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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 2021**

INTERIM RESULTS HIGHLIGHTS:

For the six months ended 30 June 2021:

- Revenue amounted to approximately RMB259.8 million, representing an increase of approximately 15.7% over the same period of last year.
- Profit for the period amounted to approximately RMB68.8 million, representing an increase of approximately 38.6% over the same period of last year.
- Profit attributable to owners of the Company amounted to approximately RMB60.9 million, representing an increase of approximately 39.7% over the same period of last year.
- Basic earnings per share amounted to approximately RMB0.30.
- The Board did not recommend the distribution of an interim dividend for the six months ended 30 June 2021.

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 2021 (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 2021

	<i>Notes</i>	2021 RMB'000 (Unaudited)	2020 <i>RMB'000</i> (Unaudited)
REVENUE	4	259,779	224,455
Cost of sales		<u>(141,683)</u>	<u>(134,085)</u>
Gross profit		118,096	90,370
Other income and gains	4	7,368	5,005
Administrative expenses		(25,947)	(21,406)
Other expenses		(168)	(445)
Finance costs	6	<u>(6,600)</u>	<u>(6,282)</u>
PROFIT BEFORE TAX	5	92,749	67,242
Income tax expense	7	<u>(23,942)</u>	<u>(17,601)</u>
PROFIT FOR THE PERIOD AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD		<u>68,807</u>	<u>49,641</u>
Attributable to:			
Owners of the parent		60,892	43,582
Non-controlling interests		<u>7,915</u>	<u>6,059</u>
		<u>68,807</u>	<u>49,641</u>
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted (RMB)		<u>0.30</u>	<u>0.22</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2021

		30 June 2021	31 December 2020
		RMB'000	RMB'000
	<i>Notes</i>	(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10</i>	2,981,050	2,545,168
Prepayments for property, plant and equipment		31,025	32,209
Prepayments for land use rights		165	165
Other intangible assets		293	335
Investment in an associate		125,000	125,000
Deferred tax assets		21,665	21,314
Right-of-use assets		407,675	412,222
		<hr/>	<hr/>
Total non-current assets		3,566,873	3,136,413
CURRENT ASSETS			
Inventories		4,341	3,788
Trade receivables	<i>11</i>	117,151	101,586
Prepayments, other receivables and other assets		19,024	13,662
Pledged bank deposits		17,410	17,238
Cash and cash equivalents		343,810	230,369
		<hr/>	<hr/>
Total current assets		501,736	366,643
CURRENT LIABILITIES			
Trade payables	<i>12</i>	60,640	60,145
Other payables and accruals		395,915	343,231
Interest-bearing bank and other borrowings		31,520	193
Deferred government grants		3,261	3,261
Lease liabilities		23,729	20,875
Tax payable		16,834	14,521
Dividend payable		38,392	–
		<hr/>	<hr/>
Total current liabilities		570,291	442,226
		<hr/>	<hr/>
NET CURRENT LIABILITIES		(68,555)	(75,583)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,498,318	3,060,830
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	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES	3,498,318	3,060,830
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	2,372,480	1,963,807
Deferred government grants	75,250	76,886
Other liabilities	1,634	1,634
Total non-current liabilities	<u>2,449,364</u>	<u>2,042,327</u>
Net assets	<u>1,048,954</u>	<u>1,018,503</u>
EQUITY		
Equity attributable to owners of the parent		
Share capital	200,000	200,000
Reserves	662,526	635,634
	<u>862,526</u>	<u>835,634</u>
Non-controlling interests	<u>186,428</u>	<u>182,869</u>
Total equity	<u>1,048,954</u>	<u>1,018,503</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 2021 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 2020.

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 2020, 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 9, HKAS 39, HKFRS 7,
HKFRS 4 and HKFRS 16
Amendment to HKFRS 16

Interest Rate Benchmark Reform-Phase 2

*Covid-19-Related Rent Concessions beyond
30 June 2021 (early adopted)*

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

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“**RFR**”). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest-bearing bank borrowings denominated in foreign currencies.

- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the 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 by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted. The amendment 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.

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 2021 and 2020 are set out below:

	For the six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Customer 1	71,984	60,996
Customer 2	63,568	49,615
Customer 3	45,232	47,352
Customer 4	29,185	24,345

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Cost of inventories sold	136,220	131,835
Cost of services provided	5,463	2,250
Depreciation of property, plant and equipment	26,354	26,076
Depreciation of right-of-use assets	4,493	4,069
Impairment of trade receivables, net	402	1,033
Impairment of financial assets included in prepayments, other receivables and other assets	9	29
Government grants	–	(303)
Exchange differences, net	86	(642)
Gain on disposal of items of property, plant and equipment	(41)	–

6. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Interest on bank borrowings	42,016	27,893
Interest on other borrowings	7,219	8,042
Less: Interest capitalised	(42,635)	(29,653)

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 which was entitled to a preferential income tax rate of 10% (the six months ended 30 June 2020: 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 2020: 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	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax – Mainland China		
Charge for the period	24,293	17,435
Deferred tax	(351)	166
	<hr/>	<hr/>
Total tax charge for the period	23,942	17,601

8. DIVIDENDS

	For the six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Final declared and unpaid – RMB0.17 (2020: RMB0.16) per ordinary share	34,036	31,965

A final dividend of RMB0.17 (equivalent to HK\$0.2050) per ordinary share for the year ended 31 December 2020 of RMB34,036,000 was approved by shareholders of the Company on 23 June 2021 and was paid on 18 August 2021.

The Board did not declare any interim dividend for the six months ended 30 June 2021 (the six months ended 30 June 2020: 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	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	<u>60,892</u>	<u>43,582</u>
	Number of shares	
	For the six months ended 30 June	
	2021	2020
	(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
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Carrying amount at beginning of period/year	2,545,168	1,772,391
Additions	453,080	794,595
Capitalisation of depreciation of right-of-use assets	9,634	31,011
Disposals	(16)	(9)
Depreciation provided during period/year	<u>(26,816)</u>	<u>(52,820)</u>
Carrying amount at end of period/year	<u>2,981,050</u>	<u>2,545,168</u>

11. TRADE RECEIVABLES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade receivables	74,936	62,017
Due from related parties	95,634	92,586
	<hr/>	<hr/>
Impairment	170,570 (53,419)	154,603 (53,017)
	<hr/>	<hr/>
	117,151	101,586

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 2021, certain of the Group's trade receivables with a carrying amount of RMB102,085,000 (31 December 2020: RMB89,146,000) 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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 3 months	109,783	96,995
3 to 6 months	3,145	1,057
6 to 12 months	2,414	735
1 to 2 years	939	2,027
2 to 3 years	870	772
	<hr/>	<hr/>
	117,151	101,586

12. TRADE PAYABLES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade payables	60,640	60,145
	<hr/>	<hr/>

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 3 months	42,187	41,091
3 to 6 months	15,030	15,562
6 to 12 months	13	55
Over 12 months	3,410	3,437
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	60,640	60,145

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 2021 is the first year of implementing the 14th Five-Year Plan and embarking on a new journey to build China into a modern socialist country in all respects. 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 initiated the integration of water supply services in this year. Through the acquisition of equity interests in other water supply companies in Taizhou, the Group will enjoy the benefits of an expanded industrial chain and economic scale, and strengthen its position as a leading water supply service provider in Taizhou.

The Group will try to tap into 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.

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.

On 20 May 2021, the Company entered into a Jiaojiang equity transfer agreement with Taizhou Jiaojiang Urban Development Investment Group Co., Ltd.* (台州市椒江城市發展投資集團有限公司) and a Luqiao equity transfer agreement with Taizhou Luqiao District Urban Construction Group Co., Ltd.* (台州市路橋區城市建設集團有限公司), respectively, to acquire 45% equity interest in each of Taizhou Water Supply Co., Ltd.* (台州自來水有限公司) (“**Taizhou Water Supply**”), Taizhou Jiaobei Water Supply Co., Ltd.* (台州市椒北供水有限公司) (“**Jiaobei Water Supply**”) and Taizhou Luqiao Water Supply Co., Ltd.* (台州市路橋自來水有限公司) (“**Luqiao Water Supply**”). For further details, please refer to the section headed “Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures” in this announcement.

With the expanded water supply network and water supply facilities after the acquisitions, the Group would enjoy the benefits of an expanded ecological chain and economy scale, expand the geographical coverage of the Group’s water supply network in various districts of Taizhou, and improve the overall profitability 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 58.5 million tonnes, representing an increase of 4.3 million tonnes as compared with 54.2 million tonnes for the six months ended 30 June 2020.

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 local municipal water service providers. During the Reporting Period, municipal water sales volume was 70.3 million tonnes, representing an increase of 8.1 million tonnes as compared with 62.2 million tonnes for the six months ended 30 June 2020.

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 4.7 million tonnes for the six months ended 30 June 2020.

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 RMB6.8 million, representing an increase of RMB3.4 million as compared to approximately RMB3.4 million for the six months ended 30 June 2020.

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 to.

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 the South Bay Zone of Taizhou and to provide raw water and municipal water at the same time.

During the Reporting Period, the Group relentlessly pushed the progress of the construction projects. Currently, the construction of comprehensive buildings and the foundation treatment of the water treatment plants of the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV) have been delivered for inspection and acceptance, and the tunnel lining and pipeline installation are progressing as scheduled.

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 increased by RMB35.3 million or 15.7%, from approximately RMB224.5 million for the six months ended 30 June 2020 to approximately RMB259.8 million for the Reporting Period.

(1) Raw water supply

Revenue of the Group generated from sales of raw water increased by RMB5.4 million or 10.0%, from approximately RMB54.1 million for the six months ended 30 June 2020 to approximately RMB59.5 million for the Reporting Period. Such increase was primarily attributable to the increase in sales volume of raw water from 54.2 million tonnes for the six months ended 30 June 2020 due to the impact of the COVID-19 pandemic to 58.5 million tonnes for the Reporting Period.

(2) Municipal water supply

Revenue of the Group generated from sales of municipal water increased by RMB24.2 million or 16.4%, from approximately RMB147.4 million for the six months ended 30 June 2020 to approximately RMB171.6 million for the Reporting Period. The increase was mainly due to (i) the increase in municipal water sales volume from 62.2 million tonnes for the six months ended 30 June 2020 to 70.3 million tonnes for the Reporting Period; and (ii) the increase in the average unit selling price of raw water sold by the Group during the Reporting Period, mainly due to the 10% reduction of the price of raw water sold by the Group to middle and downstream water supply companies based on the actual volume of water sold by such companies to enterprise end-users due to the impact of the COVID-19 pandemic in 2020.

(3) Tap water supply

Revenue of the Group generated from sales of tap water increased by RMB2.3 million or 11.7%, from approximately RMB19.6 million for the six months ended 30 June 2020 to approximately RMB21.9 million for the Reporting Period.

(4) Installation services

Revenue of the Group generated from installation services increased by RMB3.4 million or 100.0%, from approximately RMB3.4 million for the six months ended 30 June 2020 to approximately RMB6.8 million for the Reporting Period, mainly due to the impact of the COVID-19 pandemic during the six months ended 30 June 2020.

1.2 Cost of sales

The Group's cost of sales increased by RMB7.6 million or 5.7%, from approximately RMB134.1 million for the six months ended 30 June 2020 to approximately RMB141.7 million for the Reporting Period. The increase was mainly due to the increase in the raw water procurement fee, primarily attributable to the increase in raw water procurement volume.

1.3 Gross profit and gross profit margin

As a result of the above, the Group's gross profit increased by RMB27.7 million or 30.6%, from approximately RMB90.4 million for the six months ended 30 June 2020 to approximately RMB118.1 million for the Reporting Period. Gross profit margin increased from 40.3% for the six months ended 30 June 2020 to 45.5% for the Reporting Period.

1.4 Other income and gains

Other income and gains increased by RMB2.4 million or 48.0%, from approximately RMB5.0 million for the six months ended 30 June 2020 to approximately RMB7.4 million for the Reporting Period. The increase 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 six-month VAT refund (for the tax period from December 2020 to May 2021) was received for the six months ended 30 June 2021.

1.5 Administrative expenses

Administrative expenses increased by RMB4.5 million or 21.0%, from approximately RMB21.4 million for the six months ended 30 June 2020 to approximately RMB25.9 million for the Reporting Period. Such increase was mainly due to the increase in employee benefit expenses and audit and consultancy fees.

1.6 Finance costs

Finance costs increased by RMB0.3 million or 4.8%, from approximately RMB6.3 million for the six months ended 30 June 2020 to approximately RMB6.6 million for the Reporting Period.

1.7 Income tax expense

Income tax expense increased by RMB6.3 million or 35.8%, from approximately RMB17.6 million for the six months ended 30 June 2020 to approximately RMB23.9 million for the Reporting Period. Such increase was primarily due to the increase in profit before tax.

1.8 Profit after tax and profit margin after tax

As a result of above, profit for the Reporting Period increased by RMB19.2 million or 38.7%, from approximately RMB49.6 million for the six months ended 30 June 2020 to approximately RMB68.8 million for the Reporting Period. Profit margin after tax increased from 22.1% for the six months ended 30 June 2020 to 26.5% 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 2020 and 30 June 2021, property, plant and equipment were approximately RMB2,545.2 million and RMB2,981.1 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 2020 and 30 June 2021, right-of-use assets were approximately RMB412.2 million and RMB407.7 million, respectively.

2.3 Inventories

As at 31 December 2020 and 30 June 2021, inventories were approximately RMB3.8 million and RMB4.3 million, respectively. Inventories mainly comprised raw materials including chemicals used in the water treatment process.

2.4 Trade receivables

As at 31 December 2020 and 30 June 2021, trade receivables were approximately RMB101.6 million and RMB117.2 million, respectively. Trade receivables were related to receivables from customers of the water supply business. The increase in trade receivables was mainly due to the increase in sales of water.

2.5 Prepayments, other receivables and other assets

As at 31 December 2020 and 30 June 2021, prepayments, other receivables and other assets were approximately RMB13.7 million and RMB19.0 million, respectively.

2.6 *Trade payables*

As at 31 December 2020 and 30 June 2021, trade payables were approximately RMB60.1 million and RMB60.6 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 2020 and 30 June 2021, other payables and accruals were approximately RMB343.2 million and RMB395.9 million, respectively. Such increase was mainly due to the increase in other payables for the construction of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV).

2.8 *Deferred government grants*

As at 31 December 2020 and 30 June 2021, deferred government grants were approximately RMB80.1 million and RMB78.5 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 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 2021, cash and bank balance of the Group was approximately RMB343.8 million (as at 31 December 2020: approximately RMB230.4 million). As at 30 June 2021, total borrowings of the Group were approximately RMB2,404.0 million (as at 31 December 2020: approximately RMB1,964.0 million) and included bank and other loans, with 66.3% of bank and other loans at floating rates. As at 30 June 2021, gearing ratio of the Group (total debts divided by total equity as at the end of the period) was 229.2% (as at 31 December 2020: 192.8%). The increase in gearing ratio was mainly due to the increase in bank and other borrowings of approximately RMB440.0 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 2021, the Group did not hold any significant investment in equity interest in any other company (for the six months ended 30 June 2020: nil).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2021 (for the six months ended 30 June 2020: nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

On 20 May 2021, the Company, Taizhou Jiaojiang Urban Development Investment Group Co., Ltd.* (台州市椒江城市發展投資集團有限公司), Taizhou Water Supply and Jiaobei Water Supply entered into an equity transfer agreement, pursuant to which the Company agreed to purchase 45% equity interest in each of Taizhou Water Supply (the “**Taizhou Water Supply Acquisition**”) and Jiaobei Water Supply (the “**Jiaobei Water Supply Acquisition**”) at an aggregate consideration of RMB46.60 million, subject to adjustment.

On 20 May 2021, the Company, Taizhou Luqiao District Urban Construction Group Co., Ltd.* (台州市路橋區城市建設集團有限公司) and Luqiao Water Supply entered into an equity transfer agreement, pursuant to which the Company agreed to purchase 45% equity interest in Luqiao Water Supply at a consideration of RMB124.42 million, subject to adjustment (the “**Luqiao Water Supply Acquisition**”).

The Taizhou Water Supply Acquisition, Jiaobei Water Supply Acquisition and Luqiao Water Supply Acquisition were approved by the Shareholders at the 2021 first extraordinary general meeting of the Company held on 15 July 2021. As at the date of this announcement, the aforementioned acquisitions have not been completed.

For further details, please refer to the announcements of the Company dated 20 May 2021 and 15 July 2021 and the circular of the Company dated 24 June 2021.

Save as disclosed above, the Group did not have any other any material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period (for the six months ended 30 June 2020: nil).

PLEDGE OF THE GROUP’S ASSETS

As at the end of the Reporting Period, the bank borrowings of the Group amounted to approximately RMB2,404.0 million (as at 31 December 2020: approximately RMB1,964.0 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 had unutilised listing proceeds in Hong Kong dollar, and distributed dividends in Hong Kong dollar. The Group recognised net foreign exchange loss of approximately RMB86,000 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 2020: nil).

SUBSEQUENT EVENTS AFTER REPORTING PERIOD

On 15 July 2021, the Company, China Agricultural Development Key Construction Fund Co., Ltd. (中國農發重點建設基金有限公司) (the “**Vendor**”) and Taizhou Zhuxi Reservoir Development Co., Ltd.* (台州市朱溪水庫開發有限公司) (“**Zhuxi Reservoir Development**”) entered into an equity transfer agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to purchase, 9.375% equity interest in Zhuxi Reservoir Development at a consideration of RMB75.0 million. For further details, please refer to the announcement of the Company dated 15 July 2021.

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 2021, the Group had 199 employees (as at 30 June 2020: 189). During the Reporting Period, the employee benefit expenses amounted to approximately RMB31.6 million (for the six months ended 30 June 2020: RMB26.4 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 total net proceeds raised from the initial public offering 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 2021 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 2021	Amount of Net Proceeds utilised during the Reporting Period	Balance of Net Proceeds unutilised as at 30 June 2021	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\$132.79 million	HK\$8.68 million	HK\$17.96 million	On or before 31 December 2021
(ii) For providing funding for the Group’s 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\$132.79 million	HK\$8.68 million	HK\$34.71 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 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 2021.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT FOR 2021 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 2021 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, 25 August 2021

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