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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 2020

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 30 June 2020 was approximately HK\$108.1 million, representing a decrease of approximately HK\$46.4 million or approximately 30% as compared to HK\$154.5 million in the corresponding period of last year.
- Gross profit for the six months ended 30 June 2020 was approximately HK\$71.8 million, representing an increase of approximately HK\$8.0 million or approximately 13%, as compared to HK\$63.8 million in the corresponding period of last year.
- Profit for the six months ended 30 June 2020 was approximately HK\$38.2 million, representing a decrease of approximately HK\$5.6 million or approximately 13% as compared to HK\$43.8 million in the corresponding period of last year.
- No interim dividend for the six months ended 30 June 2020 has been recommended by the Board (six months ended 30 June 2019: 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 2020 (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 2020

		Six months ended 30 June	
		2020	2019
	Note	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue			
— Wastewater treatment operation services		46,320	60,804
— Wastewater treatment construction services		1,101	38,887
— Finance income from service concession arrangement		57,882	52,080
— Others		2,798	2,768
		<u>108,101</u>	<u>154,539</u>
	4		
Cost of sales		<u>(36,332)</u>	<u>(90,724)</u>
Gross profit		71,769	63,815
Other income	5	4,181	22,471
Other gains/(losses), net		131	(609)
General and administrative expenses		<u>(7,452)</u>	<u>(10,038)</u>
Operating profit		68,629	75,639
Finance costs		<u>(22,920)</u>	<u>(21,847)</u>
Profit before income tax		45,709	53,792
Income tax expense	6	<u>(7,526)</u>	<u>(9,961)</u>
Profit for the period		<u>38,183</u>	<u>43,831</u>
Profit for the period attributable to:			
Owners of the Company		<u>38,183</u>	<u>43,831</u>
Earnings per share for profit attributable to owners of the Company			
Basic and diluted (<i>expressed in HK\$ per share</i>)	7	<u>0.04</u>	<u>0.04</u>

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period	38,183	43,831
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss:</i>		
Currency translation differences	<u>(20,009)</u>	<u>(1,625)</u>
Total comprehensive income for the period	<u>18,174</u>	<u>42,206</u>
Total comprehensive income attributable to:		
Owners of the Company	<u>18,174</u>	<u>42,206</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		As at 30 June 2020 (Unaudited) <i>HK\$'000</i>	As at 31 December 2019 (Audited) <i>HK\$'000</i>
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		2,116	2,222
Right-of-use-assets		2,594	3,075
Receivable under service concession arrangement	9	1,431,483	1,477,659
Intangible assets		73,151	76,282
Restricted bank balances		4,388	4,474
		1,513,732	1,563,712
Current assets			
Inventories		887	1,146
Trade and other receivables	10	250,086	197,352
Receivable under service concession arrangement	9	267,095	269,717
Cash and cash equivalents		158,970	186,289
		677,038	654,504
Total assets		2,190,770	2,218,216
EQUITY			
Capital and reserves			
Share capital		10,000	10,000
Reserves		650,072	670,081
Retained earnings		418,058	379,875
Total equity		1,078,130	1,059,956

		As at 30 June 2020 (Unaudited) <i>HK\$'000</i>	As at 31 December 2019 (Audited) <i>HK\$'000</i>
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Long-term borrowings	<i>11</i>	686,573	713,116
Lease liabilities		1,998	2,361
Deferred tax liabilities		120,191	118,653
		<u>808,762</u>	<u>834,130</u>
Current liabilities			
Trade and other payables	<i>12</i>	208,325	239,443
Tax payable		2,994	2,772
Current portion of long-term borrowings	<i>11</i>	72,930	68,204
Short-term borrowings	<i>11</i>	18,869	12,864
Lease liabilities		760	847
		<u>303,878</u>	<u>324,130</u>
Total liabilities		<u>1,112,640</u>	<u>1,158,260</u>
Total equity and liabilities		<u>2,190,770</u>	<u>2,218,216</u>
Net current assets		<u>373,160</u>	<u>330,374</u>
Total assets less current liabilities		<u>1,886,892</u>	<u>1,894,086</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 2020 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 2019 (the “**2019 Financial Statements**”), which has been prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRS**”).

The significant accounting policies applied are consistent with those set out in the 2019 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 2020, the Group has adopted the following new standards, amendments to standards and interpretation which are relevant to its operations:

HKAS 1 and HKAS 8	Definition of Material
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Interest Rate Benchmark Reform
HKFRS 3 (Amendments)	Definition of a Business
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

The adoption of the above standards and amendments to standards does not have significant effect on the results and financial position of the Company.

3. THE IMPACT OF COVID-19 DURING THE REPORTING PERIOD

Since the outbreak of the coronavirus (“**COVID-19**”) virus disease in early 2020, a series of precautionary and control measures have been and continued to be implemented across the People’s Republic of China (the “**PRC**”). Our Group has implemented precautionary and control measures to combat against this disease and safeguard our employees and our business operations. The containment measures at Yinchuan City have resulted in an overall decrease in the wastewater volume treated by us during the Reporting Period.

As the outbreak of the COVID-19 continues to evolve, it is challenging at this juncture to assess the full extent of its impact to the business and the global economy. The management has assessed the impact of COVID-19 across the Group, and up to the date of this announcement, has not identified any areas that could have a material impact on the financial performance or position of the Group as at 30 June 2020.

4. REVENUE

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Wastewater treatment operation services	46,320	60,804
Recycle water supply operation services	2,798	2,768
Wastewater treatment construction services	1,101	38,887
Finance income from service concession arrangement	57,882	52,080
	<u>108,101</u>	<u>154,539</u>

5. OTHER INCOME

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Government subsidy (note (i))	–	17,931
Interest income	1,673	2,212
VAT refund (note (ii))	2,417	2,032
Others	91	296
	<u>4,181</u>	<u>22,471</u>

Notes:

- (i) The amount represented the incentive received in the previous period from Ningxia Hui Autonomous Region Finance Bureau for the Company's successful listing on the Main Board of The Stock Exchange of Hong Kong Limited.
- (ii) 70% and 50% of the value-added tax ("VAT") paid by the Group in relation to the wastewater processing business and the sales of recycle water respectively are refunded according to Caishui 2015 No. 78. The Group is entitled to claim and have claimed from the governmental authority the balance of the VAT payment under the TOT agreement. Hence the Group recognised these VAT refunds attributable to intangible assets as other income.

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current income tax	3,672	7,279
Deferred income tax	3,854	2,682
	<u>7,526</u>	<u>9,961</u>

7. 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	
	2020 (Unaudited)	2019 (Unaudited)
Profit attributable to the ordinary shareholders of the Company (HK\$'000)	38,183	43,831
Weighted average number of ordinary shares in issue (thousand)	1,000,000	1,000,000
Basic earnings per share (HK\$)	<u>0.04</u>	<u>0.04</u>

(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 2020, respectively.

8. DIVIDENDS

No dividend has been paid or declared by the Company for the six months ended 30 June 2019 and 2020, respectively.

9. RECEIVABLE UNDER SERVICE CONCESSION ARRANGEMENT

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
— Current	267,095	269,717
— Non-current	<u>1,431,483</u>	<u>1,477,659</u>
	<u>1,698,578</u>	<u>1,747,376</u>

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Trade receivables (<i>note</i>)	224,553	174,604
Other receivables	15,231	5,109
Loan receivables	–	6,809
Prepayment	10,302	10,830
	<u>250,086</u>	<u>197,352</u>

Note: The increase was primarily due to slight delay in the collection of receivables from our customer as the time for payment processing has been prolonged due to extended holidays and remote working arrangements caused by the COVID-19 outbreak.

In general, the Group grants credit periods of within 15–30 days to its customers. Aging analysis of gross trade receivables based on the invoice dates is as follows:

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
0–30 days	26,295	22,456
31–60 days	25,277	48,201
61–90 days	22,159	21,923
Over 90 days	150,822	82,024
	<u>224,553</u>	<u>174,604</u>

11. BORROWINGS

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Non-current		
Long-term borrowings	686,573	713,116
Current		
Current portion of long-term borrowings	72,930	68,204
Short-term borrowings	18,869	12,864
	<u>778,372</u>	<u>794,184</u>

12. TRADE AND OTHER PAYABLES

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Trade payables	51,217	36,665
Retention payables	38,084	38,874
Other payables and accruals	119,024	163,904
	<u>208,325</u>	<u>239,443</u>

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

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
0–30 days	5,579	5,881
31–60 days	3,992	27,120
61–90 days	4,375	2,139
Over 90 days	37,271	1,525
	<u>51,217</u>	<u>36,665</u>

13. SUBSEQUENT EVENTS

On 27 July 2020, our Group has received a letter issued by Municipal Administration of Yinchuan (銀川市市政管理局) that, due to the rapid urbanisation in Yinchuan City, the government is studying a proposal to divert the wastewater influent from Plant 1 to a new recycled water treatment plant in Yinchuan (not owned by the Group) and the possibility of closing down Plant 1 when the new recycled water treatment plant commences operation (the “**Proposal**”).

Based on the PRC legal advice obtained, the Group will be entitled to compensation for losses and damages suffered should the Proposal materialised. As per the concession agreement and in line with the PRC legal advice, the Proposal should not have any impact on the Group’s remaining three wastewater treatment plants.

The Group has replied to the government on 14 August 2020 stating its disagreement to the Proposal and will continue to engage with the government on the viability of the Proposal. The management considered such Proposal is still at its ongoing feasibility study stage and therefore has not drawn any conclusion as at to date. The Group will continue to monitor the ongoing development of the Proposal.

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 an ancillary business, we also provide supply of recycled water, which was the treated wastewater processed by our Plant 1 and Plant 3, to end-users in Yinchuan which include but not limited to a power plant and a public institution in Yinchuan in charge of public area landscaping.

As at 30 June 2020, our aggregate daily wastewater treatment capacity was 475,000 cubic metres per day, and the discharge standard for all plants were either Class IA or Quasi Surface Water Standard Class IV (準四類水標準). In the first half of 2020, due to the outbreak of COVID-19 virus disease, the nation-wide lockdown has led to overall lower inflow of wastewater 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 47.4 million cubic metres, representing a decrease of approximately 5% from the same period ended 30 June 2019 at 49.8 million cubic metres.

The expansion of Plant 4 has commenced operations on 1 January 2020 after obtaining the environmental acceptance on 31 December 2019 and we have billed our customers on the volume of wastewater treated based on interim tariff of RMB2.00 per cubic metre.

During the Reporting Period, the Group reported revenue and profit after tax (“PAT”) of HK\$108.1 million and HK\$38.2 million, respectively, lower than revenue and PAT of HK\$154.5 million and HK\$43.8 million achieved during the corresponding period of last year.

The lower revenue for the Reporting Period was primarily attributable to: (i) lower construction revenue recognised as Plant 4 expansion was nearing completion stage; and (ii) lower wastewater volume resulted from the containment measures implemented across the PRC in relation to the COVID-19 pandemic. The lower PAT for the Reporting Period was also due to lower other income recognised. The Group recorded 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 the corresponding period of last year.

DEVELOPMENT STRATEGY AND PROSPECTS

In February 2020, Yinchuan city has deployed limitation of movement, restrictions of mass gatherings, self-quarantine and closure of schools, restaurants, entertainment centres to contain the COVID-19 from spreading. These containment measures have resulted in an overall decrease in the wastewater volume treated by us.

However, the management is cautiously optimistic that the wastewater volume will increase gradually, as the wastewater volume is on an upward trend since May 2020 with the gradual lifting of the containment measures.

For the second half of 2020, our Group will continue to focus on cost optimisation and increase efficiency in managing our wastewater treatment plants. Our Group strives to manage cash flow prudently especially during the on-going COVID-19 pandemic. Besides that, our Group will focus on finalising the new tariff and new guaranteed basic volume with the local authority for the expansion and upgrading works done on Plant 1, Plant 2 Phase 1 and Plant 4 Phase 1, respectively.

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.

Our Group is also eyeing for merger and acquisition opportunities for mature operational wastewater treatment assets in Yinchuan, Ningxia and other regions within the PRC with the aim of strengthening our footprint 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\$154.5 million for the six months ended 30 June 2019 to approximately HK\$108.1 million for the Reporting Period, representing a decrease of approximately HK\$46.4 million or approximately 30%. The revenue contributions by our major components during the Reporting Period were as follows: (i) approximately 43% of our revenue was derived from wastewater treatment operation services; (ii) approximately 1% of our revenue was derived from wastewater treatment construction services and (iii) approximately 54% of our revenue was derived from finance income from service concession arrangement.

The primary reasons for the decrease in revenue during the Reporting Period were attributable to a combined effect as set out below:

- revenue derived from the wastewater treatment operation services decreased from approximately HK\$60.8 million for the six months ended 30 June 2019 to approximately HK\$46.3 million for the Reporting Period, representing a decrease of approximately HK\$14.5 million or approximately 24%. The decrease was due to the decrease in the total quantity of wastewater treated by us in the Reporting Period, as well as depreciation of our functional currency, RMB against our reporting currency HK\$ during the Reporting Period (30 June 2020 RMB/HK\$ average rate: 1.1038; 30 June 2019 RMB/HK\$ average rate: 1.1561);
- revenue derived from the wastewater treatment construction services decreased from approximately HK\$38.9 million for the six months ended 30 June 2019 to approximately HK\$1.1 million for the Reporting Period, representing a decrease of approximately HK\$37.8 million or approximately 97%. As our construction revenue is recognised on the basis of actual cost with reasonable profit margin, the decrease was mainly attributable to lower construction cost incurred during the Reporting Period as the expansion works on Plant 4 was nearing completion stage. Please refer to the 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\$52.1 million for the six months ended 30 June 2019 to approximately HK\$57.9 million for the Reporting Period, representing an increase of approximately HK\$5.8 million or approximately 11%, which was primarily attributable to the increase in the opening balance of receivable under the service concession arrangement; 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 2019 and 2020, respectively.

Cost of sales

Our cost of sales decreased from approximately HK\$90.7 million for the six months ended 30 June 2019 to approximately HK\$36.3 million for the Reporting Period, representing a decrease of approximately HK\$54.4 million or approximately 60%, which was primarily attributable to the decrease in construction costs, further analysis of which is set out below:

- costs of wastewater treatment operation decreased from approximately HK\$46.2 million for the six months ended 30 June 2019 to approximately HK\$29.2 million for the Reporting Period, representing a decrease of approximately HK\$17.0 million or approximately 37%. Such decrease was mainly attributable to: (i) lower chemical costs by approximately HK\$14.1 million resulted from the management's continuous efforts to optimise the consumption of chemical; and (ii) lower utility costs by approximately HK\$2.4 million due to 5% discount on the electricity bills from February 2020 to December 2020, which was in line with the local government's temporary recovery measures from post COVID-19 effect;
- the Group incurred construction costs of approximately HK\$35.4 million for the six months ended 30 June 2019. For the Reporting Period, the Group recorded a credit of HK\$1.5 million due to cost adjustments, where the decrease was primarily attributable to the near completion of the upgrading and expansion works carried out on Plant 4. Besides that, there was a reversal of overprovision of construction costs for our Plant 2 Phase 1 and Plant 4 Phase 1 expansion during the Reporting Period, after the completion of the audit of the capital investment costs and operation costs by the local authorities; and
- the remaining cost of sales, which consisted primarily of employee benefit expenses, depreciation and amortisation expenses, repair and maintenance costs and other costs, recorded a slight decrease from approximately HK\$9.1 million for the six months ended 30 June 2019 to approximately HK\$8.6 million for the Reporting Period. Such movement was mainly attributable to: (i) a decrease of approximately HK\$0.3 million in employee benefit expenses due to reduction in social security insurance contributions (五險一金) effective from February 2020 up to December 2020, which was in line with the local government's temporary recovery measures from post COVID-19 effect; and (ii) a decrease of approximately HK\$0.6 million in repair and maintenance costs due to the deferment of non-critical repair and maintenance works as a measure to conserve cash flow due to the COVID-19 pandemic.

Gross profit and gross profit margin

Our gross profit increased from approximately HK\$63.8 million for the same period last year to approximately HK\$71.8 million for the Reporting Period, representing an increase of approximately HK\$8.0 million or approximately 13%, which was primarily attributable to the decrease in chemical and utility costs during the Reporting Period. Our gross profit margin increased from 41% for the six months ended 30 June 2019 to 66% for 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 increased from approximately HK\$8.2 million in corresponding period last year to approximately HK\$11.2 million for the Reporting Period. The increase was mainly attributable to the decreased in operating cost resulted from lower chemical costs due to the management's continuous efforts to optimise the consumption of chemical, lower utility cost due to temporary discount given by the local government as well as lower social security contributions due to the temporary relief from the local government;
- construction services, which contributed approximately 1% of our revenue for the Reporting Period (30 June 2019: approximately 25%), has lower gross profit margin than wastewater treatment operation services, which contributed approximately 43% of our revenue for the Reporting Period (30 June 2019: approximately 39%); and
- our finance income from service concession arrangement, representing the imputed interest income, amounted to approximately HK\$52.1 million and HK\$57.9 million for the six months ended 30 June 2019 and 2020, respectively.

Other income

Other income decreased from approximately HK\$22.5 million for the six months ended 30 June 2019 to approximately HK\$4.2 million for the Reporting Period, representing a decrease of approximately HK\$18.3 million or approximately 81%. The decrease was primarily 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 in the corresponding period of last year.

Other gains/(losses), net

Our Group recorded other gains/(losses), net of approximately HK\$0.1 million for the Reporting Period, representing an increase of approximately HK\$0.7 million or approximately 117%, as compared to other losses, net of approximately HK\$0.6 million for the same period last year. Such increase in the other gains/(losses), net balance was mainly attributable to favourable movement in USD/RMB on our USD cash and bank balances during the Reporting Period which resulted in net foreign exchange gains of approximately HK\$0.1 million. (30 June 2019: net foreign exchange losses of approximately HK\$0.6 million).

General and administrative expenses

General and administrative expenses decreased from approximately HK\$10.0 million for the six months ended 30 June 2019 to approximately HK\$7.5 million for the Reporting Period, representing a decrease of approximately HK\$2.5 million or approximately 25%. Such decrease was primarily due to the decrease in the legal and professional fee during the Reporting Period amounted to approximately HK\$2.8 million.

Finance costs

Finance costs increased by approximately HK\$1.1 million, or approximately 5%, to approximately HK\$22.9 million for the Reporting Period from approximately HK\$21.8 million for the six months ended 30 June 2019. Such increase was primarily attributable to the increase of interest expenses as the Group has higher drawdown of loan to fund the Plant 4 expansion.

Income tax expense

We incurred income tax expense of approximately HK\$8.0 million for the Reporting Period and approximately HK\$10.0 million for the same period last year at effective tax rates of approximately 18% and 19%, respectively. The low effective tax rate was mainly attributable to the reduced corporate income tax rate (from 25% to 15%) announced by the China tax administration in April 2019. The new tax incentive policy is applicable to corporates involved in environmental protection industry for tax assessment years from 2019 to 2021.

Profit and total comprehensive income for the period

As a result of the foregoing factors, our profit decreased from approximately HK\$43.8 million for the six months ended 30 June 2019 to approximately HK\$38.2 million for the Reporting Period, representing a decrease of approximately HK\$5.6 million, or approximately 13%.

The total comprehensive income for the six months ended 30 June 2019 amounted to approximately HK\$42.2 million compared to approximately HK\$18.2 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 2020 RMB/HK\$ average rate: 1.1038; 30 June 2019 RMB/HK\$ average rate: 1.1561).

Earnings per share

The earnings per share for profit attributable to owners of the Company (basic and diluted) was HK\$0.04 per share for the six months ended 30 June 2019 and 2020, respectively.

Receivable under service concession arrangement

Our receivable under service concession arrangement that were classified as (i) current assets were approximately HK\$269.7 million and HK\$267.1 million as at 31 December 2019 and 30 June 2020, respectively; and (ii) non-current assets were approximately HK\$1,477.7 million and HK\$1,431.5 million as at 31 December 2019 and 30 June 2020, respectively.

Our total receivable under service concession arrangement amounted to approximately HK\$1,747.4 million and HK\$1,698.6 million as at 31 December 2019 and 30 June 2020, respectively. This represented a decrease of approximately 3% from 31 December 2019 to 30 June 2020, primarily due to the tariff payments received by our Group was slightly higher than the revenue recognised 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 2020, our Group had cash and bank balances of approximately HK\$159.0 million as compared to approximately HK\$186.3 million as at 31 December 2019. The decrease in cash on bank balances was due to higher net repayments of borrowing as at 30 June 2020. The cash and bank balances were denominated in HK\$, RMB and US\$.

Borrowings

As at 30 June 2020, our Group had bank borrowings, which were denominated in RMB, of approximately HK\$778.4 million (31 December 2019: HK\$794.2 million), represented by short-term working capital loan of HK\$18.9 million (31 December 2019: HK\$12.9 million) and long-term loan of HK\$759.5 million (31 December 2019: HK\$781.3 million). The decrease in borrowings was due to scheduled principal repayment of approximately HK\$23.2 million in June 2020.

Gearing ratio

As at 30 June 2020, the gearing ratio (calculated by net debts divided by total equity; net debts include total borrowings minus cash and bank balances) was approximately 57% (31 December 2019: approximately 57%).

Foreign currency risk

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, including the US\$ (the "**Non-functional Currency**").

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 its exposure to foreign currency risk by closely monitoring and minimising its net foreign currency position.

Contingent liabilities

Our Group did not have any material contingent liabilities or outstanding litigation as at 30 June 2020.

Interim dividend

No interim dividend has been recommended by the Board for the six months ended 30 June 2019 and 2020, respectively.

INITIAL PUBLIC OFFERING AND USE OF PROCEEDS

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 approximately 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/will be applied in accordance with the proposed application as disclosed in the supplemental prospectus issued by our Company dated 14 November 2018 (the “**Supplemental Prospectus**”).

The net proceeds utilised by the Group as at 30 June 2020 are as follows:

	Net proceeds (HK\$ million)		
	Available	Utilised	Unutilised
Complete the contemplated upgrading and expansion works of existing facilities	83.9	(71.3)	12.6 ^(note 1)
Identification and evaluation of new wastewater treatment projects in Yinchuan and/or other regions in the PRC	10.4	–	10.4 ^(note 2)
Establishing and future upgrading of centralised monitoring system	5.2	–	5.2 ^(note 3)
General working capital for general corporate purposes	5.2	(5.2)	–
Total	104.7	(76.5)	28.2

Notes:

1. As to approximately HK\$12.6 million will be used to complete the contemplated upgrading and expansion works of our existing facilities by December 2020.
2. As to approximately HK\$10.4 million will be used for the identification and evaluation of new wastewater treatment projects in the PRC by October 2021. As at the date of this announcement, no new wastewater treatment project has been identified.
3. Due to the relocation of our Company's headquarters from Shanghai to Guangzhou in October 2019, our Company decided to evaluate the centralised monitoring system concurrent with the emerging needs of integrated business solutions for finance, human resources and administration in the new headquarters. Thus, an amount of HK\$5.2 million has not yet been utilised for establishing and future upgrading of a centralised monitoring system as intended. It is expected that this unutilised proceeds will be used by June 2021, barring any unforeseen circumstances.

As at 30 June 2020, the unutilised net proceeds from the Share Offer were deposited in the bank accounts of our Group with a licensed bank in Hong Kong. The planned use of proceeds as stated in the Supplemental Prospectus were based on the best estimation and assumption of future market conditions and industry development made by our Company at the time of preparing the Supplemental Prospectus while the proceeds were applied based on the actual development of our Group's business and the industry. The Directors are not aware of any material change to the planned use of proceeds as of the date of this announcement.

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 to 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.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in this announcement, there is no material subsequent event undertaken by the Group after the Reporting Period and up to the date of 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 the code of conduct regarding securities transactions by the Directors. Our Company has made specific enquiries with all of our Directors, and all of the Directors have confirmed that they have fully complied with the required standard set out in the Model Code during the Reporting Period.

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

During the Reporting Period, neither our Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of our Company.

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 interim report of our Company for the six months ended 30 June 2020 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, 27 August 2020

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.