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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 2023**

INTERIM RESULTS HIGHLIGHTS:

For the six months ended 30 June 2023:

- Revenue amounted to approximately RMB280.3 million, representing an increase of approximately 18.8% over the corresponding period of last year.
- Loss for the period amounted to approximately RMB62.6 million (for the six months ended 30 June 2022: a profit of approximately RMB37.6 million).
- Loss attributable to owners of the parent amounted to approximately RMB50.4 million (for the six months ended 30 June 2022: a profit attributable to owners of the parent of approximately RMB31.6 million).
- Basic loss per share amounted to approximately RMB0.25 (for the six months ended 30 June 2022: basic earnings per share of approximately RMB0.16).
- The Board did not recommend the distribution of an interim dividend for the six months ended 30 June 2023.

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 2023 (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 2023

	<i>Notes</i>	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Unaudited)
REVENUE	4	280,258	236,020
Cost of sales		<u>(219,300)</u>	<u>(140,296)</u>
Gross profit		60,958	95,724
Other income and gains	4	8,120	5,229
Administrative expenses		(38,950)	(26,176)
Other expenses		(188)	(142)
Finance costs	6	(61,198)	(7,512)
Share of profits and losses of associates		<u>(16,893)</u>	<u>(12,011)</u>
(LOSS)/PROFIT BEFORE TAX	5	(48,151)	55,112
Income tax expense	7	<u>(14,422)</u>	<u>(17,521)</u>
(LOSS)/PROFIT FOR THE PERIOD		<u>(62,573)</u>	<u>37,591</u>
Attributable to:			
Owners of the parent		(50,354)	31,597
Non-controlling interests		<u>(12,219)</u>	<u>5,994</u>
		<u>(62,573)</u>	<u>37,591</u>
(Loss)/earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted (RMB)		<u>(0.25)</u>	<u>0.16</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>(794)</u>	<u>(213)</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		<u>(794)</u>	<u>(213)</u>
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD		(63,367)	37,378
Attributable to:			
Owners of the parent		(51,148)	31,384
Non-controlling interests		<u>(12,219)</u>	<u>5,994</u>
		<u>(63,367)</u>	<u>37,378</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2023

		30 June 2023	31 December 2022
		RMB'000	RMB'000
	<i>Notes</i>	(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10</i>	4,325,657	4,372,312
Prepayments for property, plant and equipment		350	5,449
Prepayments for land use rights		165	165
Other intangible assets		203	270
Investments in associates		504,473	522,160
Deferred tax assets		29,913	26,228
Right-of-use assets		369,661	373,806
		<hr/>	<hr/>
Total non-current assets		5,230,422	5,300,390
CURRENT ASSETS			
Inventories		5,414	5,259
Trade receivables	<i>11</i>	157,939	122,425
Prepayments, other receivables and other assets		27,392	22,030
Pledged bank deposits		17,913	17,785
Cash and cash equivalents		260,023	269,759
		<hr/>	<hr/>
Total current assets		468,681	437,258
CURRENT LIABILITIES			
Trade payables	<i>12</i>	78,800	79,893
Other payables and accruals		1,013,666	1,113,227
Interest-bearing bank and other borrowings		77,325	96,130
Deferred government grants		9,341	9,341
Lease liabilities		18,429	18,829
Tax payable		14,823	16,451
Dividend payable		15,000	–
		<hr/>	<hr/>
Total current liabilities		1,227,384	1,333,871
NET CURRENT LIABILITIES		(758,703)	(896,613)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,471,719	4,403,777
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	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES	4,471,719	4,403,777
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	3,245,292	3,093,519
Deferred government grants	137,290	141,974
Other liabilities	933	1,713
Total non-current liabilities	3,383,515	3,237,206
Net assets	1,088,204	1,166,571
EQUITY		
Equity attributable to owners of the parent		
Share capital	200,000	200,000
Reserves	677,756	743,904
	877,756	943,904
Non-controlling interests	210,448	222,667
Total equity	1,088,204	1,166,571

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 2023 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 2022.

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 2023, the Group's net current liabilities amounted to approximately RMB758,703,000. 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 2022, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

HKFRS 17	<i>Insurance Contracts</i>
Amendments to HKFRS 17	<i>Insurance Contracts</i>
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

The nature and impact of the new and revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group's annual consolidated financial statements.
- (b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. Since the Group has applied the amendments on the treatment of temporary differences arising from lease from beginning, the amendments did not have any impact on the financial position or performance of the Group.

The adoption of amendments to HKAS 12 did not have any impact on the basic and diluted earnings per share attributable to ordinary equity holders of the parent, other comprehensive income and the interim condensed consolidated statements of cash flows for the six months ended 30 June 2023 and 2022.

- (d) Amendments to HKAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

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 2023 and 2022 are set out below:

	For the six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Customer 1	73,077	71,920
Customer 2	69,327	41,342
Customer 3	47,495	45,855
Customer 4	40,354	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	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenue from contracts with customers	280,258	236,020

5. (LOSS)/PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Cost of inventories sold	215,827	132,418
Cost of services provided	3,473	7,878
Depreciation of property, plant and equipment	94,841	26,452
Depreciation of right-of-use assets	7,371	4,414
Amortisation of other intangible assets	67	67
Impairment of trade receivables, net	(237)	102
Impairment of financial assets included in prepayments, other receivables and other assets, net	(1)	6
Government grants	(108)	(199)
Foreign exchange differences, net	(20)	(30)
(Gain)/loss on disposal of items of property, plant and equipment	(385)	32

6. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Interest on bank borrowings	59,945	61,328
Interest on other borrowings	6,105	7,219
Less: Interest capitalised	(4,852)	(61,035)

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.* (“**Taizhou Environmental Development**”), the provision for current income tax in Mainland China was based on the statutory rate of 25% (2022: 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 is qualified as a small and micro enterprise and was entitled to a preferential income tax rate of 5% (2022: 2.5%) for the taxable income less than or equal to RMB1,000,000 and a preferential income tax rate of 5% (2022: 5%) 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	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax – Mainland China		
Charge for the period	18,107	18,916
Deferred tax	(3,685)	(1,395)
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Total tax charge for the period	14,422	17,521
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8. DIVIDENDS

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Final declared and unpaid – RMB0.075 (2022: RMB0.17) per ordinary share	15,000	34,000
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The Board did not declare any interim dividend for the six months ended 30 June 2023 (the six months ended 30 June 2022: nil).

9. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share amounts is based on the (loss)/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.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2023 and 2022.

The calculations of basic and diluted (loss)/earnings per share are based on:

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(Loss)/earnings		
(Loss)/profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	(50,354)	31,597
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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 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 3 months	124,828	101,854
3 to 6 months	31,025	19,023
6 to 12 months	1,636	1,045
1 to 2 years	396	503
2 to 3 years	54	–
	<u>157,939</u>	<u>122,425</u>

12. TRADE PAYABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade payables	<u>78,800</u>	<u>79,893</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 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 3 months	61,901	52,918
3 to 6 months	2,825	18,956
6 to 12 months	6,511	4,224
Over 12 months	7,563	3,795
	<u>78,800</u>	<u>79,893</u>

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In 2020, the Party Central Committee published the 14th Five-Year Plan* (「十四五」規劃), 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”* (《台州市「十四五」水安全保障規劃》), 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 2023 is the third 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. With the fundamental goal of improving the water security guarantee capability in the southern area of Taizhou, the Group strives for excellence in the construction and management of water resource allocation projects this year.

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), the Taizhou Water Supply System (Phase II), the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV), with a designed raw water supply capacity of approximately 1,220,000 tonnes per day, and a designed municipal water supply capacity of 750,000 tonnes per day in southern 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. The Taizhou Water Supply System (Phase III) has a raw water supply capacity of 480,000 tonnes per day, including a raw water supply capacity of 150,000 tonnes per day for the Taizhou Water Supply System (Phase IV). During the Reporting Period, the raw water sales volume was 64.5 million tonnes, representing an increase of 5.6 million tonnes as compared with 58.9 million tonnes for the six months ended 30 June 2022.

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. The water treatment plant in the East Zone of the Taizhou Water Supply System (Phase III) has a designed municipal water supply capacity of 284,000 tonnes per day and the South Bay water treatment plant of the Taizhou Water Supply System (Phase IV) has a designed municipal water supply capacity of 100,000 tonnes per day. During the Reporting Period, municipal water sales volume was 76.0 million tonnes, representing an increase of 17.3 million tonnes as compared with 58.7 million tonnes for the six months ended 30 June 2022.

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 5.3 million tonnes, as compared to 5.2 million tonnes for the six months ended 30 June 2022.

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 RMB4.1 million, representing a decrease of RMB7.8 million as compared to approximately RMB11.9 million for the six months ended 30 June 2022.

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 put into operation in October 2022.

The construction of the Taizhou Water Supply System (Phase IV) commenced in November 2018 and put into operation in August 2022.

During the Reporting Period, the Group was actively promoting the inspections, rectification and settlement of the tender section works of the Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV). Meanwhile, the Group initiated the approval of changes in the construction of the Taizhou Water Supply System (Phase III) and the adjustment of the estimate.

In addition, on 31 March 2023, the Board resolved to approve the potential construction works in respect of the construction and installation of water supply pipeline from Taizhou Water Treatment Plant to Jiaojiang District (Luqiao section) (the "**Potential Construction Works**"). Taizhou City Water Co., Ltd. shall select the potential contractor to conduct the Potential Construction Works by way of tender. The tender document in respect of the Potential Construction Works were submitted to and made available on the government's website of Taizhou Public Resource Trading Network (台州市公共資源交易網) on 7 June 2023. The Company will hold a separate general meeting to seek the approval from the shareholders of the Company (the "**Shareholders**") with respect to the Potential Construction Works in due course. For further details of the Potential Construction Works, please refer to the announcements of the Company dated 31 March 2023 and 30 May 2023.

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 RMB44.3 million or 18.8%, from approximately RMB236.0 million for the six months ended 30 June 2022 to approximately RMB280.3 million for the Reporting Period.

(1) Raw water supply

Revenue of the Group generated from sales of raw water increased by RMB10.1 million or 16.9%, from approximately RMB59.7 million for the six months ended 30 June 2022 to approximately RMB69.8 million for the Reporting Period.

(2) Municipal water supply

Revenue of the Group generated from sales of municipal water increased by RMB40.9 million or 28.8%, from approximately RMB142.1 million for the six months ended 30 June 2022 to approximately RMB183.0 million for the Reporting Period. The increase was mainly attributable to the commencement of operations in the second half of 2022 for both the Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV), managed by Taizhou Binhai Water Co., Ltd. (the “**Binhai Water**”) and Taizhou South Bay Water Supply Co., Ltd. (the “**South Bay Water**”), respectively. As at the date of this announcement, both Binhai Water and South Bay Water are subsidiaries of the Company. As a result, the Group’s municipal water sales volume increased from 58.7 million tonnes for the six months ended 30 June 2022 to 76.0 million tonnes for the Reporting Period.

(3) Tap water supply

Revenue of the Group generated from sales of tap water increased by RMB1.1 million or 4.9%, from approximately RMB22.3 million for the six months ended 30 June 2022 to approximately RMB23.4 million for the Reporting Period.

(4) Installation services

Revenue of the Group generated from installation services decreased by RMB7.8 million or 65.5%, from approximately RMB11.9 million for the six months ended 30 June 2022 to approximately RMB4.1 million for the Reporting Period. The decrease was mainly due to the decrease of municipal mains installation projects.

1.2 Cost of sales

The Group's cost of sales increased by RMB79.0 million or 56.3%, from approximately RMB140.3 million for the six months ended 30 June 2022 to approximately RMB219.3 million for the Reporting Period. The increase was mainly due to the increase of depreciation after the Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV) were put into operation.

1.3 Gross profit and gross profit margin

As a result of the above, the Group's gross profit decreased by RMB34.7 million or 36.3%, from approximately RMB95.7 million for the six months ended 30 June 2022 to approximately RMB61.0 million for the Reporting Period. Gross profit margin decreased from 40.6% for the six months ended 30 June 2022 to 21.8% for the Reporting Period.

1.4 Other income and gains

Other income and gains increased by RMB2.9 million or 55.8%, from approximately RMB5.2 million for the six months ended 30 June 2022 to approximately RMB8.1 million for the Reporting Period. The increase was mainly due to the increase in revenue of Binhai Water for the Reporting Period, resulting in the increase of VAT refund.

1.5 Administrative expenses

Administrative expenses increased by RMB12.8 million or 48.9%, from approximately RMB26.2 million for the six months ended 30 June 2022 to approximately RMB39.0 million for the Reporting Period because the wages and other expenses originally included in the construction-in-progress were transferred to administrative expenses after the Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV) were put into operation.

1.6 Finance costs

Finance costs increased by RMB53.7 million or 716.0%, from approximately RMB7.5 million for the six months ended 30 June 2022 to approximately RMB61.2 million for the Reporting Period. The increase was mainly due to that the interest originally capitalized is expensed after the Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV) were put into operation.

1.7 Income tax expense

Income tax expense decreased by RMB3.1 million or 17.7%, from approximately RMB17.5 million for the six months ended 30 June 2022 to approximately RMB14.4 million for the Reporting Period. Such decrease was primarily due to the decrease in profit before tax.

1.8 Loss after tax and loss margin after tax

During the Reporting Period, the Company recorded a loss after tax of approximately RMB62.6 million as compared with a profit after tax of approximately RMB37.6 million for the six months ended 30 June 2022. Further, the Company's loss margin after tax for the six months ended 30 June 2023 was 22.3% as compared with a profit margin after tax of 15.9% for the six months ended 30 June 2022. The turnaround of result from profit to loss was mainly due to the commencement of operations of Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV). As these construction projects have been completed and converted into fixed assets of the Group, the interests originally capitalized are currently recognized as expenses. In addition, there has been a substantial increase in the depreciation of fixed assets.

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

2.1 Property, plant and equipment

As at 31 December 2022 and 30 June 2023, property, plant and equipment were approximately RMB4,372.3 million and RMB4,325.7 million, respectively, and mainly comprised construction in progress, water supply pipelines, buildings, machinery and equipment for water supply business. The decrease was primarily attributable to the depreciation on fixed assets.

2.2 Right-of-use assets

As at 31 December 2022 and 30 June 2023, right-of-use assets were approximately RMB373.80 million and RMB369.7 million, respectively.

2.3 Inventories

As at 31 December 2022 and 30 June 2023, inventories were approximately RMB5.3 million and RMB5.4 million, respectively. Inventories mainly comprised chemicals used in the water treatment process.

2.4 Trade receivables

As at 31 December 2022 and 30 June 2023, trade receivables were approximately RMB122.4 million and RMB157.9 million, respectively. Trade receivables were related to receivables from customers of the water supply business. The increase in trade receivables was due to the increase in revenue of raw water supply and municipal water supply.

2.5 Prepayments, other receivables and other assets

As at 31 December 2022 and 30 June 2023, prepayments, other receivables and other assets were approximately RMB22.0 million and RMB27.4 million, respectively.

2.6 Trade payables

As at 31 December 2022 and 30 June 2023, trade payables were approximately RMB79.9 million and RMB78.8 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 2022 and 30 June 2023, other payables and accruals were approximately RMB1,113.2 million and RMB1,013.7 million, respectively.

2.8 Deferred government grants

As at 31 December 2022 and 30 June 2023, deferred government grants were approximately RMB151.3 million and RMB146.6 million, respectively. Such decrease was mainly due to amortization.

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 2023, cash and bank balance of the Group was approximately RMB260.0 million (as at 31 December 2022: approximately RMB269.8 million). As at 30 June 2023, total borrowings of the Group were approximately RMB3,322.6 million (as at 31 December 2022: approximately RMB3,189.6 million) and included bank and other loans, with 86.2% of bank and other loans at floating rates. As at 30 June 2023, gearing ratio of the Group (total debts divided by total equity as at the end of the period) was 305.3% (as at 31 December 2022: 273.4%). The increase in gearing ratio was mainly due to the increase in bank and other borrowings of approximately RMB152.0 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 2023, the Group did not hold any significant investment in equity interest in any other company (for the six months ended 30 June 2022: nil).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2023 (for the six months ended 30 June 2022: nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

On 19 April 2023, the Company and Zhejiang Yongan Water Group Co., Ltd.* (浙江永安水務集團有限公司) (the “**Zhejiang Yongan**”), a third party independent of the Company, its subsidiaries and its connected persons, entered into a joint venture agreement in relation to the formation of Zhejiang Xianzhiquan Water Co., Ltd.* (浙江仙之泉水業有限公司) (the “**Joint Venture Company**”). The Board considers that there is significant demand for healthy drinking spring water in the Yangtze River Delta region. The Directors consider that the formation of the Joint Venture Company will provide an opportunity for the Group to take advantage of the natural spring water reserves of the Tianshi Town, Xianju County (仙居縣田市鎮) for the purpose of commercializing bottled water under the Joint Venture Company’s own brand and sales channel. As at the date of this announcement, the Company owns 51% equity interest in the Joint Venture Company. The Joint Venture Company is a non-wholly owned subsidiary of the Company, and its financial results are consolidated into the Group’s consolidated financial statements. For further details, please refer to the circular of the Company dated 31 May 2023.

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 RMB3,322.6 million (as at 31 December 2022: approximately RMB3,189.6 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 RMB19,904 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 2022: 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 2023, the Group had 246 employees (as at 30 June 2022: 230). During the Reporting Period, the employee benefit expenses amounted to approximately RMB41.6 million (for the six months ended 30 June 2022: RMB36.6 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 2023.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT FOR 2023 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 2023 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 2023

As at the date of this announcement, the executive Directors are Mr. Yang Jun and Mr. Pan Gang; the non-executive Directors are Mr. Lin Genman, Ms. Fang Ya, Mr. Yu Yangbin, Mr. Ye Xiaofeng, Mr. Yang Yide, Mr. Guo Dingwen, Mr. Lin Yang and Mr. Shao Aiping; 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*