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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 2020

INTERIM RESULTS HIGHLIGHTS:

For the six months ended 30 June 2020:

- Revenue amounted to approximately RMB224.5 million, representing a slight decrease of approximately 0.6% over the same period of last year.
- Profit for the period amounted to approximately RMB49.6 million, representing a decrease of approximately 4.4% over the same period of last year.
- Profit attributable to owners of the Company amounted to approximately RMB43.6 million, representing a decrease of approximately 5.8% over the same period of last year.
- Basic earnings per share amounted to approximately RMB0.22.
- The Board did not recommend the distribution of an interim dividend for the six months ended 30 June 2020.

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 2020 (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 interim results and the Hong Kong Financial Reporting Standards (the “**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants. The relevant interim results have also been reviewed and confirmed by the Board and the audit committee of the Board. 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 2020

	<i>Notes</i>	2020 (Unaudited) RMB'000	2019 (Audited) RMB'000
REVENUE	4	224,455	225,786
Cost of sales		<u>(134,085)</u>	<u>(135,045)</u>
Gross profit		90,370	90,741
Other income and gains	4	5,005	7,889
Administrative expenses		(21,406)	(19,121)
Other expenses		(445)	(427)
Finance costs	6	<u>(6,282)</u>	<u>(8,719)</u>
PROFIT BEFORE TAX	5	67,242	70,363
Income tax expense	7	<u>(17,601)</u>	<u>(18,474)</u>
PROFIT FOR THE PERIOD AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD		<u>49,641</u>	<u>51,889</u>
Attributable to:			
Owners of the parent		43,582	46,340
Non-controlling interests		<u>6,059</u>	<u>5,549</u>
		<u>49,641</u>	<u>51,889</u>
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted (RMB)		<u>0.22</u>	<u>0.31</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2020

		30 June 2020	31 December 2019
		(Unaudited)	(Audited)
	<i>Notes</i>	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10</i>	2,055,204	1,772,391
Prepayments for property, plant and equipment		21,100	11,797
Prepayments for land use rights		2,301	52,612
Investment in an associate		125,000	125,000
Deferred tax assets		20,699	20,865
Right-of-use assets		417,822	384,484
		<hr/>	<hr/>
Total non-current assets		2,642,126	2,367,149
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		4,023	4,432
Trade receivables	<i>11</i>	121,647	104,038
Prepayments, other receivables and other assets		13,111	172,610
Pledged bank deposits		16,858	16,742
Cash and cash equivalents		355,386	264,357
		<hr/>	<hr/>
Total current assets		511,025	562,179
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade payables	<i>12</i>	55,846	76,809
Other payables and accruals		283,220	299,791
Interest-bearing bank and other borrowings		55,000	55,000
Deferred government grants		3,252	3,261
Lease liabilities		22,108	19,372
Tax payable		13,345	12,458
Dividend payable		31,965	–
		<hr/>	<hr/>
Total current liabilities		464,736	466,691
		<hr/>	<hr/>
NET CURRENT ASSETS		46,289	95,488
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,688,415	2,462,637
		<hr/>	<hr/>

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>2,688,415</u>	<u>2,462,637</u>
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	1,689,000	1,479,000
Deferred government grants	78,540	80,176
Other liabilities	<u>1,000</u>	<u>1,242</u>
Total non-current liabilities	<u>1,768,540</u>	<u>1,560,418</u>
Net assets	<u>919,875</u>	<u>902,219</u>
EQUITY		
Equity attributable to owners of the parent		
Share capital	200,000	200,000
Reserves	<u>576,147</u>	<u>564,550</u>
	776,147	764,550
Non-controlling interests	<u>143,728</u>	<u>137,669</u>
Total equity	<u>919,875</u>	<u>902,219</u>

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 2020 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 2019.

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.

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 2019, 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>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>COVID-19-Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>
HKFRS 17	<i>Insurance Contracts</i>

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

- (a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

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

- (c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendments did not have any impact on the financial position and performance of the Group, as the Group does not have rent concessions arising as a direct consequence of the COVID-19 pandemic.
- (d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

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 2020 and 2019 are set out below:

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Audited) RMB'000
Customer 1	60,996	63,822
Customer 2	49,615	54,419
Customer 3	47,352	45,197
Customer 4	24,345	N/A*

* 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 period.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Revenue from contracts with customers	224,455	225,786
Revenue from contracts with customers		
<i>Disaggregated revenue information</i>		
	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Type of goods or services		
Sale of water	221,082	221,833
Installation services	3,373	3,953
Total revenue from contracts with customers	224,455	225,786
Timing of revenue recognition		
Goods transferred at a point in time	221,082	221,833
Services transferred over time	3,373	3,953
Total revenue from contracts with customers	224,455	225,786
	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Other income		
Bank interest income	1,448	585
Foreign exchange gain, net	642	–
Government grants	303	765
Value added tax refund	2,364	6,471
Others	248	54
	5,005	7,875
Gain		
Gain on disposal of items of property, plant and equipment	–	14
	5,005	7,889

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Audited) RMB'000
Cost of inventories sold	131,835	132,240
Cost of services provided	2,250	2,805
Depreciation of property, plant and equipment	26,076	26,570
Depreciation of right-of-use assets	4,069	3,041
Impairment of trade receivables, net	1,033	696
Impairment of financial assets included in prepayments, other receivables and other assets	29	3
Government grants	(303)	(765)
Exchange differences, net	(642)	–
Gain on disposal of items of property, plant and equipment	–	(14)
Listing expenses	–	201
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6. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Audited) RMB'000
Interest on bank borrowings	27,893	16,253
Interest on other borrowings	8,042	8,054
Less: Interest capitalised	(29,653)	(15,588)
	<hr/>	<hr/>
	6,282	8,719
	<hr/>	<hr/>

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, except for Taizhou Environmental Development Co., Ltd., which was entitled to a preferential income tax rate of 10% (the six months ended 30 June 2019: 10%) for small and micro enterprises, the provision for current income tax in Mainland China was based on the statutory rate of 25% (the six months ended 30 June 2019: 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.

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

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Audited) RMB'000
Current tax – Mainland China		
Charge for the period	17,435	18,359
Deferred tax	166	115
	<hr/>	<hr/>
Total tax charge for the period	17,601	18,474

8. DIVIDENDS

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Audited) RMB'000
Final declared and unpaid – RMB0.16 (2019: Nil) per ordinary share	31,965	–

A final dividend of RMB0.16 (equivalent to HK\$0.1744) per ordinary share for the year ended 31 December 2019 of RMB31,965,000 was approved by shareholders of the Company on 5 June 2020 and was paid on 20 August 2020.

The Board did not declare any interim dividend for the six months ended 30 June 2020 (the six months ended 30 June 2019: 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	
	2020	2019
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	43,582	46,340
	_____	_____
	Number of shares	
	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Audited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	200,000,000	150,000,000
	_____	_____

10. PROPERTY, PLANT AND EQUIPMENT

	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Carrying amount at beginning of period/year	1,772,391	1,037,070
Additions	291,655	755,835
Capitalisation of depreciation of right-of-use assets	17,751	44,360
Disposals	–	(10,750)
Depreciation provided during period	(26,593)	(54,124)
	_____	_____
Carrying amount at end of period/year	2,055,204	1,772,391
	_____	_____

11. TRADE RECEIVABLES

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Trade receivables	73,963	61,036
Due from related parties	99,955	94,240
	173,918	155,276
Impairment	(52,271)	(51,238)
	121,647	104,038

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 2020, certain of the Group's trade receivables with a carrying amount of RMB108,171,000 (31 December 2019: RMB92,615,000) 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 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Within 3 months	110,112	97,752
3 to 6 months	7,245	2,713
6 to 12 months	1,973	1,304
1 to 2 years	1,732	2,041
2 to 3 years	585	228
	121,647	104,038

12. TRADE PAYABLES

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Trade payables	55,846	76,809

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

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Within 3 months	35,274	40,127
3 to 6 months	15,990	20,045
6 to 12 months	529	13,143
Over 12 months	4,053	3,494
	55,846	76,809

The trade payables are non-interest-bearing and are normally settled on terms of one to two months.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

On 4 March 2020, the general offices of the Communist Party of China Central Committee and the State Council jointly issued the “Guiding Opinions on Building a Modern Environmental Governance System” (《關於構建現代環境治理體系的指導意見》) (the “**Opinion**”), which proposed the guiding principles of “firmly upholding the concept of green development and giving the utmost priority to the deepened primary role of enterprises”, with an aim to promote green production and services among the ecological environmental protection industries and actively practice green production methods. The Opinion formulates clear requirements for driving the water industry to protect the ecological environment from the sources of pollution, optimising the input of raw materials and eliminating backward production processes and technologies. This will help the water industry to accelerate the pace of upgrading.

This year is also a crucial year for the implementation of the Zhejiang Province Rural Drinking Water Standards Promotion Action Plan (2018-2020) (《浙江省農村飲水達標提標行動計劃(2018–2020)》), under which water enterprises within the province proactively cooperated with the local government so as to promote the extension of pipeline networks in urban areas and to improve the urban and rural water supply landscape according to the targets of pipelines reaching villages and homes. A strict measuring and charging approach of “One account, One water meter” (一戶一錶) has been introduced for rural drinking water, and a market-oriented mechanism that suits the local conditions in respect of water supply in rural areas has also been actively exploring. All these initiatives create new development opportunities for water enterprises.

DEVELOPMENT STRATEGIES AND OUTLOOK

In the second half of 2020, the Group will continue to adhere to the concept of “focusing on environmental protection and energy saving, ensuring high-quality water supply and servicing everyone”. Under the backdrop against the threat of the novel coronavirus (“**COVID-19**”) pandemic and confronted with the extraordinary period of “People’s Fight against the Epidemic”, all members of the Group will stick to our original aspiration and tackle various difficulties. The Group strives to operate the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II) in a consistent and steady manner, with an aim to ensure the safety of water supply in the second half of 2020.

The Group is actively promoting the construction of the key projects while maintaining a stable operation and ensuring the safety of water supply. The Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) have been accredited as the Zhejiang Province Key Construction Project (浙江省重點建設項目), both of which also serve as the Group’s key projects in expanding its downstream business to optimise the industrial chain. The Group will spare no efforts to eliminate the adverse impact of short-term suspensions caused by the COVID-19 pandemic in the first half of the year, and seize every opportunity to resume work and production to catch up with the construction progress, in the pursuit of driving the projects to achieve speed, quality and efficiency improvement, thus ensuring that the key projects will be completed as scheduled.

BUSINESS REVIEW

The principal business of the Group, as a leading water supply service provider in Taizhou, 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). The designed raw water supply capacity is approximately 740,000 tonnes per day, and the municipal water supply capacity is 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.

On 14 February 2020, Taizhou Development and Reform Commission issued the Implementation Opinions on the Implementation of Preferential Policies on Water, Electricity and Gas Prices of Document of Tai Zheng Fa [2020] No. 4 of the Municipal Government (Tai Fa Gai Jia Ge [2020] No. 24). The price of tap water sold by each of the water supply companies in Taizhou (including townships and towns price as well as streets) to enterprise end-users will be reduced by 10% based on the actual water consumption volume. The price of raw water of upstream Changtan Reservoir, the price of water supply of the Group (raw water and municipal water) and sewage treatment fee are all settled by 10% reduction according to the actual water volume sold by downstream water supply companies to enterprise end-users. The implementation period for the policy was from 1 February 2020 to 30 April 2020. On 20 May 2020, Taizhou Novel Coronavirus Pneumonia Prevention and Control Headquarter Office* (台州市新型冠狀病毒肺炎疫情防控指揮部辦公室) issued the Notice on Increasing the Preferential Policies for Enterprise Gas and Water Consumption during the Pandemic Period (Tai Fang Zhi Ban [2020] No. 74). The implementation period for the policy of the 10% reduction of water price for enterprise end-users was extended to 30 June 2020. On 30 July 2020, Taizhou Development and Reform Commission issued the Notice of Taizhou Development and Reform Commission on Extending the Period of Periodic Reduction of Water Cost of Enterprise. The implementation period for the policy of the 10% reduction of water price for enterprise end-users is further extended to 31 December 2020. After adopting the above-mentioned policies, the average unit selling price of raw water, municipal water and tap water of the Group decreased correspondingly, and the unit price of raw water the Group purchased from Changtan Reservoir decreased accordingly from February 2020 to June 2020.

Due to the impact of the COVID-19 pandemic, the local enterprises suspended production and operation temporarily. However, as the COVID-19 pandemic was gradually under control in China, the local enterprises resumed production and operation successively. During the Reporting Period, the sales volume of raw water, municipal water and tap water of the Group were slightly affected. Affected by the COVID-19 pandemic, the sales volume of raw water of the Group decreased slightly during the Reporting Period as compared with that for the six months ended 30 June 2019. However, the rainfall volume in the Reporting Period was less than that for the six months ended 30 June 2019, which led to the increase in water demand from some downstream municipal water supply companies with small reservoirs, and accordingly the increase in the sales volume of municipal water of the Group.

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 54.2 million tonnes, representing a decrease of 0.4 million tonnes as compared with 54.6 million tonnes for the six months ended 30 June 2019.

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 selling municipal water to local municipal water service providers. During the Reporting Period, municipal water sales volume was 62.2 million tonnes, representing an increase of 2.3 million tonnes as compared with 59.9 million tonnes for the six months ended 30 June 2019. Such increase was mainly attributable to the lower rainfall volume during the Reporting Period as compared to that for the six months ended 30 June 2019, which led to the increase in water demand from some downstream municipal water supply companies with small reservoirs, and accordingly the increase in the sales volume of municipal water of the Group.

3. Tap Water Supply Project

The Group was responsible for supplying tap water to local end-users of Zeguo Town (including commercial users, government authorities, industrial users and residential households in Zenguo Town, Wenling City). During the Reporting Period, tap water sales volume was 4.7 million tonnes, as compared to 4.7 million tonnes for the six months ended 30 June 2019.

4. Installation Services

In connection with tap water supply services, the Group undertakes water pipeline installation works to connect new end-users to our pipeline network and charges an installation fee for such services. During the Reporting Period, revenue from installation services amounted to approximately RMB3.4 million, representing a decrease of RMB0.6 million as compared to approximately RMB4.0 million for the six months ended 30 June 2019.

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 is expected to complete in February 2022, aiming to supply water to the Taizhou Bay Economic Zone and to resolve the increasing water demand in the areas where the Group have been providing services.

The construction of the Taizhou Water Supply System (Phase IV) commenced in November 2018 and is expected to complete in April 2022, aiming to supply water to South Bay Zone of Taizhou and to provide raw water and municipal water at the same time.

During the Reporting Period, affected by the pandemic, the progress of our two major projects was lagged behind in the first quarter of 2020. However, the Company relentlessly pushed the progress during the second quarter of 2020. Currently, the construction of water conveyance tunnel group of the Taizhou Water Supply System (Phase III) was fully completed in August 2020. The water treatment plant in the East Zone was initially constructed. The construction of three tunnels, raw water pipelines and main structure of water treatment plant of the Taizhou Water Supply System (Phase IV) is now in full swing. The foundation treatment of the water treatment plant and the construction of its comprehensive building have been delivered for inspection and acceptance. The construction of Heluan Mountain tunnel was completed two months earlier, which was a remarkable step forward in the construction.

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 RMB1.3 million or 0.6%, from approximately RMB225.8 million for the six months ended 30 June 2019 to approximately RMB224.5 million for the Reporting Period.

(1) Raw water supply

Revenue of the Group generated from sales of raw water decreased by RMB1.5 million or 2.7%, from approximately RMB55.6 million for the six months ended 30 June 2019 to approximately RMB54.1 million for the Reporting Period. Such decrease was primarily attributable to (i) the sales volume of raw water decreased from 54.6 million tonnes for the six months ended 30 June 2019 to 54.2 million tonnes for the Reporting Period; and (ii) for the five months ended 30 June 2020, the price of raw water sold by the Group to middle and downstream water supply companies reduced by 10% based on the actual water volume sold by such companies to enterprise end-users, resulting in a corresponding decrease in the average unit selling price of raw water sold by the Group, due to the impact of the COVID-19 pandemic.

(2) Municipal water supply

Revenue of the Group generated from sales of municipal water increased by RMB1.1 million or 0.8%, from approximately RMB146.3 million for the six months ended 30 June 2019 to approximately RMB147.4 million for the Reporting Period. The increase was mainly due to the increase in municipal water sales volume from 59.9 million tonnes for the six months ended 30 June 2019 to 62.2 million tonnes for the Reporting Period. The rainfall volume during the Reporting Period was less than that for the six months ended 30 June 2019, which led to the increase in water demand from some municipal water supply companies with small reservoirs, and accordingly the increase in the sales volume of municipal water supply of the Group. This increase was partially offset by the decrease in the average unit selling price of municipal water.

(3) Tap water supply

Revenue of the Group generated from sales of tap water decreased by RMB0.4 million or 2.0%, from approximately RMB20.0 million for the six months ended 30 June 2019 to approximately RMB19.6 million for the Reporting Period.

(4) Installation services

Revenue of the Group generated from installation services decreased by RMB0.6 million or 15.0%, from approximately RMB4.0 million for the six months ended 30 June 2019 to approximately RMB3.4 million for the Reporting Period.

1.2 *Cost of sales*

The Group's cost of sales decreased by RMB0.9 million or 0.7%, from approximately RMB135.0 million for the six months ended 30 June 2019 to approximately RMB134.1 million for the Reporting Period.

The decrease was mainly due to the decrease in employee benefit expenses by RMB1.8 million from approximately RMB19.3 million for the six months ended 30 June 2019 to approximately RMB17.5 million for the Reporting Period, mainly because the construction of the Taizhou Water Supply System (Phase III) entered the critical stage this year, and the project construction increased significantly. Therefore, the Company assigned additional engineering and technical personnel to participate in the construction management and operation, whose employee benefit expenses were fully capitalised and transferred to the construction in progress. The decrease was partially offset by the increase of approximately RMB0.9 million in raw water procurement fees and water resources fees, mainly due to the slight increase in raw water procurement during the Reporting Period.

1.3 *Gross profit and gross profit margin*

As a result of the above, our gross profit decreased by RMB0.3 million or 0.3%, from approximately RMB90.7 million for the six months ended 30 June 2019 to approximately RMB90.4 million for the Reporting Period. Gross profit margin increased slightly from 40.2% for the six months ended 30 June 2019 to 40.3% for the Reporting Period.

1.4 *Other income and gains*

Other income and gains decreased by RMB2.9 million or 36.7%, from approximately RMB7.9 million for the six months ended 30 June 2019 to approximately RMB5.0 million for the Reporting Period. The decrease was mainly due to the five-month value-added tax ("VAT") refund (for the tax period from November 2019 to March 2020) received for the six months ended 30 June 2020, while a seven-month VAT refund (for the tax period from October 2018 to April 2019) was received for the six months ended 30 June 2019.

1.5 Administrative expenses

Administrative expenses increased by RMB2.3 million or 12.0%, from approximately RMB19.1 million for the six months ended 30 June 2019 to approximately RMB21.4 million for the Reporting Period. Such increase was mainly due to certain regular service fees of the professional institutions incurred in relation to compliance with requirements of a listed company.

1.6 Finance costs

Finance costs decreased by RMB2.4 million or 27.6%, from approximately RMB8.7 million for the six months ended 30 June 2019 to approximately RMB6.3 million for the Reporting Period. Such decrease was primarily due to the combined effect of (i) the increase in interest on bank borrowings of RMB11.6 million; and (ii) the increase in interest capitalised of RMB14.1 million primarily as a result of the additional long-term bank loans of RMB476.0 million for the 12 months ended 30 June 2020 for the construction of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV), interests of which were fully capitalised during the Reporting Period.

1.7 Income tax expense

Income tax expense decreased by RMB0.9 million or 4.9%, from approximately RMB18.5 million for the six months ended 30 June 2019 to approximately RMB17.6 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 RMB2.3 million or 4.4%, from approximately RMB51.9 million for the six months ended 30 June 2019 to approximately RMB49.6 million for the Reporting Period. Profit margin after tax decreased from 23.0% for the six months ended 30 June 2019 to 22.1% for the Reporting Period.

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

2.1 Property, plant and equipment

As at 31 December 2019 and 30 June 2020, property, plant and equipment were approximately RMB1,772.4 million and RMB2,055.2 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 related to Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV).

2.2 *Right-of-use assets*

As at 31 December 2019 and 30 June 2020, right-of-use assets were approximately RMB384.5 million and RMB417.8 million, respectively. The increase was primarily attributable to (i) the additional land use rights of Taizhou City Water Co., Ltd.* (台州城市水務有限公司), a subsidiary of the Company; and (ii) the increase in lands used for the construction of the Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV).

2.3 *Inventories*

As at 31 December 2019 and 30 June 2020, inventories were approximately RMB4.4 million and RMB4.0 million, respectively. Inventories mainly comprised raw materials including chemicals used in the water treatment process.

2.4 *Trade receivables*

As at 31 December 2019 and 30 June 2020, trade receivables were approximately RMB104.0 million and RMB121.6 million, respectively. Trade receivables are related to receivables from customers under the water supply business. The increase in trade receivables was mainly due to that some downstream water supply companies extended the payment period as a result of the impact of the COVID-19 pandemic.

2.5 *Prepayments, other receivables and other assets*

As at 31 December 2019 and 30 June 2020, prepayments, other receivables and other assets were approximately RMB172.6 million and RMB13.1 million, respectively. Such decrease was primarily attributable to the proceeds received from the initial public offering in January 2020.

2.6 *Trade payables*

As at 31 December 2019 and 30 June 2020, trade payables were approximately RMB76.8 million and RMB55.8 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 2019 and 30 June 2020, other payables and accruals were approximately RMB299.8 million and RMB283.2 million, respectively. Such decrease was mainly due to the payment of listing expenses during the Reporting Period.

2.8 *Deferred government grants*

As at 31 December 2019 and 30 June 2020, deferred government grants were approximately RMB83.4 million and RMB81.8 million, respectively.

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 2020, cash and bank balance of the Group was approximately RMB355.4 million (as at 31 December 2019: RMB264.4 million). As at 30 June 2020, total borrowings of the Group were approximately RMB1,744.0 million (as at 31 December 2019: RMB1,534.0 million) and included bank and other loans, with 46.1% of bank and other loans at floating rates. As at 30 June 2020, gearing ratio of the Group (total debts divided by total equity as at the end of the period) was 189.6% (as at 31 December 2019: 170.0%). The increase in gearing ratio was mainly due to the increase in bank and other borrowings of approximately RMB210.0 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 2020, the Group did not hold any significant investment in equity interest in any other company (for the six months ended 30 June 2019: nil).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (for the six months ended 30 June 2019: nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the six months ended 30 June 2020, the Group did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures (for the six months ended 30 June 2019: nil).

PLEDGE OF THE GROUP’S ASSETS

During the Reporting Period, the bank borrowings of the Group amounted to approximately RMB1,744.0 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 and Phase II), Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (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 receives revenue and pays its costs/expenses in RMB. The Group had unutilised listing proceeds in Hong Kong dollar, and distributed dividends in Hong Kong dollar. The Group recognised foreign exchange gain of approximately RMB0.6 million 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 2019: nil).

SUBSEQUENT EVENTS AFTER REPORTING PERIOD

At present, the Group expects the COVID-19 outbreak to have limited impact on its business. However, it is difficult to estimate the full impact in the coming months given the dynamic nature of these circumstances. The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts.

Save as disclosed above, 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 2020, the Group had 189 employees (as at 30 June 2019: 183). During the Reporting Period, the employee benefit expenses amounted to approximately RMB26.4 million (for the six months ended 30 June 2019: RMB28.2 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.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

The H Shares of the Company (“**H Shares**”) was listed on the Main Board of the Stock Exchange on 31 December 2019 (the “**Listing Date**”). The total net proceeds was approximately HK\$167.5 million after deducting professional fees, underwriting commissions and other related listing expenses (the “**Net Proceeds**”). The Company will allocate the Net Proceeds according to the Company’s prospectus dated 17 December 2019 (the “**Prospectus**”). The intended use and balance of the Net Proceeds as at 30 June 2020 are as follows:

Intended use of Net Proceeds	Allocation of Net Proceeds	Percentage of total Net Proceeds	Amount of Net Proceeds utilised up to 30 June 2020	Balance of Net Proceeds unutilised as at 30 June 2020	Intended timetable for use of the unutilised Net Proceeds
(i) For the construction of the Taizhou Water Supply System (Phase III)	HK\$150.75 million	90%	HK\$60.6 million	HK\$90.15 million	On or before 31 December 2021
(ii) For providing funding for our working capital and other general corporate purposes	HK\$16.75 million	10%	–	HK\$16.75 million	On or before 31 December 2021
Total	HK\$167.5 million	100%	HK\$60.6 million	HK\$106.90 million	On or before 31 December 2021

The Group will utilise the Net Proceeds in accordance with the intended purposes as set out in the Prospectus. The Board is not aware of any material change to the planned use of the Net Proceeds as at the date of this announcement.

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. Specific enquiry has been made to all the Directors and supervisors of the Company 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 of the Company 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 2020.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT FOR 2020 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 2020 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, 26 August 2020

As at the date of this announcement, the executive Directors are Mr. Yang Jun and Mr. Zhang Junzhou; 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. Sun Hua; and the independent non-executive Directors are Mr. Zheng Jianzhuang, Ms. Hou Meiwen, Mr. Li Wai Chung, Ms. Lin Suyan and Mr. Wang Yongyue.

* For identification purpose only