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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)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

ANNUAL RESULTS HIGHLIGHTS:

- Revenue from the Continuing Operations for the year amounted to approximately RMB472.1 million, representing a decrease of approximately 6.4% from the year ended 31 December 2018.
- Profit from the Continuing Operations for the year amounted to approximately RMB104.5 million, representing a decrease of approximately 13.1% from the year ended 31 December 2018.
- Profit attributable to owners of the Company for the year amounted to approximately RMB92.5 million, representing a decrease of approximately 16.3% from the year ended 31 December 2018.
- Basic earnings per share for the year amounted to approximately RMB0.62, representing a decrease of approximately 16.2% from the year ended 31 December 2018.
- The Board proposed the payment of final dividends of RMB0.16 per share (tax inclusive) for the year ended 31 December 2019.

The board of directors (the “**Board**”) of Taizhou Water Group Co., Ltd. (the “**Company**”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2019 (the “**Reporting Period**”). The content of this annual results announcement has been prepared in accordance with applicable disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) in relation to preliminary announcements of annual results which is prepared in accordance with the Hong Kong Financial Reporting Standards (the “**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). Such annual 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**”).

* For identification purposes only

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	<i>Notes</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
CONTINUING OPERATIONS			
REVENUE	4	472,148	504,263
Cost of sales		<u>(284,616)</u>	<u>(306,986)</u>
Gross profit		187,532	197,277
Other income and gains	4	12,949	27,370
Administrative expenses		(43,856)	(34,672)
Other expenses		(747)	(2,560)
Finance costs		<u>(15,399)</u>	<u>(26,628)</u>
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS			
	5	140,479	160,787
Income tax expense	6	<u>(35,958)</u>	<u>(40,537)</u>
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS			
		104,521	120,250
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations	7	<u>–</u>	<u>3,248</u>
PROFIT FOR THE YEAR AND OTHER COMPREHENSIVE INCOME FOR THE YEAR			
		<u>104,521</u>	<u>123,498</u>
Attributable to:			
Owners of the parent		92,540	110,450
Non-controlling interests		<u>11,981</u>	<u>13,048</u>
		<u>104,521</u>	<u>123,498</u>
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted (RMB)			
– For profit for the year		<u>0.62</u>	<u>0.74</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	<i>Notes</i>	2019 RMB'000	2018 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10</i>	1,772,391	1,037,070
Prepayments for property, plant and equipment		11,797	46,780
Prepayments for land use rights		52,612	62,664
Investment in an associate		125,000	59,600
Deferred tax assets		20,865	21,358
Right-of-use assets	<i>11</i>	384,484	264,045
Total non-current assets		2,367,149	1,491,517
CURRENT ASSETS			
Inventories		4,432	4,213
Trade receivables	<i>12</i>	104,038	109,190
Prepayments, other receivables and other assets		172,610	18,982
Pledged bank deposits		16,742	14,877
Cash and cash equivalents		264,357	314,398
Total current assets		562,179	461,660
CURRENT LIABILITIES			
Trade payables	<i>13</i>	76,809	68,471
Other payables and accruals		299,791	160,680
Interest-bearing bank and other borrowings		55,000	22,786
Deferred government grants		3,261	2,725
Lease liabilities	<i>11</i>	19,372	19,291
Tax payable		12,458	17,003
Total current liabilities		466,691	290,956
NET CURRENT ASSETS		95,488	170,704
TOTAL ASSETS LESS CURRENT LIABILITIES		2,462,637	1,662,221

	<i>Note</i>	2019 RMB'000	2018 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		2,462,637	1,662,221
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		1,479,000	982,000
Deferred government grants		80,176	33,758
Other liabilities		1,242	1,086
Total non-current liabilities		1,560,418	1,016,844
Net assets		902,219	645,377
EQUITY			
Equity attributable to owners of the parent			
Share capital	<i>14</i>	200,000	150,000
Reserves		564,550	369,689
		764,550	519,689
Non-controlling interests		137,669	125,688
Total equity		902,219	645,377

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE 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

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. All HKFRSs effective for the accounting period commencing from 1 January 2019, including HKFRS 16 Leases, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the financial statements throughout the years. They 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2019. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

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*

During the Reporting Period, 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 during the Reporting Period is set out below:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Customer 1	139,917	136,825
Customer 2	104,683	123,417
Customer 3	94,358	97,118
Customer 4	N/A*	56,125

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

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue from continuing operations is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue from contracts with customers	<u>472,148</u>	<u>504,263</u>

Revenue from contracts with customers

(a) *Disaggregated revenue information*

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Type of goods or services		
Sale of water	461,215	497,333
Installation services	<u>10,933</u>	<u>6,930</u>
Total revenue from contracts with customers	<u>472,148</u>	<u>504,263</u>
Timing of revenue recognition		
Goods transferred at a point in time	461,215	497,333
Services transferred over time	<u>10,933</u>	<u>6,930</u>
Total revenue from contracts with customers	<u>472,148</u>	<u>504,263</u>

(b) **Contract liabilities**

The Group recognised the following revenue-related contract liabilities:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Current	<u>1,683</u>	<u>4,110</u>

Contract liabilities represented the obligations to transfer goods to a customer for which the Group has received consideration. The amount was included in “Other payables and accruals” in the consolidated statement of financial position.

(i) *Significant changes in contract liabilities*

The changes in the contract liabilities are mainly attributable to the short-term advances received to transfer goods to customers and satisfaction of performance obligations.

(ii) *Revenue recognised in relation to contract liabilities*

The following table shows the amounts of revenue recognised during the current reporting period that were included in the contract liabilities at the beginning of the Reporting Period and recognised from performance obligations satisfied in previous periods:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the Reporting Period:		
Installation services	<u>4,110</u>	<u>16,982</u>

(c) **Performance obligations**

Information about the Group’s performance obligations is summarised below:

Sale of water

The performance obligation is satisfied upon delivery of the water and payment is generally due within two months.

Installation services

The performance obligation is satisfied over time as services are rendered and payment is generally due upon completion of installation and customer acceptance.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Amounts expected to be recognised as revenue:		
Within one year	<u>7,790</u>	<u>479</u>

All the amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Other income		
Bank interest income	1,227	1,574
Interest income from loans to related parties	-	6,384
Government grants	1,087	5,584
Value added tax refund	10,084	11,550
Others	530	1,452
	<u>12,928</u>	<u>26,544</u>
Gains		
Gain on disposal of items of property, plant and equipment	21	826
	<u>12,949</u>	<u>27,370</u>

5. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Cost of inventories sold*	277,230	302,530
Cost of services provided	7,386	4,456
Depreciation of property, plant and equipment	53,110	66,884
Depreciation of right-of-use assets	6,755	4,630
Impairment of trade receivables, net	1,252	45
Impairment of financial assets included in prepayments, other receivables and other assets	2	-
Government grants**	(1,087)	(5,584)
Auditor's remuneration	1,745	850
Employee benefit expense (excluding directors', chief executive's and supervisors' remuneration):		
Wages and salaries	42,021	40,410
Pension scheme contributions	5,408	7,374
Staff welfare expenses	6,540	5,382
	<u>53,969</u>	<u>53,166</u>
Gain on disposal of items of property, plant and equipment	(21)	(826)
Listing expenses	2,322	-

* The cost of inventories sold includes RMB88,471,000 (2018: RMB102,319,000) relating to staff costs, depreciation of property, plant and equipment, and depreciation of right-of-use assets for the year, which are also included in the respective total amounts disclosed above for each type of expenses.

** The government grants mainly represent compensation by the local governments to support the Group's operation in Taizhou City, the PRC. There were no unfulfilled conditions or contingencies attached to these government grants.

6. INCOME TAX EXPENSE

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 year, except for Taizhou Environmental Development which was entitled to a preferential income tax rate of 10% (2018: 10%) for small and micro enterprises, the provision for current income tax in Mainland China was based on the statutory rate of 25% (2018: 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:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Current tax – Mainland China		
Charge for the year	35,465	42,869
Deferred tax	493	(1,494)
	<hr/>	<hr/>
Total tax charge for the year from continuing operations	35,958	40,537
Total tax charge for the year from discontinued operations	–	838
	<hr/>	<hr/>
	35,958	41,375

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	2019 <i>RMB'000</i>		2018 <i>RMB'000</i>	
		%		%
Profit before tax from continuing operations	140,479		160,787	
Profit before tax from discontinued operations	–		4,086	
	<hr/>		<hr/>	
	140,479		164,873	
	<hr/>		<hr/>	
Tax at the statutory tax rate of 25% in Mainland China	35,120	25.0	41,218	25.0
Income not subject to tax	–	–	(419)	(0.3)
Effect of non-deductible expenses	82	0.1	1,124	0.7
Tax losses not recognised	1,275	0.9	659	0.4
Tax losses utilised from previous years	(427)	(0.3)	(1,218)	(0.7)
Lower tax rate for specific provinces or enacted by local authority	(92)	(0.1)	–	–
Temporary differences not recognised	–	–	11	–
	<hr/>		<hr/>	
Tax charge at the Group's effective rate	35,958	25.6	41,375	25.1
	<hr/>		<hr/>	
Tax charge from continuing operations at the effective rate	35,958	25.6	40,537	25.2
	<hr/>		<hr/>	
Tax charge from discontinued operations at the effective rate	–	–	838	20.5
	<hr/>		<hr/>	

7. DISCONTINUED OPERATIONS

On 7 November 2018, the Company transferred its entire interest in Zhejiang Taizhou Landscape Engineering Co., Ltd. (“Zhejiang Taizhou Landscape”) and Taizhou Modern Construction and Engineering Co., Ltd. (“Taizhou Modern Construction”) to Taizhou Development Investment Co., Ltd. (“Taizhou Development”), which are principally engaged in the construction of public work and the landscape business (“Landscape and Construction Business”) for considerations of RMB7,020,000 and RMB12,670,000, respectively. The disposal of Zhejiang Taizhou Landscape and Taizhou Modern Construction was completed on 15 November 2018.

The results of the discontinued operations for the year ended 31 December 2018 are presented below:

	Landscape and Construction Business RMB'000
Revenue	13,872
Cost of sales	<u>(12,369)</u>
Gross profit	<u>1,503</u>
Other income and gains	5,116
Administrative expenses	(2,531)
Other expenses	<u>(2)</u>
Profit before tax from discontinued operations	4,086
Income tax expense (<i>note 6</i>)	<u>(838)</u>
Profit for the year from discontinued operations	<u><u>3,248</u></u>
Attributable to:	
Owners of the parent	<u><u>3,248</u></u>

The net cash flows incurred by the discontinued operations for the year ended 31 December 2018 are as follows:

	Landscape and Construction Business RMB'000
Operating activities	(4,224)
Investing activities	<u>47</u>
Net cash outflow	<u><u>(4,177)</u></u>

The calculations of basic and diluted earnings per share from the discontinued operations for the year ended 31 December 2018 are based on:

	2018
Earnings per share:	
– Basic and diluted, from discontinued operations (RMB)	<u>0.02</u>
Profit attributable to ordinary equity holders of the parent from discontinued operations (RMB)	<u>3,248,000</u>
Weighted average number of ordinary shares in issue during the year	<u>150,000,000</u>

The Group's profit before tax from discontinued operations for the year ended 31 December 2018 is arrived at after charging:

	2018 <i>RMB'000</i>
Cost of services provided	12,369
Depreciation of property, plant and equipment	198
Depreciation of right-of-use assets	18
Impairment of trade receivables, net	75
Impairment of financial assets included in prepayments, other receivables and other assets	266
Auditor's remuneration	61
Employee benefit expense (excluding directors', chief executive's and supervisors' remuneration):	
Wages and salaries	1,372
Pension scheme contributions	186
Staff welfare expenses	<u>267</u>
	<u>1,825</u>
Gain on disposal of items of property, plant and equipment	(76)
Gain on disposal of subsidiaries	<u>(4,955)</u>

8. DIVIDENDS

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Proposed final – RMB0.16 (2018: Nil) per ordinary share	<u>32,000,000</u>	<u>–</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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 year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

There were no potentially dilutive ordinary shares in issue during the year 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:

	2019	2018
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation:		
From continuing operations	92,540	107,202
From discontinued operations (note 7)	–	3,248
	92,540	110,450
Number of shares		
	2019	2018
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	150,137,000	150,000,000

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Pipelines	Machinery and equipment	Computer and office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2018								
At 1 January 2018:								
Cost	413,784	632,719	264,034	53,157	11,973	138	177,903	1,553,708
Accumulated depreciation	(178,669)	(367,249)	(203,524)	(45,912)	(9,316)	(46)	–	(804,716)
Net carrying amount	235,115	265,470	60,510	7,245	2,657	92	177,903	748,992
At 1 January 2018, net of accumulated depreciation								
Additions	783	–	2,566	3,311	6,935	264	330,768	344,627
Capitalisation of depreciation of right-of-use assets (note 11(a))	–	–	–	–	–	–	12,610	12,610
Disposals	(26)	(14)	(100)	(55)	(358)	–	–	(553)
Disposal of subsidiaries	(522)	–	(2)	(41)	(447)	(37)	–	(1,049)
Depreciation provided during the year	(20,906)	(22,362)	(19,648)	(3,468)	(1,105)	(68)	–	(67,557)
Transfers	3,063	2,125	–	734	–	–	(5,922)	–
At 31 December 2018, net of accumulated depreciation	217,507	245,219	43,326	7,726	7,682	251	515,359	1,037,070
At 31 December 2018:								
Cost	416,207	634,373	263,249	55,185	10,545	266	515,359	1,895,184
Accumulated depreciation	(198,700)	(389,154)	(219,923)	(47,459)	(2,863)	(15)	–	(858,114)
Net carrying amount	217,507	245,219	43,326	7,726	7,682	251	515,359	1,037,070

	Buildings RMB'000	Pipelines RMB'000	Machinery and equipment RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019								
At 1 January 2019:								
Cost	416,207	634,373	263,249	55,185	10,545	266	515,359	1,895,184
Accumulated depreciation	(198,700)	(389,154)	(219,923)	(47,459)	(2,863)	(15)	-	(858,114)
Net carrying amount	<u>217,507</u>	<u>245,219</u>	<u>43,326</u>	<u>7,726</u>	<u>7,682</u>	<u>251</u>	<u>515,359</u>	<u>1,037,070</u>
At 1 January 2019, net of accumulated depreciation	217,507	245,219	43,326	7,726	7,682	251	515,359	1,037,070
Additions	3,225	-	10,596	4,423	752	-	736,839	755,835
Capitalisation of depreciation of right-of-use assets (note 11(a))	-	-	-	-	-	-	44,360	44,360
Disposals	(2,748)	(39)	(7,942)	(18)	(3)	-	-	(10,750)
Depreciation provided during the year	(21,215)	(22,268)	(6,549)	(2,180)	(1,824)	(88)	-	(54,124)
Transfers	-	2,828	-	487	-	-	(3,315)	-
At 31 December 2019, net of accumulated depreciation	<u>196,769</u>	<u>225,740</u>	<u>39,431</u>	<u>10,438</u>	<u>6,607</u>	<u>163</u>	<u>1,293,243</u>	<u>1,772,391</u>
At 31 December 2019:								
Cost	416,537	635,923	262,027	59,508	11,185	266	1,293,243	2,678,689
Accumulated depreciation	(219,768)	(410,183)	(222,596)	(49,070)	(4,578)	(103)	-	(906,298)
Net carrying amount	<u>196,769</u>	<u>225,740</u>	<u>39,431</u>	<u>10,438</u>	<u>6,607</u>	<u>163</u>	<u>1,293,243</u>	<u>1,772,391</u>

11. LEASES

The Group as a lessee

The Group has lease contracts for land used in its operations with lease periods of 2 to 50 years. Lump sum payments were made upfront to acquire certain of these land leases, and no ongoing payments will be made under the terms of these land leases. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

	Lands RMB'000	Total RMB'000
As at 1 January 2018	221,750	221,750
Additions	59,553	59,553
Depreciation recognised in profit or loss during the year	(4,648)	(4,648)
Depreciation capitalised in property, plant and equipment during the year (note 10)	(12,610)	(12,610)
As at 31 December 2018 and 1 January 2019	264,045	264,045
Additions	171,554	171,554
Depreciation recognised in profit or loss during the year	(6,755)	(6,755)
Depreciation capitalised in property, plant and equipment during the year (note 10)	(44,360)	(44,360)
As at 31 December 2019	<u>384,484</u>	<u>384,484</u>

(b) Lease liabilities

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Carrying amount at 1 January	19,291	1,760
Additions	171,554	59,553
Transfer from prepayments for land use rights	(10,052)	–
Payments during the year	(161,421)	(42,022)
	<u>19,372</u>	<u>19,291</u>
Carrying amount at 31 December	<u>19,372</u>	<u>19,291</u>
Analysed into:		
Current portion	<u>19,372</u>	<u>19,291</u>

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Depreciation charge of right-of-use assets	<u>6,755</u>	<u>4,648</u>

12. TRADE RECEIVABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade receivables	61,036	63,019
Due from related parties	94,240	96,157
	<u>155,276</u>	<u>159,176</u>
Impairment	(51,238)	(49,986)
	<u>104,038</u>	<u>109,190</u>

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

As at 31 December 2019, certain of the Group's trade receivables with a carrying amount of RMB92,615,000 (2018: RMB93,648,000), 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:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Within 3 months	97,752	89,817
3 to 6 months	2,713	10,893
6 to 12 months	1,304	8,057
1 to 2 years	2,041	121
2 to 3 years	228	302
	<u>104,038</u>	<u>109,190</u>

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
At beginning of year	49,986	50,444
Impairment losses recognised	1,252	120
Disposal of subsidiaries	–	(578)
	<hr/>	<hr/>
At end of year	51,238	49,986
	<hr/>	<hr/>

The Group has applied the simplified approach to provide for expected credit losses under HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the credit risk characteristics and the days past due of each group of trade receivables to measure the expected credit losses. The Group considers the historical loss rate and adjusts for forward-looking macroeconomic data in calculating the expected credit loss rate. The expected credit losses were determined according to provision matrix as follows:

	Gross carrying amount <i>RMB'000</i>	Expected credit loss rate	Expected credit losses <i>RMB'000</i>
As at 31 December 2018			
Less than 1 year	108,978	0.19%	207
Between 1 and 2 years	156	22.44%	35
Over 2 years	1,362	78.12%	1,064
Default receivables	48,680	100.00%	48,680
	<hr/>		<hr/>
	159,176		49,986
	<hr/>		<hr/>
As at 31 December 2019			
Less than 1 year	102,020	0.24%	245
Between 1 and 2 years	3,255	33.64%	1,095
Over 2 years	1,321	92.20%	1,218
Default receivables	48,680	100.00%	48,680
	<hr/>		<hr/>
	155,276		51,238
	<hr/>		<hr/>

13. TRADE PAYABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade payables	76,809	68,471

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

	As at 31 December	
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Within 3 months	40,127	42,764
3 to 6 months	20,045	21,607
6 to 12 months	13,143	597
Over 12 months	3,494	3,503
	76,809	68,471

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

14. SHARE CAPITAL

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Issued and fully paid:		
Domestic shares of 150,000,000 (2018: 150,000,000) of RMB1.00 each	150,000	150,000
H shares of 50,000,000 (2018: Nil) of RMB1.00 each	50,000	–
	200,000	150,000

All domestic shares and H shares rank pari passu with each other in terms of dividend and voting rights.

A summary of movements in the Company's share capital is as follows:

	Number of share in issue	Share capital <i>RMB'000</i>
At 1 January 2018	149,130,000	149,130
Transfer from retained profits (<i>note (a)</i>)	68,600,000	68,600
Derecognition of subsidiaries (<i>note (b)</i>)	(67,730,000)	(67,730)
	<hr/>	<hr/>
At 31 December 2018 and 1 January 2019	150,000,000	150,000
Initial public offering (<i>note (c)</i>)	50,000,000	50,000
	<hr/>	<hr/>
At 31 December 2019	<u>200,000,000</u>	<u>200,000</u>

Notes:

- (a) Pursuant to the resolution of shareholders' meeting on 12 March 2017, the shareholders agreed to transfer the retained profits of RMB68,600,000 to the share capital.
- (b) As a result of the derecognition of the property development and leasing businesses by transferring five non-wholly owned PRC subsidiaries to a new company formed by the Company's shareholders which was completed on 11 October 2017, the share capital of the Company was reduced by RMB67,730,000.
- (c) On 31 December 2019, 50,000,000 ordinary shares of par value RMB1.00 each were issued at a price of HK\$4.22 per share in connection with the Company's initial public offering. The proceeds of HK\$211,000,000 (equivalent to approximately RMB188,902,000), representing the par value, were credited to the Company's share capital. The remaining proceeds of approximately HK\$155,151,000 (equivalent to approximately RMB138,902,000) before issuing expenses were credited to the capital reserve account. As at 31 December 2019, out of the total proceeds above, the Company received an amount of HK\$21,100,000 (equivalent to approximately RMB18,851,000) in connection with the Hong Kong public offering of 5,000,000 H shares at a price of HK\$4.22 per share and the remaining proceeds of HK\$189,900,000 (equivalent to RMB170,011,000) is received in January 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

As one of the most water deficient countries in the world, China will not have a change in the circumstance of uneven water distribution and low per capita water availability in the short term. The water industry is a core part of China's public service and environmental industry, and supply of raw water and production and supply of municipal water and tap water are two key components of the industry value chain. With its social and economic development, rising urbanisation rate and expanding non-governmental financing, China will have a larger water supply gap and a greater future demand for reliable and safe water.

China's water industry has continuously enjoyed strong policy support in recent years. The Chinese government has enacted a series of incentive policies such as the 13th Five-Year Plan For National Municipal Infrastructure Construction (《全國城市市政基礎設施建設「十三五」》) to support the development of municipal water and raw water supply market. In 2018, Zhejiang provincial government announced the Action Plan for Zhejiang Greater Bay Area Construction (《浙江省大灣區建設行動計劃》) to greatly develop the economic zone covering Hangzhou, Ningbo, Wenzhou, Huzhou, Jiaxing, Shaoxing, Zhoushan and Taizhou. As population in these regions increases, the expected construction and growth of such regions will boost the municipal water and raw water supply market. In the meantime, Taizhou government issued the Taizhou Bay Area Economic Development Pilot Area Construction Action Plan (《台州灣區經濟發展實驗區建設行動計劃》) and the Industrial Development Plan of Taizhou Bay Area (《台州灣區產業發展規劃》) to further promote the development of greater bay area in Taizhou. All of these efforts aim to improve the infrastructure of Taizhou, and also stimulate the total water demand of the city.

DEVELOPMENT STRATEGIES AND OUTLOOK

In 2019, while operating the Taizhou Water Supply System (Phase I) and the Taizhou Water Supply System (Phase II) in a sustainable manner, the Group advanced its own development through the extension of the water supply network and geographic coverage in Taizhou. In order to enhance the stability and security of water supply and resolve the general water shortage issue in the Taizhou Bay Economic Zone and the South Area of Taizhou, the Group had obtained approval from the Taizhou Development and Reform Commission (台州發展和改革委員會) to develop the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV), both of which were accredited as the Zhejiang Province Key Construction Project (浙江省重點建設項目). The Group strengthened these two on-site project management and focused on the quality control to ensure that the projects will complete and commence trial operation as scheduled. Upon the completion and operation of these projects, the Group will witness a great improvement of raw water and tap water supply capacity.

While consolidating its own strength, the Group also actively expanded its downstream business to build a complete industry value chain. During the Reporting Period, the Group was responsible for tap water supply to villages and towns of Zeguo Town, Wenling City, and the geographic coverage of the water supply was relatively limited. Upon the completion of

Taizhou Water Supply System (Phase III) and Taizhou Water Supply System (Phase IV), the Group intends to apply for the relevant permit to offer tap water directly to end-users, which will drive the Group's tap water supply capacity and profitability to a new level.

BUSINESS REVIEW

As a leading water supply service provider in Taizhou, the Group's principal businesses are 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 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 the South Area of 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.

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. ("**Wenling Zeguo Water Supply**"), a wholly-owned subsidiary of the Company. The raw water supply capacity of 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. For the year ended 31 December 2019, the raw water sales volume of the Group was 108.2 million tonnes, representing a decrease of approximately 3.3% as compared with 111.9 million tonnes for the year ended 31 December 2018. Such decrease was primarily attributable to the higher rainfall volume in 2019 as compared with 2018. According to the information of Taizhou City Water Information Release Center (台州市水情發佈中心), the average rainfall volume in Taizhou increased by 32.6% from 1,452.3 mm in 2018 to 1,925.9 mm in 2019. The higher rainfall volume led to the increase in water stored in the reservoirs of the Group's customers, which are small to medium in size, and therefore decreased their demand for raw water supply.

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. For the year ended 31 December 2019, municipal water sales volume was 125.5 million tonnes, representing a decrease of approximately 10.0% as compared with 139.4 million tonnes for the year ended 31 December 2018. Such decrease was caused by the higher rainfall volume in 2019 as compared with 2018, which led to the increase in water stored in the reservoirs of the Group's customers, which are small to medium in size, and therefore decreased their demand for municipal water supply.

3. Tap Water Supply Project

As at 31 December 2019, the Group was responsible for supplying tap water to end-users of Zeguo Town (including commercial users, government authorities, industrial users and residential households in Zenguo Town, Wenling City). For the year ended 31 December 2019, tap water sales volume was 10.4 million tonnes, representing a decrease of approximately 3.7% as compared with 10.8 million tonnes for the year ended 31 December 2018.

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. The “One account, One water meter (一戶一錶)” water meter renovation projects have further expanded the Group’s installation business. For the year ended 31 December 2019, revenue from installation services amounted to RMB10.9 million, representing an increase of approximately 58.0% as compared with RMB6.9 million for the year ended 31 December 2018.

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 the Group have already supplied water to. The designed raw water supply capacity of Taizhou Water Supply System (Phase III) is 580,000 tonnes per day in the short term and 1,000,000 tonnes per day in the long term; and the designed municipal water supply capacity is 284,000 tonnes per day in the short term and 884,000 tonnes per day in the long term.

The construction of 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. In the short term, the designed raw water supply capacity is 150,000 tonnes per day, and the designed municipal water supply capacity is 100,000 tonnes per day. In the long term, the designed raw water supply capacity is 300,000 tonnes per day, and the designed municipal supply water capacity is 200,000 tonnes per day.

As at 31 December 2019, foundation formation works and laying of water tunnels and pipelines of the Taizhou Water Supply System (Phase III) were under way, while foundation formation works and laying of water tunnels of the Taizhou Water Supply System (Phase IV) have commenced.

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 RMB32.2 million or 6.4%, from approximately RMB504.3 million for the year ended 31 December 2018 to approximately RMB472.1 million for the Reporting Period.

(1) Raw water supply

Revenue of the Group generated from sales of raw water decreased by RMB1.4 million or 1.2%, from approximately RMB112.4 million for the year ended 31 December 2018 to approximately RMB111.0 million for the Reporting Period. Such decrease was primarily attributable to the decrease in the sales volume of raw water from 111.9 million tonnes to 108.2 million tonnes because of the higher rainfall volume in 2019 as compared with 2018, partially offset by the slight increase in the unit selling price of raw water by RMB0.03, which was mainly attributable to the decrease in the VAT rate for raw water business, from 11% to 10% since 1 May 2018 and further to 9% since 1 April 2019.

(2) Municipal water supply

Revenue of the Group generated from sales of municipal water decreased by RMB34.2 million or 10.1%, from approximately RMB340.0 million for the year ended 31 December 2018 to approximately RMB305.8 million for the Reporting Period. Such decrease was primarily attributable to the decrease in the sales volume of municipal water from 139.4 million tonnes for the year ended 31 December 2018 to 125.5 million tonnes for the year ended 31 December 2019 because of the higher rainfall volume in 2019 as compared with 2018.

(3) Tap water supply

Revenue of the Group generated from sales of tap water decreased by RMB0.5 million or 1.1%, from approximately RMB44.9 million for the year ended 31 December 2018 to approximately RMB44.4 million for the Reporting Period. Such decrease was primarily attributable to the decrease in the sales volume of tap water from 10.8 million tonnes in 2018 to 10.4 million tonnes in 2019, partially offset by the increase in the unit selling price of tap water by RMB0.12, which was attributable to the upward adjustment of the unit selling price of tap water since 1 January 2019.

(4) Installation services

Revenue of the Group generated from installation services increased by RMB4.0 million or 58.0%, from approximately RMB6.9 million for the year ended 31 December 2018 to approximately RMB10.9 million for the Reporting Period. Such increase was primarily attributable to the growth in the “One account, One water meter (一戶一錶)” water meter renovation projects of the Group, which further expanded the water meter installation business in Zeguo Town.

1.2 Cost of sales

The Group’s cost of sales decreased by RMB22.4 million or 7.3%, from approximately RMB307.0 million for the year ended 31 December 2018 to approximately RMB284.6 million for the Reporting Period. The decrease was primarily attributable to the combined effect of:

- (i) the decrease in depreciation expenses by RMB15.0 million or 23.4%, from approximately RMB64.2 million for the year ended 31 December 2018 to approximately RMB49.2 million for the Reporting Period since certain water supply facilities and equipment arrived at the end of their estimated useful lives, and thus ceased to provide depreciation;
- (ii) an aggregate decrease in raw water procurement fee and water resources fee by RMB9.9 million or 6.6%, from approximately RMB150.0 million for the year ended 31 December 2018 to approximately RMB140.1 million for the Reporting Period, primarily due to the decrease in the purchase volume of raw water by 14.1 million tonnes;
- (iii) a decrease in electricity expenses by RMB3.2 million or 10.6%, from approximately RMB30.1 million for the year ended 31 December 2018 to approximately RMB26.9 million for the Reporting Period, which was generally in line with the decrease in the water treatment volume; and

- (iv) partial offsetting by an increase in installation cost by RMB2.9 million or 64.4%, from approximately RMB4.5 million for the year ended 31 December 2018 to approximately RMB7.4 million for the Reporting Period as a result of the increase in revenue from installation services.

1.3 Gross profit and gross profit margin

As a result of the above, our gross profit decreased by RMB9.8 million or 5.0%, from approximately RMB197.3 million for the year ended 31 December 2018 to approximately RMB187.5 million for the Reporting Period. Gross profit margin increased slightly from 39.1% for the year ended 31 December 2018 to 39.7% for the Reporting Period.

1.4 Other income and gains

Other income and gains decreased by RMB14.5 million or 52.9%, from approximately RMB27.4 million for the year ended 31 December 2018 to RMB12.9 million for the Reporting Period. Such decrease was primarily due to (i) the decrease in interest income from loans to related parties of RMB6.4 million as a result of the full repayment of the loans by the related parties in April 2018; and (ii) the decrease in government grants of RMB4.5 million mainly attributable to the government grants of RMB5.3 million received in 2018 to compensate the accumulated loss for Wenling Zeguo Water Supply before 31 May 2016, which was absent in 2019.

1.5 Administrative expenses

Administrative expenses increased by RMB9.2 million or 26.5%, from approximately RMB34.7 million for the year ended 31 December 2018 to approximately RMB43.9 million for the Reporting Period. Such increase was primarily due to (i) the increase in depreciation expenses, primarily attributable to the additional depreciation of right-of-use assets, mainly for parcels of land in relation to the Taizhou Water Supply System (Phase III) and the Taizhou Water Supply System (Phase IV); and (ii) an increase in listing expenses in relation to the listing of the Company's H shares (the "**Listing**").

1.6 Finance costs

Finance costs decreased by RMB11.2 million or 42.1%, from approximately RMB26.6 million for the year ended 31 December 2018 to approximately RMB15.4 million for the Reporting Period. Such decrease was primarily due to the combined effect of (i) the increase in interest on bank borrowings of RMB12.2 million; (ii) the decrease in interest on other borrowings of RMB2.0 million as a result of the repayment of finance lease payables of RMB22.8 million in January 2019; and (iii) the increase in interest capitalised of RMB21.3 million primarily as a result of the additional long-term bank loans of RMB646.0 million 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 RMB4.5 million or 11.1%, from approximately RMB40.5 million for the year ended 31 December 2018 to approximately RMB36.0 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 RMB15.8 million or 13.1%, from approximately RMB120.3 million for the year ended 31 December 2018 to RMB104.5 million for the Reporting Period. Profit margin after tax decreased from 23.9% for the year ended 31 December 2018 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 2018 and 2019, property, plant and equipment were approximately RMB1,037.1 million and RMB1,772.4 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 2018 and 2019, right-of-use assets were approximately RMB264.0 million and RMB384.5 million, respectively. The increase was primarily attributable to 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 2018 and 2019, inventories were approximately RMB4.2 million and RMB4.4 million, respectively. Inventories mainly comprised raw materials including chemicals used in the water treatment process.

2.4 Trade receivables

As at 31 December 2018 and 2019, trade receivables were approximately RMB109.2 million and RMB104.0 million, respectively. Trade receivables are related to receivables from customers under the water supply business. The decrease in trade receivables was primarily attributable to the increased collection efforts on trade receivables during the Reporting Period.

2.5 *Prepayments, other receivables and other assets*

As at 31 December 2018 and 2019, prepayments, other receivables and other assets were approximately RMB19.0 million and RMB172.6 million, respectively. Such increase was primarily attributable to the net proceeds receivable from the Listing of approximately RMB158.9 million.

2.6 *Trade payables*

As at 31 December 2018 and 2019, trade payables were approximately RMB68.5 million and RMB76.8 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 2018 and 2019, other payables and accruals were approximately RMB160.7 million and RMB299.8 million, respectively. Such increase was primarily attributable 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 2018 and 2019, deferred government grants were approximately RMB36.5 million and RMB83.4 million, respectively. Such increase was primarily attributable to the receipt of government grants of RMB50.0 million in May 2019 as first installment of RMB400.0 million from the People's Government of Yuhuan City to reduce the cost of tap water for end-users in the areas covered by Taizhou Water Supply System (Phase IV) in the future.

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 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 31 December 2019, cash and bank balance of the Group was approximately RMB264.4 million (as at 31 December 2018: RMB314.4 million).

As at 31 December 2019, total borrowings of the Group were approximately RMB1,534.0 million (as at 31 December 2018: RMB1,004.8 million) and included bank and other loans, with 42.0% of bank and other loans at floating rates.

As at 31 December 2019, net debt-to-equity ratio of the Group (net debt (being the total debts net of cash and cash equivalents) divided by total equity as of the year end) was 140.7% (as at 31 December 2018: 107.0%).

Significant Investments

For the year ended 31 December 2019, the Group did not hold any significant investment in equity interest in any other company (for the year ended 31 December 2018: nil).

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the year ended 31 December 2019, the Group did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures (for the year ended 31 December 2018: nil).

Pledge of the Group's Assets

During the Reporting Period, the bank borrowings of the Group amounted to RMB1,534.0 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

The Group carries out business in the People's Republic of China (the "PRC") and receives revenue and pays its costs and expenses in RMB. The net proceeds of approximately HK\$167.5 million from the Listing are denominated in Hong Kong dollars. The Group does not currently hedge its exposure to foreign currencies. The Group will continue to monitor foreign exchange movements to maximize the Group's cash values.

Contingent Liabilities

As at the end of the Reporting Period, the Group did not have any material contingent liability.

Subsequent Events

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 that require additional disclosures or adjustments occurred after the Reporting Period.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group had 185 employees (31 December 2018: 181). During the Reporting Period, employees benefit expense amounted to approximately RMB56.4 million (for the year ended 31 December 2018: RMB55.2 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 (the “**H Shares**”) were listed on the Main Board of the Stock Exchange on 31 December 2019 (the “**Listing Date**”). The total net proceeds of approximately HK\$167.5 million after deducting professional fees, underwriting commissions and other related listing expenses (the “**Net Proceeds**”) will be allocated for utilisation in accordance with the prospectus of the Company dated 17 December 2019 (the “**Prospectus**”).

The intended uses and the balance of the Net Proceeds as at 31 December 2019 are set out below:

Intended use of Net Proceeds	Allocation of Net Proceeds	Percentage of total Net Proceeds	Amount of Net Proceeds utilised up to 31 December 2019	Balance of Proceeds unutilised as at 31 December 2019	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%	Nil	HK\$150.75 million	By/before 31 December 2021
(ii) For providing funding for our working capital and other general corporate purposes	HK\$16.75 million	10%	Nil	HK\$16.75 million	By/before 31 December 2021
Total	HK\$167.5 million	100%	Nil	HK\$167.5 million	By/before 31 December 2021

Since the Listing Date and up to the date of this announcement, the Net Proceeds had not yet been utilised. 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 this announcement.

ANNUAL GENERAL MEETING

The Company will hold the annual general meeting on Friday, 5 June 2020 (the “**2020 AGM**”). A notice convening the 2020 AGM will be published and dispatched to the Shareholders in accordance with the requirements of the Listing Rules in due course.

FINAL DIVIDEND

The Board recommends to distribute a final dividend in respect of the year ended 31 December 2019 at RMB0.16 (tax inclusive) per share, which is subject to the approval by the Shareholders at the 2020 AGM and is expected to be distributed on or before Thursday, 20 August 2020 to the Shareholders whose names appear on the register of members of the Company on Monday, 15 June 2020.

According to the Enterprise Income Tax Law of the PRC and its implementation regulations (the “**EIT Law**”), the tax rate of the enterprise income tax applicable to the income of a non-resident enterprise deriving from the PRC is 10%. For this purpose, any H Shares registered under the name of non-individual enterprise, including the H Shares registered under the name of HKSCC Nominees Limited, other nominees or trustees, or other organisations or entities, shall be deemed as shares held by non-resident enterprise shareholders (as defined under the EIT Law). The Company will distribute the dividend to those non-resident enterprise Shareholders subject to a deduction of 10% enterprise income tax withheld and paid by the Company on their behalf.

Any resident enterprise (as defined under the EIT Law) which has been legally incorporated in the PRC or which was established pursuant to the laws of foreign countries (regions) but has established effective administrative entities in the PRC, and whose name appears on the Company’s H Share register should deliver a legal opinion ascertaining its status as a resident enterprise furnished by a qualified PRC lawyer (with the official chop of the law firm issuing the opinion affixed thereon) and relevant documents to Company’s H Share register, Computershare Hong Kong Investor Services Limited, in due course, if they do not wish to have the 10% enterprise income tax withheld and paid on their behalf by the Company.

Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of Guoshuifa (1993) No. 045 Document (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) (the “**Notice**”) issued by the State Administration of Taxation on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprise which has issued shares in Hong Kong to the overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries of their residence and the PRC. Thus, 10% individual income tax will be withheld from the dividend payable to any individual holders of H Shares whose names appear on the H Share register of members of the Company on the record date, unless otherwise stated in the relevant taxation regulations, tax treaties or the Notice.

CLOSURE OF REGISTER OF MEMBERS

1. For determining the entitlement to attend and vote at the 2020 AGM

For determining the entitlement to attend and vote at the 2020 AGM, the register of members of the Company will be closed from Tuesday, 5 May 2020 to Friday, 5 June 2020, both days inclusive, during which period no transfer of shares of the Company will be registered.

In order to be eligible for attending the 2020 AGM, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Monday, 4 May 2020.

2. For determining the entitlement to the proposed final dividend

For determining the entitlement to the proposed final dividend subject to the approval by Shareholders at the 2020 AGM, the register of members of the Company will be closed from Thursday, 11 June 2020 to Monday, 15 June 2020, both days inclusive, during which period no transfer of shares of the Company will be registered.

In order to be eligible for receiving the proposed final dividend, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 10 June 2020.

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 Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The CG Code has been applicable to the Company with effect from the Listing Date and was not applicable to the Company during the period from 1 January 2019 to 30 December 2019.

For the year ended 31 December 2019 (i.e. the Listing Date), the Company has complied with the provisions set out in the CG Code. 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 CONDUCTED

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 transactions conducted by the Directors and supervisors. As the H Shares were listed on the Stock Exchange on 31 December 2019, the Model Code was not applicable to the Company during the period from 1 January 2019 to 30 December 2019.

After making specific enquires to all Directors and supervisors of the Company, all of them have confirmed that they have complied with the requirements set out in the Model Code for the year ended 31 December 2019 (i.e. the Listing Date).

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries had bought back, sold or redeemed any listed securities of the Company for the year ended 31 December 2019 (i.e. the Listing Date).

THE AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**“) with written terms of reference in compliance with Rule 3.21 of the Listing Rules and Paragraph C.3 of the CG Code. The Audit Committee consists of two independent non-executive Directors including Mr. Li Wai Chung and Ms. Hou Meiwen and one non-executive Director, Mr. Wang Haiping. The Audit Committee is chaired by Mr. Li Wai Chung.

The Audit Committee has reviewed, with the management and the Board, the accounting principles and policies adopted by the Company, the audited annual results and the audited consolidated financial statements of the Company for the year ended 31 December 2019. The Audit Committee also approved the annual results and the consolidated financial statements for the year ended 31 December 2019 and submitted them to the Board for approval.

SCOPE OF WORK OF THE AUDITORS ON THE ANNUAL RESULTS ANNOUNCEMENT

The financial information set out in this announcement does not constitute the Group’s audited accounts for the year ended 31 December 2019, but represents an extract from the consolidated financial statements for the year ended 31 December 2019 which have been audited by the auditors of the Company, Ernst & Young, in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. The financial information has been reviewed by the Audit Committee and approved by the Board.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT FOR 2019 ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.zjtzwater.com). The annual report for 2019 containing all information required by the Listing Rules will be dispatched to the Shareholders and available on the above websites 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
Yan Chuanhua

Chairman of the Board and Executive Director

Taizhou, the PRC
27 March 2020

As at the date of this announcement, the Board comprises Mr. Yan Chuanhua and Mr. Zhang Junzhou as executive Directors; Mr. Wang Haibo, Mr. Wang Haiping, Ms. Fang Ya, Mr. Yu Yangbin, Ms. Huang Yuyan, Mr. Yang Yide and Mr. Guo Dingwen as non-executive Directors; Mr. Zheng Jianzhuang, Ms. Lin Suyan, Ms. Hou Meiwen, Mr. Li Wai Chung and Mr. Wang Yongyue, as independent non-executive Directors.

* For identification purpose only