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TIL ENVIRO LIMITED

達力環保有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1790)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 30 June 2019 was approximately HK\$154.5 million, representing a decrease of approximately HK\$40.5 million or approximately 21% as compared to HK\$195.0 million in the corresponding period of last year.
- Gross profit for the six months ended 30 June 2019 was approximately HK\$63.8 million, representing a decrease of approximately HK\$20.8 million or approximately 25%, as compared to HK\$84.6 million in the corresponding period of last year.
- Profit for the six months ended 30 June 2019 was approximately HK\$43.8 million, representing an increase of approximately HK\$20.2 million or approximately 86% as compared to HK\$23.6 million in the corresponding period of last year.
- No interim dividend for the six months ended 30 June 2019 has been recommended by the Board (Six months ended 30 June 2018: nil).

The board (the “**Board**”) of directors (the “**Directors**” and each a “**Director**”) of TIL Enviro Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, “**we**”, “**us**”, “**our**” or the “**Group**”) for the six months ended 30 June 2019 (the “**Reporting Period**”) with the comparative figures for the corresponding period of last year, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2019

	Note	Six months ended 30 June	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Revenue	3	154,539	195,046
Cost of sales		<u>(90,724)</u>	<u>(110,469)</u>
Gross profit		63,815	84,577
Other income		22,471	1,150
Other losses, net		(609)	(2,446)
General and administrative expenses		<u>(10,038)</u>	<u>(20,674)</u>
Operating profit		75,639	62,607
Finance costs		<u>(21,847)</u>	<u>(22,232)</u>
Profit before income tax		53,792	40,375
Income tax expense	4	<u>(9,961)</u>	<u>(16,729)</u>
Profit for the period		<u>43,831</u>	<u>23,646</u>
Profit for the period attributable to:			
Owners of the Company		43,831	23,512
Non-controlling interests		<u>—</u>	<u>134</u>
		<u>43,831</u>	<u>23,646</u>
Earnings per share for profit attributable to owners of the Company			
— Basic and diluted (<i>expressed in HK\$ per share</i>)	5	<u>0.04</u>	<u>0.31</u>

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period	43,831	23,646
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss:</i>		
Currency translation differences	(1,625)	(9,024)
Reclassification of exchange reserve upon deregistration/disposal of subsidiaries	<u>–</u>	<u>(144)</u>
Total comprehensive income for the period	<u>42,206</u>	<u>14,478</u>
Total comprehensive income attributable to:		
Owners of the Company	42,206	14,071
Non-controlling interests	<u>–</u>	<u>407</u>
	<u>42,206</u>	<u>14,478</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

			As at 30 June 2019 (Unaudited) <i>HK\$'000</i>		As at 31 December 2018 (Audited) <i>HK\$'000</i>
	<i>Note</i>				
ASSETS					
Non-current assets					
Property, plant and equipment			1,665		1,810
Receivable under service concession arrangement	7		1,274,408		1,266,925
Intangible assets			66,946		66,457
Prepayment			19,355		–
Restricted bank balances			4,552		4,554
			1,366,926		1,339,746
Current assets					
Inventories			1,333		731
Trade and other receivables	8		83,472		72,389
Receivable under service concession arrangement	7		277,168		264,922
Cash and cash equivalents			291,413		296,897
			653,386		634,939
Total assets			2,020,312		1,974,685
EQUITY					
Capital and reserves					
Share capital			10,000		10,000
Reserves			686,175		687,800
Retained earnings			316,010		272,179
Total equity			1,012,185		969,979

		As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Long-term borrowings	9	699,877	685,176
Deferred tax liabilities		109,172	106,540
		<u>809,049</u>	<u>791,716</u>
Current liabilities			
Trade and other payables	10	104,184	128,149
Tax payable		3,654	6,361
Current portion of long-term borrowings	9	72,805	66,526
Short-term borrowings	9	18,435	11,954
		<u>199,078</u>	<u>212,990</u>
Total liabilities		<u><u>1,008,127</u></u>	<u><u>1,004,706</u></u>
Total equity and liabilities		<u><u>2,020,312</u></u>	<u><u>1,974,685</u></u>
Net current assets		<u><u>454,308</u></u>	<u><u>421,949</u></u>
Total assets less current liabilities		<u><u>1,821,234</u></u>	<u><u>1,761,695</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information of the Group (the “Interim Financial Information”) for the six months ended 30 June 2019 have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2018 (the “2018 financial statements”), which has been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”).

The significant accounting policies applied are consistent with those set out in the 2018 financial statements, except for the adoption of new standards as described below.

2. APPLICATION OF NEW STANDARD AND AMENDMENTS TO HKFRS

For the six months ended 30 June 2019, the Group has adopted the following new standards, amendments to standards and interpretation which are relevant to its operations:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Annual Improvements 2015–2017 Cycle	Improvements to HKFRSs
Amendments to HKFRS 9	Prepayment Features with Negative Compensation of Financial Liabilities
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement

Accounting policies of the Group were amended after the adoption of HKFRS 16, but it does not have a significant financial impact on the Group as at 1 January 2019 (date of initial application) and 30 June 2019 and for the period ended 30 June 2019 as explained below. Other than that, the adoption of other new standards, amendments to standards and interpretation did not have any significant impact on the Interim Financial Information or result in any significant changes in the Group’s accounting policies.

The Group has adopted HKFRS 16 from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. Any cumulative effect of initially applying the new standard are therefore recognised on 1 January 2019.

Impacts on adoption of HKFRS 16

In applying HKFRS 16 for the first time, the Group has used the practical expedient permitted by the standard that allow the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases. Once a lease arrangement is regarded as a short-term lease as defined in the standard, a lessee may elect not to recognise a right-of-use asset and a lease liability in relation to the lease arrangement.

Since the remaining lease term of all operating leases of the Group as at 1 January 2019 are less than 12 months, the Group has elected not to recognise lease liabilities and associated right-of-use assets of these leases on adoption of HKFRS 16.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, the Group relied on its assessment made by applying HKAS 17 Leases for contracts entered into before the transition date.

2. APPLICATION OF NEW STANDARD AND AMENDMENTS TO HKFRS (CONTINUED)

Accounting policy adopted since 1 January 2019 — Leased assets

The Group leases various properties. Rental contracts are typically made for fixed periods of 1 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until 31 December 2018, payments made under operating leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed lease payments.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

3. REVENUE

	Six months ended 30 June	
	2019	2018
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Wastewater treatment operation services	60,804	65,210
Recycle water supply operation services	2,768	2,806
Wastewater treatment construction services	38,887	77,887
Finance income from service concession arrangement	52,080	48,402
Management fees from a related company	—	741
	<u>154,539</u>	<u>195,046</u>

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Current income tax	7,279	809
Deferred income tax	2,682	15,920
	<u>9,961</u>	<u>16,729</u>

Hong Kong profits tax has not been provided as the Group had no estimated assessable profit (2018: Nil). Taxation on Mainland China profits has been calculated on the estimated taxable profits at the rate of 15% (2018: 25%).

In April 2019, the China tax administration released a new tax incentive policy for corporates involved in environmental protection industry whereby the qualified corporates will be able to enjoy reduced corporate income tax rate of 15% (reducing from 25%) for the next 3 years with effect from years of assessment 2019 to 2021. The Group is qualified to benefit from this new tax incentive policy during the period ended 30 June 2019.

5. EARNINGS PER SHARE

(a) Basic

The basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares issued during the period.

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Profit attributable to the ordinary shareholders of the Company (HK\$'000)	43,831	23,512
Weighted average number of ordinary shares in issue (thousand)	1,000,000	75,000
Basic earnings per share (HK\$)	<u>0.04</u>	<u>0.31</u>

The weighted average number of ordinary shares for the purpose of calculating 2018 basic earnings per share has been determined on the assumption that the Reorganisation as described in note 1.2 in the 2018 financial statements has been effective from 1 January 2018.

(b) Diluted

Diluted earnings per share is the same as basic earnings per share as there were no potential diluted ordinary shares outstanding as at 30 June 2019 and 2018.

6. DIVIDENDS

No dividend has been paid or declared by the Company for the period (six months ended 30 June 2018: nil).

7. RECEIVABLE UNDER SERVICE CONCESSION ARRANGEMENT

	As at 30 June 2019 (Unaudited) <i>HK\$'000</i>	As at 31 December 2018 (Audited) <i>HK\$'000</i>
— Current	277,168	264,922
— Non-current	1,274,408	1,266,925
	<u>1,551,576</u>	<u>1,531,847</u>

8. TRADE AND OTHER RECEIVABLES

	As at 30 June 2019 (Unaudited) <i>HK\$'000</i>	As at 31 December 2018 (Audited) <i>HK\$'000</i>
Trade receivables	70,746	49,947
Other receivables	5,378	6,735
Loan receivables	6,828	6,830
Prepayment	520	8,877
	<u>83,472</u>	<u>72,389</u>

In general, the Group grants credit periods of within 5–20 days to its customers. Aging analysis of gross trade receivables based on the invoice dates is as follows:

	As at 30 June 2019 (Unaudited) <i>HK\$'000</i>	As at 31 December 2018 (Audited) <i>HK\$'000</i>
0–30 days	24,332	26,372
31–60 days	23,851	23,572
61–90 days	22,561	1
Over 90 days	2	2
	<u>70,746</u>	<u>49,947</u>

9. BORROWINGS

	As at 30 June 2019 (Unaudited) <i>HK\$'000</i>	As at 31 December 2018 (Audited) <i>HK\$'000</i>
Non-current		
Long-term borrowings	699,877	685,176
Current		
Current portion of long-term borrowings	72,805	66,526
Short-term borrowings	18,435	11,954
	<u>791,117</u>	<u>763,656</u>

10. TRADE AND OTHER PAYABLES

	As at 30 June 2019 (Unaudited) <i>HK\$'000</i>	As at 31 December 2018 (Audited) <i>HK\$'000</i>
Trade payables	11,150	9,216
Retention payables	19,957	21,213
Other payables and accruals	73,077	97,720
	<u>104,184</u>	<u>128,149</u>

The aging analysis of trade payables based on invoice dates is as follows:

	As at 30 June 2019 (Unaudited) <i>HK\$'000</i>	As at 31 December 2018 (Audited) <i>HK\$'000</i>
0–30 days	9,391	3,640
31–60 days	–	4,024
61–90 days	114	71
Over 90 days	1,645	1,481
	<u>11,150</u>	<u>9,216</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

We are a wastewater treatment service provider operating and managing four wastewater treatment facilities located in Yinchuan, being the capital city of Ningxia, the PRC, providing wastewater treatment services to the local government. We operate and manage our wastewater treatment plants on a “Transfer — Operate — Transfer” (TOT) basis for 30 years since September 2011. We also undertake the upgrading and expansion of our wastewater treatment facilities to achieve higher wastewater discharge standards and to increase our designed treatment capacities.

As at 30 June 2019, our aggregate daily wastewater treatment capacity was 375,000 cubic metres per day, and the discharge standard for all plants were Class IA. In the first half of 2019, we noted there were overall reduction in the inflow of wastewater into all plants causing a consequential decrease in the total quantity of water effluent treated by us. For the Reporting Period, the total quantity of water effluent treated was approximately 49,841,000 cubic metres per day, representing a decrease of approximately 12% from the same period ended 30 June 2018 at 56,615,000 cubic metres per day.

The construction works for the expansion for Plant 4 by additional capacity of 100,000 cubic metres where the treated water discharge shall meet Quasi Surface Water Standard Class IV (準四類水標準) progressed well in the first half of 2019, we anticipate to enter into testing and commission stage by end of 2019. On the other hand, the expansion of Plant 2 by additional capacity of 25,000 cubic metres per day where the treated water discharge standard shall meet Class IA has been put on hold until further notice from the local government of Yinchuan.

During the Reporting Period, the Group received a one-off cash incentive of approximately HK\$17.9 million (equivalent to RMB15 million) from Ningxia Hui Autonomous Region Finance Bureau for our successful listing on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in November 2018. This is in line with Ningxia government’s aspiration of promoting capital market growth in Ningxia, the PRC.

DEVELOPMENT STRATEGY AND PROSPECTS

In the second half of 2019, our Group will focus on expanding our organic growth by completing the existing expansion of additional 100,000 cubic metres capacity in Plant 4 and our management is hopeful to complete the expansion works on or ahead of schedule. Operationally, our Group will continue to strengthen our mission of ensuring stable operation, stable outflow of treated wastewater as per required discharge standards (穩定達標排放) under the concession agreement entered into with the local government of Yinchuan and will continue to focus on cost optimization and increasing efficiency in our wastewater treatment plants.

Our Group also endeavour to expand by pursuing new wastewater treatment projects in Yinchuan, Ningxia and at other regions where there is an increasing demand for wastewater treatment services with the aim of strengthening our market position in the PRC.

FINANCIAL REVIEW

Results of Operations

Revenue

Our Group's revenue is derived from (i) wastewater treatment construction services for the upgrading and expansion of our existing wastewater treatment facilities; (ii) wastewater treatment operation services; and (iii) finance income from service concession arrangement, despite that we generally only receive payments for our services rendered during the operational phase.

Our revenue decreased from approximately HK\$195.0 million for the six months ended 30 June 2018 to approximately HK\$154.5 million for the Reporting Period, representing a decrease of approximately HK\$40.5 million or approximately 21%, which was primarily attributable to the decrease in revenue derived from our wastewater treatment construction services, further analysis of which is set out below:

- revenue derived from the wastewater treatment operation services decreased from approximately HK\$65.2 million for the six months ended 30 June 2018 to approximately HK\$60.8 million for the Reporting Period, representing a decrease of approximately HK\$4.4 million or approximately 7%. The decrease was mainly due to the decrease in the total quantity of wastewater treated by us in the Reporting Period;
- revenue derived from the wastewater treatment construction services decreased from approximately HK\$77.9 million for the six months ended 30 June 2018 to approximately HK\$38.9 million for the Reporting Period, representing a decrease of approximately HK\$39.0 million or approximately 50%. As our construction revenue is recognised on the basis of actual costs with a reasonable profit margin, the decrease was mainly attributable to lower construction cost incurred during the Reporting Period. Please refer to section headed "Financial Review — Cost of sales" in this announcement for further analysis;
- revenue derived from the finance income from service concession arrangement increased from approximately HK\$48.4 million for the six months ended 30 June 2018 to approximately HK\$52.1 million for the Reporting Period, representing an increase of approximately HK\$3.7 million or approximately 8%, which was primarily attributable to the increase in receivable under the service concession arrangement mainly as a result of the upgrading and expansion works during the Reporting Period; and
- the remaining revenue was primarily attributable to the recycle water supply operation services which remained largely stable at approximately HK\$2.8 million for the six months ended 30 June 2018 and 2019, respectively.

Cost of sales

Our cost of sales decreased from approximately HK\$110.5 million for the six months ended 30 June 2018 to approximately HK\$90.7 million for the Reporting Period, representing a decrease of approximately HK\$19.8 million or approximately 18%, which was primarily attributable to the decrease in construction costs, further analysis of which is set out below:

- construction costs decreased from approximately HK\$70.8 million for the six months ended 30 June 2018 to approximately HK\$35.4 million for the Reporting Period, representing a decrease of approximately HK\$35.4 million or approximately 50%, which was primarily attributable to different scale of construction works on our wastewater treatment plants during the six months ended 30 June 2018 and 2019. For the six months ended 30 June 2018, it was the upgrading works on Plant 1 which was nearing completion while during the Reporting Period, construction works are entirely on Plant 4 which commenced in July 2018.
- costs of wastewater treatment operation increased from approximately HK\$31.9 million for the six months ended 30 June 2018 to approximately HK\$46.2 million for the Reporting Period, representing an increase of approximately HK\$14.3 million or approximately 45%. Such increase was mainly attributable to higher chemical dosage to meet the heightened discharge standard during the Reporting Period.
- the remaining cost of sales, which consisted primarily of employee benefit expenses, amortisation of intangible assets, repair and maintenance costs and other costs, recorded a slight increase from approximately HK\$7.8 million for the six months ended 30 June 2018 to approximately HK\$9.1 million for the Reporting Period, which was mainly attributable to an increase of approximately HK\$0.3 million in employee benefit expenses and increase of approximately HK\$0.9 million in repair and maintenance costs.

Gross profit and gross profit margin

Our gross profit decreased from approximately HK\$84.6 million for the same period last year to approximately HK\$63.8 million for the Reporting Period, representing a decrease of approximately HK\$20.8 million or approximately 25%, which was primarily attributable to the decrease in revenue derived from our wastewater treatment construction services during the Reporting Period. Our gross profit margin decreased from 43% for the six months ended 30 June 2018 to 41% during the Reporting Period. Further analysis on the gross profit and gross profit margin is set out below:

- gross profit derived from the wastewater treatment operation services and recycle water supply operation services amounted to approximately HK\$36.1 million and HK\$17.4 million for the six months ended 30 June 2018 and 2019, respectively;

- gross profit margin for the upgrading and expansion services, which contributed approximately 25% of our revenue for the Reporting Period (30 June 2018: approximately 40%), was lower than our gross profit margin derived from the provision of wastewater treatment operation services, which contributed approximately 39% of our revenue for the Reporting Period (30 June 2018: approximately 33%); and
- our finance income from service concession arrangement, representing the imputed interest income, amounted to approximately HK\$48.4 million and HK\$52.1 million for the six months ended 30 June 2018 and 2019, respectively.

Other income

Other income increased by approximately HK\$21.3 million, or approximately 1,854%, to approximately HK\$22.5 million for the Reporting Period from approximately HK\$1.2 million for the six months ended 30 June 2018, which was mainly attributable to one-off cash incentive of approximately HK\$17.9 million (equivalent to RMB15 million) that we received from Ningxia Hui Autonomous Region Finance Bureau for our successful listing on the Main Board of the Stock Exchange.

Other losses, net

Our Group recorded other losses, net of approximately HK\$0.6 million for the Reporting Period compared to other losses, net of approximately HK\$2.4 million for the same period last year. Such movement in the other losses, net balance was mainly attributable to lower net foreign exchange losses suffered during the Reporting Period (30 June 2019: HK\$0.6 million, 30 June 2018: HK\$4.3 million).

General and administrative expenses

General and administrative expenses, excluding listing expenses of approximately HK\$12.3 million recognised for the six months ended 30 June 2018, increased by approximately HK\$1.6 million, or approximately 19%, to approximately HK\$10.0 million for the Reporting Period from approximately HK\$8.4 million for the same period last year.

Finance costs

Finance costs remained largely stable at approximately HK\$22.2 million and HK\$21.8 million for the six months ended 30 June 2018 and 2019, respectively.

Income tax expense

We incurred income tax expense of approximately HK\$10.0 million for the Reporting Period and approximately HK\$16.7 million for the same period last year at effective tax rates of approximately 19% and 41%, respectively. In April 2019, the tax administration of the PRC released a new tax incentive policy for corporates involved in environmental protection industry whereby the qualified corporates will be able to enjoy reduced corporate income tax rate of 15% (reducing from 25%) for the next 3 years with effect from years of assessment 2019 to 2021. Our Group is qualified to benefit from this new tax incentive policy, thus attributing to lower effective tax rate during the Reporting Period.

Profit and total comprehensive income

As a result of the foregoing factors, our profit increased from approximately HK\$23.6 million for the six months ended 30 June 2018 to approximately HK\$43.8 million for the Reporting Period, representing an increase of approximately HK\$20.2 million, or approximately 86%.

The total comprehensive income for the six months ended 30 June 2018 amounted to approximately HK\$14.5 million compared to approximately HK\$42.2 million for the Reporting Period. The difference between the profit for the periods and the total comprehensive income for the periods was due to currency translation differences from the translation of RMB being our functional currency to HK\$ being our reporting currency (30 June 2019: RMB/HK\$1.1380, 30 June 2018: RMB/HK\$1.1852).

Earnings per share (“EPS”)

For the Reporting Period, the earnings per share for profit attributable to owners of the Company (basic and diluted) was HK\$0.04 per share as compared to HK\$0.31 per share for the six months ended 30 June 2018. Such decrease was primarily due to increase in number of ordinary shares in issue pursuant to capitalisation of shareholders' loan and the Share Offer which took effect in September and November 2018, respectively.

Receivable under service concession arrangement

Our receivable under service concession arrangement that were classified as (i) current assets were approximately HK\$264.9 million and HK\$277.2 million as at 31 December 2018 and 30 June 2019, respectively; and (ii) non-current assets were approximately HK\$1,266.9 million and HK\$1,274.4 million as at 31 December 2018 and 30 June 2019, respectively.

Our total receivable under service concession arrangement amounted to approximately HK\$1,531.8 million and HK\$1,551.6 million as at 31 December 2018 and 30 June 2019, respectively. This represented an increase of approximately 1% from 31 December 2018 to 30 June 2019, primarily due to the tariff payments received by our Group being less than the revenue recognized from (i) our wastewater treatment construction services; (ii) our wastewater treatment operation services; and (iii) finance income from service concession arrangement during the Reporting Period.

Cash and bank balances

As at 30 June 2019, our Group had cash and bank balances of approximately HK\$291.4 million as compared to approximately HK\$296.9 million as at 31 December 2018. The cash and bank balances were denominated in HK\$, RMB, US\$ and SG\$.

Borrowings

As at 30 June 2019, our Group had bank borrowings, which were denominated in RMB, of approximately HK\$791.1 million (31 December 2018: HK\$763.7 million), represented by short-term working capital loan of HK\$18.4 million (31 December 2018: HK\$12.0 million) and long-term loan of HK\$772.7 million (31 December 2018: HK\$751.7 million).

Liquidity and Capital Resources

Our principal liquidity and capital requirements are primarily related to the construction of our wastewater treatment facilities and purchase of equipment, as well as the operating costs and expenses required in our operations. As at 30 June 2019, the net current assets and net assets of the Group amounted to approximately HK\$454.3 million and HK\$1,012.2 million, respectively (31 December 2018: net current assets and net assets of approximately HK\$421.9 million and HK\$970.0 million, respectively).

Gearing Ratio

As at 30 June 2019, the gearing ratio (calculated by net debts divided by total equity; net debts include total borrowings plus amounts due to related companies minus cash and bank balances) was approximately 49% (31 December 2018: approximately 48%).

Contingent liabilities

Our Group did not have any material contingent liabilities or outstanding litigation as at 30 June 2019.

Interim dividend

No interim dividend for the six months ended 30 June 2019 has been recommended by the Board (six months ended 30 June 2018: nil).

Contracted Capital Expenditure

As at 31 December 2018 and 30 June 2019, our Group had the following capital commitments in respect of upgrading and expansion works of our wastewater treatment plants:

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Contracted but not provided for	<u>234,949</u>	<u>88,725</u>

The above commitments are in relation to service concession arrangement which will be classified as receivable under service concession arrangement or intangible asset.

Use of Proceeds From Share Offer

The shares of our Company were listed on the Main Board of the Stock Exchange on 29 November 2018 and our Company issued 250,000,000 shares of par value of HK\$0.01 per share with the offer price of HK\$0.58 per share (the “**Share Offer**”). The total issuance size (before deducting the expenses) amounted to HK\$145 million. The net proceeds from the Share Offer received by our Company, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Share Offer, were approximately HK\$104.7 million.

The net proceeds have been applied in accordance with the proposed application as disclosed in the supplemental prospectus issued by our Company dated 14 November 2018. During the six months ended 30 June 2019 and up to the date of this interim result announcement, the net proceeds had been applied as follows:

	Net proceeds (HK\$ million)		
	Available	Utilised	Unutilised
Complete the contemplated upgrading and expansion works of existing facilities	83.9	47.0	36.9
Identification and evaluation of new wastewater treatment projects in Yinchuan and/or in other regions in the PRC	10.4	–	10.4
Establishing and future upgrading of centralized monitoring system	5.2	–	5.2
General working capital for general corporate purposes	<u>5.2</u>	<u>4.4</u>	<u>0.8</u>
Total	<u>104.7</u>	<u>51.4</u>	<u>53.3</u>

Foreign currency risks

Our Group principally operates in the PRC with most of the transactions being settled in RMB, which is the functional currency of most of the group entities. Foreign currency risk arises from the recognised assets and liabilities and net investments in foreign operations. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through financing activities denominated in the relevant foreign currencies.

Fluctuations in exchange rates between the functional currencies of respective group entities and non-functional currency in which our Group entities conduct business may affect our Group's financial position and results of operations. Our Group seeks to limit our exposure to foreign currency risk by closely monitoring and minimising our net foreign currency position.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Our Company has applied the principles and complied with all the applicable code provisions as set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) throughout the Reporting Period.

AUDIT COMMITTEE

Our Company has established an audit committee (the “**Audit Committee**”) in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code for the purpose of reviewing and providing supervision over our Group's financial reporting process, risk management and internal controls.

The Audit Committee comprises of two independent non-executive Directors, Mr. Hew Lee Lam Sang (being the chairman of the Audit Committee who has a professional qualification in accountancy) and Mr. Tam Ka Hei Raymond, and one non-executive Director, Mr. Lim Chin Sean.

The Audit Committee has reviewed the unaudited interim results of our Group for the Reporting Period. The Audit Committee has also discussed matters with respect to the accounting policies adopted with the senior management and the external auditors of our Company.

SCOPE OF WORK OF THE AUDITOR

The figures as set out in this announcement in respect of the Group's results for the Reporting Period have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated interim financial statements for the Reporting Period. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants, and consequently, no assurance has been expressed by PricewaterhouseCoopers on this announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in the Appendix 10 of the Listing Rules as our code of conduct regarding Directors’ securities transactions. Having made specific enquiries with all of our Directors, each of the Directors has confirmed that he has complied with the Model Code throughout the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither our Company nor any of our subsidiaries purchased, sold or redeemed any listed securities of our Company during the Reporting Period.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement has been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.tilenviro.com). The 2019 interim report of our Company will be despatched to our Company’s shareholders and published on the aforesaid websites in due course.

APPRECIATION

The Board would like to take this opportunity to express its sincere gratitude to our Company’s shareholders for their support and to our Group’s staff for their hard work and contribution during the Reporting Period.

By order of the Board
TIL Enviro Limited
Lim Chin Sean
Chairman

Hong Kong, 29 August 2019

As at the date of this announcement, the non-executive Director is Mr. Lim Chin Sean; the executive Director is Mr. Wong Kok Sun; and the independent non-executive Directors are Mr. Tan Yee Boon, Mr. Hew Lee Lam Sang and Mr. Tam Ka Hei Raymond.