the Board (the “**Audit Committee**”). Unless otherwise stated, the financial data of the Company are presented in Renminbi (“**RMB**”).

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

For the six months ended 30 June 2022

	<i>Notes</i>	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
REVENUE	4	236,020	259,779
Cost of sales		<u>(140,296)</u>	<u>(141,683)</u>
Gross profit		95,724	118,096
Other income and gains	4	5,229	7,368
Administrative expenses		(26,176)	(25,947)
Other expenses		(142)	(168)
Finance costs	6	(7,512)	(6,600)
Share of profits and losses of associates		<u>(12,011)</u>	<u>–</u>
PROFIT BEFORE TAX	5	55,112	92,749
Income tax expense	7	<u>(17,521)</u>	<u>(23,942)</u>
PROFIT FOR THE PERIOD		<u>37,591</u>	<u>68,807</u>
Attributable to:			
Owners of the parent		31,597	60,892
Non-controlling interests		<u>5,994</u>	<u>7,915</u>
		<u>37,591</u>	<u>68,807</u>
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted (RMB)		<u>0.16</u>	<u>0.30</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Share of other comprehensive income of associates		<u>(213)</u>	<u>–</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		<u>(213)</u>	<u>–</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		37,378	68,807
Attributable to:			
Owners of the parent		31,384	60,892
Non-controlling interests		<u>5,994</u>	<u>7,915</u>
		<u>37,378</u>	<u>68,807</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2022

		30 June 2022	31 December 2021
		RMB'000	RMB'000
	<i>Notes</i>	(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10</i>	3,930,505	3,582,469
Prepayments for property, plant and equipment		7,001	15,029
Prepayments for land use rights		165	165
Other intangible assets		303	290
Investment in associates		528,975	503,699
Deferred tax assets		22,321	22,008
Right-of-use assets		383,307	395,152
		<hr/>	<hr/>
Total non-current assets		4,872,577	4,518,812
CURRENT ASSETS			
Inventories		5,033	4,896
Trade receivables	<i>11</i>	90,511	100,364
Prepayments, other receivables and other assets		18,032	23,602
Pledged bank deposits		17,660	17,534
Cash and cash equivalents		232,673	190,699
		<hr/>	<hr/>
Total current assets		363,909	337,095
CURRENT LIABILITIES			
Trade payables	<i>12</i>	61,077	61,683
Other payables and accruals		701,082	764,365
Interest-bearing bank and other borrowings		147,796	89,240
Deferred government grants		3,225	3,261
Lease liabilities		18,829	19,729
Tax payable		13,446	29,390
Dividend payable		34,000	–
		<hr/>	<hr/>
Total current liabilities		979,455	967,668
NET CURRENT LIABILITIES		(615,546)	(630,573)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,257,031	3,888,239
		<hr/>	<hr/>

	30 June 2022	31 December 2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES	4,257,031	3,888,239
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	2,957,170	2,652,743
Deferred government grants	151,348	103,595
Other liabilities	767	1,533
Total non-current liabilities	3,109,285	2,757,871
Net assets	1,147,746	1,130,368
EQUITY		
Equity attributable to owners of the parent		
Share capital	200,000	200,000
Reserves	720,558	723,174
	920,558	923,174
Non-controlling interests	227,188	207,194
Total equity	1,147,746	1,130,368

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

The Company is a joint stock company with limited liability established in the People's Republic of China ("PRC"). The registered office of the Company is located at No.308, Yin Quan Road, Xicheng Street, Huang Yan District, Taizhou, Zhejiang Province, PRC.

The Company and its subsidiaries (together, the "Group") are principally engaged in supplying raw water, municipal water and tap water directly to end-users and the installation of the water pipelines for distributing tap water to end-users.

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 31 December 2019.

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2022 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2021.

The unaudited interim condensed consolidated financial statements have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern assumption

As at 30 June 2022, the Group's net current liabilities amounted to approximately RMB615,546,000. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. In preparing the financial statements, the directors of the Company have considered the Group's sources of liquidity and believe that adequate funding is available to fulfill the Group's debt obligations and capital expenditure requirements. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:
- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.
 - HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group only has one reportable operating segment which is water supply and installation of water pipelines. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resources allocation and performance assessment.

Geographic information

(a) *Revenue from external customers*

The Group operated within one geographical area as all of the Group's revenue was generated from customers located in Mainland China.

(b) *Non-current assets*

All non-current assets of the Group are located in Mainland China.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue for the six months ended 30 June 2022 and 2021 are set out below:

	For the six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Customer 1	71,920	71,984
Customer 2	45,855	45,232
Customer 3	41,342	63,568
Customer 4	N/A*	29,185

* The corresponding revenue from the customer is not disclosed as the revenue did not individually account for 10% or more of the Group's revenue for the year.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Cost of inventories sold	132,418	136,220
Cost of services provided	7,878	5,463
Depreciation of property, plant and equipment	26,452	26,354
Depreciation of right-of-use assets	4,414	4,493
Amortisation of other intangible assets	67	42
Impairment of trade receivables, net	102	402
Impairment of financial assets included in prepayments, other receivables and other assets	6	9
Government grants	(199)	–
Exchange differences, net	(30)	86
Loss/(gain) on disposal of items of property, plant and equipment	32	(41)

6. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest on bank borrowings	61,328	42,016
Interest on other borrowings	7,219	7,219
Less: Interest capitalised	(61,035)	(42,635)

7. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

During the period, the provision for current income tax in Mainland China was based on the statutory rate of 25% (the six months ended 30 June 2021: 25%) of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law, which was approved and became effective on 1 January 2008.

Taizhou Environmental Development Co., Ltd. is qualified as a small and low-profit enterprise and was entitled to a preferential income tax rate of 2.5% (the six months ended 30 June 2021: 5%) for the taxable income less than or equal to RMB1,000,000 and a preferential income tax rate of 10% (the six months ended 30 June 2021: 10%) for the taxable income between RMB1,000,000 and RMB3,000,000 during the period.

The income tax expense of the Group is analysed as follows:

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax – Mainland China		
Charge for the period	18,916	24,293
Deferred tax	(1,395)	(351)
	<hr/>	<hr/>
Total tax charge for the period	17,521	23,942

8. DIVIDENDS

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Final declared and unpaid – RMB0.17 (2021: RMB0.17) per ordinary share	34,000	34,036

A final dividend of RMB0.17 (equivalent to HK\$0.1992) per ordinary share for the year ended 31 December 2021 of RMB34,000,000 was approved by shareholders of the Company on 28 June 2022.

The Board did not declare any interim dividend for the six months ended 30 June 2022 (the six months ended 30 June 2021: nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the period.

There were no potentially dilutive ordinary shares in issue during the period and therefore no adjustment has been made to the basic earnings per share amounts presented in respect of a dilution.

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	<u>31,597</u>	<u>60,892</u>
	Number of shares	
	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	<u>200,000,000</u>	<u>200,000,000</u>

10. PROPERTY, PLANT AND EQUIPMENT

	30 June	31 December
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Carrying amount at beginning of period/year	3,582,469	2,545,168
Additions	366,774	1,068,015
Capitalisation of depreciation of right-of-use assets	10,360	23,479
Disposals	(2,281)	(26)
Depreciation provided during period/year	<u>(26,817)</u>	<u>(54,167)</u>
Carrying amount at end of period/year	<u>3,930,505</u>	<u>3,582,469</u>

11. TRADE RECEIVABLES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Trade receivables	18,517	17,299
Due from related parties	<u>125,281</u>	<u>136,250</u>
	143,798	153,549
Impairment	<u>(53,287)</u>	<u>(53,185)</u>
	<u>90,511</u>	<u>100,364</u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally two months. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

As at 30 June 2022, certain of the Group's trade receivables with a carrying amount of RMB76,658,000 (31 December 2021: RMB87,659,000) were pledged to secure the Group's bank loans.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 3 months	89,883	99,509
3 to 6 months	–	–
6 to 12 months	5	–
1 to 2 years	–	–
2 to 3 years	<u>623</u>	<u>855</u>
	<u>90,511</u>	<u>100,364</u>

12. TRADE PAYABLES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Trade payables	<u>61,077</u>	<u>61,683</u>

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

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 3 months	16,318	43,082
3 to 6 months	1,667	15,152
6 to 12 months	39,692	49
Over 12 months	<u>3,400</u>	<u>3,400</u>
	<u>61,077</u>	<u>61,683</u>

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In 2020, the Party Central Committee published the 14th Five-Year Plan, proposing to continuously improve the quality of the environment, enhance public awareness of the ecological environment, improve the quality and stability of the ecosystem, establish a rigid system of water conservation, and comprehensively improve the efficiency of resource utilization. The Water Resources Bureau of Taizhou City has also published the “14th Five-Year Plan for Water Safety in Taizhou City”, which proposes to basically build a modern water network framework in Taizhou with reasonable layout and reliable protection. With the rapid release of demand driven by top-level design such as carbon neutrality and the 14th Five-Year Plan, the implementation of Taizhou’s local environmental protection policies will have a positive impact on the Group’s ability to ensure water supply safety, broaden the layout of its industrial chain and promote industrial transformation and upgrading.

DEVELOPMENT STRATEGIES AND OUTLOOK

The year of 2022 is the second year of implementing the 14th Five-Year Plan. The Group follows the direction of water and environmental protection policies, integrates internal and external resources, focuses on the core positioning of “integrated development operator of water and environmental protection resources” and the construction of two platforms, namely, “investment, financing, construction, management and transportation platform for water and environmental protection engineering” and “integrated development and utilization platform for water and environmental protection resources ” and forms the layout of two industrial sectors, “water sector + environmental protection sector”. The Group is committed to becoming an excellent water service provider and comprehensive development operator of water and environmental protection resources in the Yangtze River Delta region. The Group successfully completed the integration of water supply services in this year. Through the acquisition of equity interests in other water supply companies in Taizhou, the Group enjoys the benefits of an expanded industrial chain and economic scale, which strengthens its position as a leading water supply service provider in Taizhou.

The Group will continue to explore the ecological environmental protection area and actively develop areas covering wastewater, reusable water, solid waste disposal and venous industrial park etc. to promote the development of green environmental protection business. The Group actively carries out cooperation and exchange with universities to explore the future layout of the Group’s environmental protection business, promote cooperation among industrial, academic and research areas to achieve a win-win development for schools and enterprises.

BUSINESS REVIEW

As a leading water supply service provider in Taizhou, the Group’s principal business includes supply of raw water, municipal water and tap water, ranking the first in Taizhou in terms of raw water and municipal water supply. The Group also offers tap water directly to end-users and engages in the installation services of water pipelines for distributing tap water to end-users.

The Group owns, operates and manages the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II), with a designed raw water supply capacity of approximately 740,000 tonnes per day, and designed municipal water supply capacity of 366,000 tonnes per day in southern Taizhou. The Group has commenced the construction of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) in February 2018 and November 2018, respectively. Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) are specifically launched to cater for (i) the increasing demand for water supply in the Jiaojiang District, the Luqiao District and the east of Wenling; and (ii) the anticipated demand for water supply as a result of the establishment of increasing economic activities in the Taizhou Bay Economic Zone and the South Bay Zone. On 14 July 2022, the water test run of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) commenced. As at the date of this announcement, the construction of the water supply systems has been substantially completed and the water supply systems are pending the completion of inspection.

Pursuant to the “Notice on the Issue of Implementation Opinions on the Reform of Integration of Water Supply in Taizhou” (關於印發《台州市區水務一體化改革實施意見》的通知) issued by the Municipal Committee Office of Taizhou (中共台州市委辦公室) and the Taizhou Municipal People’s Government Office (台州市人民政府辦公室) on 17 September 2018, it was stressed that the integration of water supply in Taizhou is essential for improving people’s livelihood, promoting integrated development of urban areas, efficient use of water and the transformation and upgrade of water supply business in Taizhou.

1. Raw Water Supply Project

The designed water supply capacity of Taizhou Water Supply System (Phase I) is 250,000 tonnes per day, and the raw water is supplied to local municipal water service providers and Wenling Zeguo Water Supply Co., Ltd. (a wholly-owned subsidiary of the Company). The raw water supply capacity of the Taizhou Water Supply System (Phase II) is 490,000 tonnes per day, of which 380,000 tonnes per day is supplied to Taizhou Water Treatment Plant of the Group. During the Reporting Period, the raw water sales volume was 58.9 million tonnes, representing an increase of 0.4 million tonnes as compared with 58.5 million tonnes for the six months ended 30 June 2021.

2. Municipal Water Supply Project

Taizhou Water Treatment Plant of the Taizhou Water Supply System (Phase II) has a designed municipal water supply capacity of 366,000 tonnes per day and is responsible for providing the municipal water which is sold to local municipal water service providers. During the Reporting Period, municipal water sales volume was 58.7 million tonnes, representing a decrease of 11.6 million tonnes as compared with 70.3 million tonnes for the six months ended 30 June 2021.

3. Tap Water Supply Project

The Group is responsible for supplying tap water to local end-users of Zeguo Town, Wenling City (including commercial users, government authorities, industrial users and residential households in Zenguo Town). During the Reporting Period, tap water sales volume was 5.2 million tonnes, as compared to 5.2 million tonnes for the six months ended 30 June 2021.

4. Installation Services

In connection with tap water supply services, the Group undertakes water pipeline installation works to connect new end-users to the Group's pipeline network and charges an installation fee for such services. During the Reporting Period, revenue from installation services amounted to approximately RMB11.9 million, representing an increase of RMB5.1 million as compared to approximately RMB6.8 million for the six months ended 30 June 2021.

5. Construction Project

Construction projects in progress of the Group are the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV).

The construction of the Taizhou Water Supply System (Phase III) commenced in February 2018 and the water test run commenced in July 2022. As at the date of this announcement, the construction of the water supply systems has been substantially completed and the water supply systems are pending the completion of inspection. Upon completion of its construction, the Group plans to apply for the relevant permit to supply tap water directly to end-users in the areas the Taizhou Water Supply System (Phase III) passes through.

The construction of the Taizhou Water Supply System (Phase IV) commenced in November 2018 and the water test run commenced in July 2022. As at the date of this announcement, the construction of the water supply systems has been substantially completed and the water supply systems are pending the completion of inspection. The Group is, as at the date of this announcement, applying for the relevant permit to supply tap water directly to the end-users in Yuhuan City.

During the Reporting Period, the Group relentlessly pushed the progress of the construction projects. These two new water supply systems will further enhance the leading position of the Group in the water supply industry in Taizhou. Upon completion of inspections of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV), the total designed raw water supply capacity of the four water supply systems operated by the Group is expected to reach 1,220,000 tonnes per day. The total designed municipal water supply capacity is expected to reach 750,000 tonnes per day, representing an increase of 104.9% from that of the current two water supply systems.

FINANCIAL REVIEW

1. Analysis of Key Items of Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Continuing Operations

1.1 Revenue

Revenue of the Group decreased by RMB23.8 million or 9.2%, from approximately RMB259.8 million for the six months ended 30 June 2021 to approximately RMB236.0 million for the Reporting Period.

(1) Raw water supply

Revenue of the Group generated from sales of raw water increased by RMB0.2 million or 0.3%, from approximately RMB59.5 million for the six months ended 30 June 2021 to approximately RMB59.7 million for the Reporting Period.

(2) Municipal water supply

Revenue of the Group generated from sales of municipal water decreased by RMB29.5 million or 17.2%, from approximately RMB171.6 million for the six months ended 30 June 2021 to approximately RMB142.1 million for the Reporting Period. The decrease was mainly attributable to the new water plant in Daxi, Wenling during the Reporting Period, municipal water sales volume decreased from 70.3 million tonnes for the six months ended 30 June 2021 to 58.7 million tonnes for the Reporting Period.

(3) Tap water supply

Revenue of the Group generated from sales of tap water increased by RMB0.4 million or 1.8%, from approximately RMB21.9 million for the six months ended 30 June 2021 to approximately RMB22.3 million for the Reporting Period.

(4) Installation services

Revenue of the Group generated from installation services increased by RMB5.1 million or 75%, from approximately RMB6.8 million for the six months ended 30 June 2021 to approximately RMB11.9 million for the Reporting Period. The increase was mainly due to the renovation project for the village-level pipelines and new construction of the railway new district and other main pipeline projects.

1.2 Cost of sales

The Group's cost of sales decreased by RMB1.4 million or 1.0%, from approximately RMB141.7 million for the six months ended 30 June 2021 to approximately RMB140.3 million for the Reporting Period. The decrease was mainly due to the decrease in municipal water sales volume.

1.3 Gross profit and gross profit margin

As a result of the above, the Group's gross profit decreased by RMB22.4 million or 19.0%, from approximately RMB118.1 million for the six months ended 30 June 2021 to approximately RMB95.7 million for the Reporting Period. Gross profit margin decreased from 45.5% for the six months ended 30 June 2021 to 40.6% for the Reporting Period.

1.4 Other income and gains

Other income and gains decreased by RMB2.2 million or 29.7%, from approximately RMB7.4 million for the six months ended 30 June 2021 to approximately RMB5.2 million for the Reporting Period. The decrease was mainly due to the decrease in revenue for the Reporting Period, resulting in the reduction of VAT refund.

1.5 Administrative expenses

Administrative expenses increased by RMB0.3 million or 1.2%, from approximately RMB25.9 million for the six months ended 30 June 2021 to approximately RMB26.2 million for the Reporting Period. Such increase was mainly due to the increase in employee benefit expenses.

1.6 Finance costs

Finance costs increased by RMB0.9 million or 13.6%, from approximately RMB6.6 million for the six months ended 30 June 2021 to approximately RMB7.5 million for the Reporting Period. The increase was mainly due to new loans.

1.7 Income tax expense

Income tax expense decreased by RMB6.4 million or 26.8%, from approximately RMB23.9 million for the six months ended 30 June 2021 to approximately RMB17.5 million for the Reporting Period. Such decrease was primarily due to the decrease in profit before tax.

1.8 Profit after tax and profit margin after tax

As a result of above, profit for the Reporting Period decreased by RMB31.2 million or 45.3%, from approximately RMB68.8 million for the six months ended 30 June 2021 to approximately RMB37.6 million for the Reporting Period. Profit margin after tax decreased from 26.5% for the six months ended 30 June 2021 to 15.9% for the Reporting Period. The decrease was mainly due to the decrease in the revenue from municipal water.

2. Analysis of Key Items of Consolidated Statement of Financial Position

2.1 Property, plant and equipment

As at 31 December 2021 and 30 June 2022, property, plant and equipment were approximately RMB3,582.5 million and RMB3,930.5 million, respectively, and mainly comprised construction in progress, water supply pipelines, buildings, machinery and equipment for water supply business. The increase was primarily attributable to the additions of construction in progress of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV).

2.2 Right-of-use assets

As at 31 December 2021 and 30 June 2022, right-of-use assets were approximately RMB395.2 million and RMB383.3 million, respectively.

2.3 Inventories

As at 31 December 2021 and 30 June 2022, inventories were approximately RMB4.9 million and RMB5.0 million, respectively. Inventories mainly comprised chemicals used in the water treatment process.

2.4 Trade receivables

As at 31 December 2021 and 30 June 2022, trade receivables were approximately RMB100.4 million and RMB90.5 million, respectively. Trade receivables were related to receivables from customers of the water supply business. This is due to the decrease in revenue of municipal water supply and the increase in the collection of receivables.

2.5 Prepayments, other receivables and other assets

As at 31 December 2021 and 30 June 2022, prepayments, other receivables and other assets were approximately RMB23.6 million and RMB18.0 million, respectively.

2.6 *Trade payables*

As at 31 December 2021 and 30 June 2022, trade payables were approximately RMB61.7 million and RMB61.1 million, respectively. Trade payables mainly comprised outstanding payments for raw water procurement and water resources fee.

2.7 *Other payables and accruals*

As at 31 December 2021 and 30 June 2022, other payables and accruals were approximately RMB764.4 million and RMB701.1 million, respectively.

2.8 *Deferred government grants*

As at 31 December 2021 and 30 June 2022, deferred government grants were approximately RMB106.9 million and RMB154.6 million, respectively. Such increase was mainly due to the subsidy received from the Yuhuan Water Conservancy Bureau for Taizhou Water Supply System (Phase IV).

2.9 *Liquidity and financial resources*

The Group manages its capital to ensure that its entities will be able to operate on a going concern basis and maximises the return to the shareholders of the Company (the “**Shareholders**”) through optimisation of the debt and equity balance. During the Reporting Period, the overall strategy of the Group remained unchanged. The capital structure of the Group consisted of net debt (including borrowings net of cash and cash equivalents) and total equity (including paid-in capital/share capital, capital reserve, statutory surplus reserve, retained profits and non-controlling interests). The Group was not subject to any externally imposed capital requirements. As at 30 June 2022, cash and bank balance of the Group was approximately RMB232.7 million (as at 31 December 2021: approximately RMB190.7 million). As at 30 June 2022, total borrowings of the Group were approximately RMB3,105.0 million (as at 31 December 2021: approximately RMB2,742.0 million) and included bank and other loans, with 83.6% of bank and other loans at floating rates. As at 30 June 2022, gearing ratio of the Group (total debts divided by total equity as at the end of the period) was 270.5% (as at 31 December 2021: 242.6%). The increase in gearing ratio was mainly due to the increase in bank and other borrowings of approximately RMB363.0 million for the construction of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV).

SIGNIFICANT INVESTMENTS

For the six months ended 30 June 2022, the Group did not hold any significant investment in equity interest in any other company (for the six months ended 30 June 2021: nil).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2022 (for the six months ended 30 June 2021: nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

On 21 January 2022, the then shareholders of Taizhou Zhuxi Reservoir Development Co., Ltd.* (台州市朱溪水庫開發有限公司) (“**Zhuxi Reservoir Development**”) resolved to increase the registered capital of Zhuxi Reservoir Development from RMB800.0 million to RMB950.0 million and that the then shareholders of Zhuxi Reservoir Development shall each contribute to the capital injection (in sum of RMB150.0 million) on a pro rata basis to their existing shareholding in Zhuxi Reservoir Development (the “**Zhuxi Capital Injection**”). As at the date of this announcement, the Zhuxi Capital Injection has been completed and the Company’s total capital contribution to Zhuxi Reservoir Development increased from RMB200.0 million to RMB237.5 million and the Company’s equity interest in Zhuxi Reservoir Development remains unchanged at 25%.

For further details of the Zhuxi Capital Injection, please refer to the announcements of the Company dated 21 January 2022 and 10 February 2022.

Save as disclosed above, the Group did not have any other material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

PLEDGE OF THE GROUP’S ASSETS

As at the end of the Reporting Period, the bank borrowings of the Group amounted to approximately RMB3,105.0 million (as at 31 December 2021: approximately RMB2,742.0 million), which were secured by the Group’s trade receivables, the right of charge on the future revenue generated by Taizhou Water Supply System (Phase I, Phase II, Phase III and Phase IV). Save as disclosed above, as at the end of the Reporting Period, the Group did not pledge any other assets.

FOREIGN EXCHANGE RISK

During the Reporting Period, the Group carried out business in the PRC and received revenue and paid its costs/expenses in RMB. The Group denominated and declared dividends in RMB. Dividend on Domestic Share will be paid in RMB and dividend on H Share will be paid in Hong Kong dollar. The Group recognised net foreign exchange gains of approximately RMB30,302 during the Reporting Period. The Group does not currently hedge its exposure to foreign currencies.

CONTINGENT LIABILITIES

As at the end of the Reporting Period, the Group did not have any material contingent liability (as at 31 December 2021: nil).

SUBSEQUENT EVENTS AFTER REPORTING PERIOD

As at the date of this announcement, the Group has no other significant events occurred after the Reporting Period that require additional disclosures or adjustments.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2022, the Group had 230 employees (as at 30 June 2021: 199). During the Reporting Period, the employee benefit expenses amounted to approximately RMB36.6 million (for the six months ended 30 June 2021: RMB31.6 million). The employees of the Group are generally remunerated by way of fixed salary, and are also entitled to a performance based bonus, paid leave and various subsidies. During the Reporting Period, the Group did not experience any significant labour disputes causing any material impact on its normal business operations.

CORPORATE GOVERNANCE PRACTICES

The Group strived to maintain high standards of corporate governance in order to safeguard the interests of Shareholders and enhance the corporate value and accountability. The Company has adopted the principles of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Company has complied with all the code provisions set out in the CG Code during the Reporting Period. The Company will continue to review and monitor its corporate governance practice to ensure the compliance of the CG Code.

MODEL CODE REGARDING SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as the code of conduct regarding securities transactions conducted by the Directors and supervisors of the Company (the “**Supervisors**”). Specific enquiries have been made to all the Directors and Supervisors and each of the Directors and Supervisors has confirmed that he/she has complied with the required standard set out in the Model Code during the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

THE AUDIT COMMITTEE

The Audit Committee has, together with the management and the Board, reviewed the accounting principles and practices adopted by the Group and the interim results for the six months ended 30 June 2022.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT FOR 2022 ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.zjtzwater.com). The interim report for 2022 of the Company containing all information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
Taizhou Water Group Co., Ltd.*
台州市水務集團股份有限公司
Yang Jun
Chairman and Executive Director

Taizhou, the PRC, 31 August 2022

As at the date of this announcement, the executive Directors are Mr. Yang Jun and Mr. Pan Gang; the non-executive Directors are Mr. Wang Haiping, Mr. Wang Haibo, Ms. Fang Ya, Mr. Yu Yangbin, Ms. Huang Yuyan, Mr. Yang Yide, Mr. Guo Dingwen and Mr. Lin Yang; and the independent non-executive Directors are Mr. Huang Chun, Ms. Hou Meiwen, Mr. Li Wai Chung, Ms. Lin Suyan and Mr. Wang Yongyue.

** For identification purpose only*