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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- Revenue for the year was approximately HK\$515.4 million, representing a year-on-year increase of approximately HK\$22.9 million or approximately 5% as compared to approximately HK\$492.5 million in the preceding year.
- Gross profit for the year was approximately HK\$171.1 million, representing a year-on-year decrease of approximately HK\$5.0 million or approximately 3% as compared to approximately HK\$176.1 million in the preceding year.
- Profit for the year was approximately HK\$107.7 million, representing a year-on-year increase of approximately HK\$37.6 million or approximately 54% as compared to approximately HK\$70.1 million in the preceding year.
- No final dividend has been recommended by the Board for the year ended 31 December 2019 (2018: nil).

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**” and each a “**Director**”) of TIL Enviro Limited (the “**Company**”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, “**we**”, “**us**”, “**our**” or the “**Group**”) for the year ended 31 December 2019 with the comparative figures for the preceding financial year, as follows.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000
Revenue			
— Wastewater treatment operation services		132,226	142,714
— Wastewater treatment construction services		274,168	248,656
— Finance income from service concession arrangement		103,095	95,018
— Others		5,912	6,117
	3	<u>515,401</u>	492,505
Cost of sales		<u>(344,312)</u>	(316,390)
Gross profit		171,089	176,115
Other income	4	23,041	4,140
Other gains, net		4,461	5,423
General and administrative expenses		<u>(20,638)</u>	(36,937)
Operating profit		177,953	148,741
Finance costs	5	<u>(42,591)</u>	(43,646)
Profit before income tax		135,362	105,095
Income tax expense	6	<u>(27,666)</u>	(34,965)
Profit for the year		<u><u>107,696</u></u>	<u><u>70,130</u></u>
Profit for the year attributable to:			
Owners of the Company		107,696	69,996
Non-controlling interests		<u>—</u>	134
		<u><u>107,696</u></u>	<u><u>70,130</u></u>
Earnings per share profit attributable to owners of the Company			
Basic and diluted (expressed in HK\$ per share)	7	<u><u>0.11</u></u>	<u><u>0.26</u></u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 HK\$'000	2018 <i>HK\$'000</i>
Profit for the year	107,696	70,130
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss:</i>		
Currency translation differences	(17,719)	(41,975)
Reclassification of exchange reserve upon deregistration/disposal of subsidiaries	<u> –</u>	<u> (144)</u>
Total comprehensive income for the year	<u>89,977</u>	<u>28,011</u>
Total comprehensive income attributable to:		
Owners of the Company	89,977	27,604
Non-controlling interests	<u> –</u>	<u> 407</u>
	<u>89,977</u>	<u>28,011</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	<i>Note</i>	2019 HK\$'000	2018 <i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		2,222	1,810
Right-of-use assets		3,075	–
Receivable under service concession arrangement	9	1,477,659	1,266,925
Intangible assets		76,282	66,457
Restricted bank balances		4,474	4,554
		<u>1,563,712</u>	<u>1,339,746</u>
Current assets			
Inventories		1,146	731
Trade and other receivables	10	197,352	72,389
Receivable under service concession arrangement	9	269,717	264,922
Cash and cash equivalents		186,289	296,897
		<u>654,504</u>	<u>634,939</u>
Total assets		<u><u>2,218,216</u></u>	<u><u>1,974,685</u></u>
EQUITY			
Capital and reserves			
Share capital		10,000	10,000
Reserves		670,081	687,800
Retained earnings		379,875	272,179
Total equity		<u><u>1,059,956</u></u>	<u><u>969,979</u></u>

	<i>Note</i>	2019 HK\$'000	2018 HK\$'000
LIABILITIES			
Non-current liabilities			
Long-term borrowings	<i>11</i>	713,116	685,176
Lease liabilities		2,361	–
Deferred tax liabilities		118,653	106,540
		<u>834,130</u>	<u>791,716</u>
Current liabilities			
Trade and other payables	<i>12</i>	239,443	128,149
Tax payable		2,772	6,361
Current portion of long-term borrowings	<i>11</i>	68,204	66,526
Short-term borrowings	<i>11</i>	12,864	11,954
Lease liabilities		847	–
		<u>324,130</u>	<u>212,990</u>
Total liabilities		<u>1,158,260</u>	<u>1,004,706</u>
Total equity and liabilities		<u>2,218,216</u>	<u>1,974,685</u>
Net current assets		<u>330,374</u>	<u>421,949</u>
Total assets less current liabilities		<u>1,894,086</u>	<u>1,761,695</u>

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the disclosure requirements of the Hong Kong Company Ordinance. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements.

2. APPLICATION OF NEW STANDARD AND AMENDMENTS TO HKFRS

Amendments to standards and improvements to HKFRS adopted in 2019

In 2019, the Group has adopted the following amendments to standards which are relevant to its operations:

HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
Annual Improvements Project	Annual Improvements 2015–2017 Cycle
HKFRS 16	Leases
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HK(IFRC)-Int 23	Uncertainty over Income Tax Treatments

In the current year, the Group has adopted all of the new and revised standards, amendments and interpretations issued by the HKICPA that are relevant to the Group’s operations and mandatory for annual periods beginning 1 January 2019. The Group had changed its accounting policies for leases with effect from 1 January 2019 as a result of adopting the new lease accounting standard Hong Kong Financial Reporting Standard 16 “Leases” (“**HKFRS 16**”). Other than changes in accounting policies resulting from application of HKFRS 16, the accounting policies used in the preparation of this financial statements are consistent with those used in prior years. A summary of the accounting policies for leases adopted with effect from 1 January 2019 are set out below.

Except for the adoption of HKFRS 16, the adoption of the other new and revised standards, amendments and interpretations does not have significant effect on the results and financial position of the Group.

HKFRS 16 “Leases”

The new leases standard HKFRS 16 “Leases” is mandatory for the Group’s financial statements for annual periods beginning on or after 1 January 2019. HKFRS 16 replaces HKAS 17 “Leases”. HKFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The new lease standard requires lessees to account for all leases, except for certain recognition exemption covered below, in a similar way to finance leases under the principles of precedent lease accounting standard HKAS 17. At the commencement date of the lease, the lessee recognises and measures a lease liability at the present value of the minimum future lease payments and recognises a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee recognises interest expense accrued on the outstanding balance of the lease liability and the depreciation of the right-of-use asset.

Under the new lease standard, total interest and depreciation over the entire term of a lease equals total rental expense under HKAS 17, but total lease expense on an individual lease basis is front loaded as interest is higher in the beginning of the term whereas rental expense under the HKAS 17 basis is recognised on a straight-line basis.

HKFRS 16 has no impact on:

- cashflows
- the Group's underlying business economics
- how the Group operates the businesses

In applying HKFRS 16 for the first time, the Group has applied the following recognition exemptions and practical expedients permitted by the standard:

- grandfather the definition of a lease for existing contracts at the date of initial application.
- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
- the use of recognition exemption to leases with a remaining lease term of less than 12 months as at 1 January 2019

How the Group's leasing activities are accounted for

Until the financial year ended 31 December 2018, the Group's leases were classified as operating leases and payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

Effective from 1 January 2019, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Group. Each lease payment is allocated between the lease liability and interest on lease liability. The interest on lease liability 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 lease liability for each period. The right-of-use assets are depreciated over the shorter of the assets useful life and the lease terms 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 following lease payments:

- fixed payments, less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under guaranteed residual value
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee'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 following:

- the amount of the initial measurement of lease liability
- lease payments made at or before the commencement date less any lease incentives received
- initial direct costs and restoration costs

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.

Effect on adoption of HKFRS 16

The Group has initially applied HKFRS 16 with effect from 1 January 2019. On adoption, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the Group’s lease liabilities on 1 January 2019 was 6.13%.

The adoption of HKFRS 16 does not have any significant effect on the results and financial positions of the Group on 1 January 2019.

Standards, amendments to standards and interpretation which are not yet effective

The following new standards and amendments to existing standards have been issued and are mandatory for the Group’s accounting periods beginning after 1 January 2020 and later periods and have not been early adopted:

		Effective for accounting periods beginning on or after
HKAS 1 and HKAS 8	Definition of Material	1 January 2020
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Interest Rate Benchmark Reform	1 January 2020
HKFRS 3 (Amendments)	Definition of Business	1 January 2020
Conceptual Framework for Financial Reporting 2019	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group has already commenced an assessment of the impact to the Group and do not expect there will be any substantial changes to the Group’s significant accounting policies and presentation of consolidated financial statements.

3. REVENUE

	2019 HK\$’000	2018 HK\$’000
Wastewater treatment operation services	132,226	142,714
Recycle water supply operation services	5,912	5,403
Wastewater treatment construction services	274,168	248,656
Finance income from service concession arrangement	103,095	95,018
Management fees from related companies	–	714
	515,401	492,505

4. OTHER INCOME

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Government subsidy (<i>note (i)</i>)	17,605	–
Interest income	3,548	1,124
VAT refund (<i>note (ii)</i>)	1,406	2,764
Others	482	252
	<u>23,041</u>	<u>4,140</u>

Notes:

- (i) The amount represented the incentive received in the current year 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 were refunded according to Caishui 2015 No. 78. The Group was 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.

5. FINANCE COSTS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Interest expenses on borrowings	42,511	43,360
Interest expenses on loan from LGB Group (HK) Limited	–	286
Interest expenses on lease liabilities	80	–
	<u>42,591</u>	<u>43,646</u>

6. INCOME TAX EXPENSE

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current income tax	13,531	13,512
Deferred income tax	14,135	21,453
	<u>27,666</u>	<u>34,965</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 in issue during the year.

	2019	2018
Profit attributable to the ordinary shareholders of the Company (HK\$'000)	107,696	69,996
Weighted average number of ordinary shares in issue (thousand shares)	1,000,000	273,973
Basic earnings per share (HK\$ per share) (note)	<u>0.11</u>	<u>0.26</u>

Note: The decrease was primarily due to increase in number of ordinary shares in issue pursuant to capitalisation of shareholder's loan and the Share Offer (as defined below) which took place in September and November 2018, respectively.

(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 31 December 2018 and 2019, respectively.

8. DIVIDENDS

No dividend has been paid or declared by the Company for the year ended 31 December 2018 and 2019, respectively.

9. RECEIVABLE UNDER SERVICE CONCESSION ARRANGEMENT

	2019 HK\$'000	2018 HK\$'000
— Current	269,717	264,922
— Non-current	<u>1,477,659</u>	<u>1,266,925</u>
	<u>1,747,376</u>	<u>1,531,847</u>

10. TRADE AND OTHER RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Trade receivables (note)	174,604	49,947
Other receivables	5,109	6,735
Loan receivable	6,809	6,830
Prepayments	<u>10,830</u>	<u>8,877</u>
	<u>197,352</u>	<u>72,389</u>

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
0–30 days	22,456	26,372
31–60 days	48,201	23,572
61–90 days	21,923	1
Over 90 days	82,024	2
	<u>174,604</u>	<u>49,947</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 coronavirus (COVID-19) outbreak.

11. BORROWINGS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Non-current		
Long-term borrowings	713,116	685,176
Current		
Current portion of long-term borrowings	68,204	66,526
Short-term borrowings	12,864	11,954
	<u>794,184</u>	<u>763,656</u>

12. TRADE AND OTHER PAYABLES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade payables	36,665	9,216
Retention payables	38,874	21,213
Other payables and accruals	163,904	97,720
	<u>239,443</u>	<u>128,149</u>

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
0–30 days	5,881	3,640
31–60 days	27,120	4,024
61–90 days	2,139	71
Over 90 days	1,525	1,481
	<u>36,665</u>	<u>9,216</u>

13. SUBSEQUENT EVENTS

Since the outbreak of COVID-19 virus disease in early 2020, a series of precautionary and control measures have been and continued to be implemented across the PRC. Our Group has implemented precautionary and control measures to combat against this disease and safeguard our employees and our business operations. The Group will pay close attention to the development of this disease and evaluate its impact on the financial position and operating results of the Group. Given the dynamic nature of the COVID-19 outbreak, it is not practicable to provide a reasonable estimate of its impacts on the Group's financial position, cash flows and operating results at the date of this announcement.

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 People's Republic of China (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 31 December 2019, our aggregate daily wastewater treatment capacity had been increased to 475,000 cubic metres per day, and the discharge standard for all plants had been upgraded to Class IA and Quasi Surface Water Standard Class IV (準四類水標準). We have completed the construction works for the expansion of Plant 4 by additional capacity of 100,000 cubic meters per day during the year. The expansion of Plant 4 has entered into testing and commissioning stage in December 2019 and is currently in the process of obtaining the completion acceptance. On the other hand, the expansion of Plant 2 by additional capacity of 25,000 cubic meters 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.

For the year ended 31 December 2019, the total quantity of water effluent treated was approximately 100.1 million cubic meters, representing a decrease of approximately 12% from the year ended 31 December 2018 at approximately 113.4 million cubic meters, mainly due to overall lower inflow of wastewater during the year. Our Group has actively adhered to all the prescribed discharge standards/parameters set in the national policies throughout the year and had not encountered any material quality problems or disruption with respect to our wastewater treatment services.

The Group reported a full year revenue and profit after tax ("PAT") of HK\$515.4 million and HK\$107.7 million, respectively, higher than revenue and PAT of HK\$492.5 million and HK\$70.1 million, respectively, achieved a year ago. The profit performance for the year was mainly attributable to savings from one-off listing expenses (HK\$19.0 million incurred in 2018) and a one-off cash incentive of approximately HK\$17.6 million (equivalent to RMB15.0 million) received from Ningxia Hui Autonomous Region Finance Bureau (寧夏回族自治區財政廳) for our successful listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in November 2018.

OUTLOOK

For the year 2020, China economy's potential growth is expected to be affected by the COVID-19 outbreak through slower consumer spending and production disruptions arising from logistical disruptions in and outbound China, and the global oil price and production shocks affecting the world economy directly and collaterally.

To cushion the economic impact caused by COVID-19 outbreak, China central and local governments have been rolling out a series of supporting policies to shore up the confidence of businesses and ease some of their compliance burdens, besides ensuring steady medical supplies and daily necessities. The supporting policies include policies guiding businesses to resume production, measures to facilitate foreign trade, provision of tax and fee reductions and exemptions, financial support, social security benefits, energy cost reduction, and incentives for medical supply donations.

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 a decrease in wastewater volume treated for Plant 1, Plant 2 and Plant 4 as lesser inflow of wastewater from the plants' service area. Besides, we have noticed 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.

However, operationally, our Group has experienced minimal disruption on our plants' operation as our operation are not labour intensive, the plants' set up are largely automated and monitored through our quality control system. We also have enough stock of consumables to ensure the water quality meet the required discharge standard. As an immediate precautionary measure for the staff's safety, our Group has implemented remote work flexibility for employees (except operation team) and carrying out daily cleaning and disinfection at all our plants.

The Group's strategy for this year is to focus on finalising the new tariff and new daily basic volume for the expansion and upgrading works done on Plant 1, Plant 2 and Plant 4, respectively. The management will work closely with the local authorities and the independent third parties, which are jointly appointed by the Municipal Administration of Yinchuan (銀川市市政管理局), Yinchuan Treasury Bureau and our Group's main subsidiary, Taliworks (Yinchuan) Wastewater Treatment Co., Ltd, to finalise the audit of our capital investment costs and operation costs.

FINANCIAL REVIEW

Results of Operations

Revenue

The 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 increased from approximately HK\$492.5 million for the year ended 31 December 2018 to approximately HK\$515.4 million for the year ended 31 December 2019, representing a year-on-year increase of approximately HK\$22.9 million or approximately 5%. The revenue contribution by our three major components during the year were as follows, (i) approximately 53% of our revenue was derived from wastewater treatment construction services; (ii) approximately 26% of our revenue was derived from wastewater treatment operation services; (iii) approximately 20% of our revenue was derived from finance income from service concession arrangement. The primary reasons for the increase in revenue during 1 January 2019 to 31 December 2019 (“**Reporting Period**”) are attributable to a combined effect as set out below:

- revenue derived from the wastewater treatment operation services decreased from approximately HK\$142.7 million for the year ended 31 December 2018 to approximately HK\$132.2 million for the year ended 31 December 2019, representing a year-on-year decrease of approximately HK\$10.5 million or approximately 7%. The revenue from wastewater treatment operation services in RMB were relatively stable for the year ended 31 December 2018 and 2019, respectively. The decrease was mainly due to depreciation of our functional currency, RMB against our reporting currency, HK\$ during the Reporting Period (2019 RMB/HK\$ average rate: 1.1349; 2018 RMB/HK\$ average rate: 1.1869);
- revenue derived from the wastewater treatment construction services increased from approximately HK\$248.7 million for the year ended 31 December 2018 to approximately HK\$274.2 million for the year ended 31 December 2019, representing a year-on-year increase of approximately HK\$25.5 million or approximately 10%, which was primarily attributable to expansion works carried out on Plant 4 during the year;
- revenue derived from the finance income from service concession arrangement increased from approximately HK\$95.0 million for the year ended 31 December 2018 to approximately HK\$103.1 million for the year ended 31 December 2019, representing a year-on-year increase of approximately HK\$8.1 million or approximately 9%, which was primarily attributable to the increase in receivable under the service concession arrangement mainly as a result of the expansion works during the year; and
- the remaining revenue was primarily attributable to the recycle water supply operation services and management fees from related companies, which remained largely stable at approximately HK\$6.1 million and HK\$5.9 million for the two years ended 31 December 2018 and 2019, respectively.

Cost of sales

Our cost of sales increased from approximately HK\$316.4 million for the year ended 31 December 2018 to approximately HK\$344.3 million for the year ended 31 December 2019, representing a year-on-year increase of approximately HK\$27.9 million or approximately 9%, which was primarily attributable to the increase in construction costs and cost of wastewater treatment operation, further analysis of which is set out below:

- construction costs increased from approximately HK\$226.1 million for the year ended 31 December 2018 to approximately HK\$249.2 million for the year ended 31 December 2019, representing an increase of approximately HK\$23.1 million or approximately 10%. The construction costs recorded during the Reporting Period was mainly attributable to upgrading and expansion works carried out on Plant 4. The expansion of Plant 4 was at near completion stage as at 31 December 2019;
- costs of wastewater treatment operation increased from approximately HK\$74.5 million for the year ended 31 December 2018 to approximately HK\$77.9 million for the year ended 31 December 2019, representing an increase of approximately HK\$3.4 million or approximately 5%. Such increase was mainly attributable to higher chemical cost resulted from higher chemical dosage to meet the heightened discharge standard requirement during the Reporting Period;
- 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 increase from approximately HK\$15.9 million for the year ended 31 December 2018 to approximately HK\$17.2 million for the year ended 31 December 2019, representing an increase of approximately HK\$1.3 million or approximately 8%. Such movement was mainly attributable to higher amortisation expenses and higher repair and maintenance cost during the Reporting Period.

Gross profit and gross profit margin

Our gross profit decreased slightly from approximately HK\$176.1 million for the year ended 31 December 2018 to approximately HK\$171.1 million for the year ended 31 December 2019, representing a year-on-year decrease of approximately HK\$5.0 million. Our gross profit margin decreased from 36% for the year ended 31 December 2018 to 33% for the year ended 31 December 2019. 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\$57.7 million and HK\$43.1 million for the year ended 31 December 2018 and 2019, respectively. The decrease was mainly attributable to lower revenue recognised, coupled with higher operating cost resulted from more stringent discharge standard requirement during the Reporting Period;

- construction services, which contributed to approximately 53% of our revenue for the year ended 31 December 2019 (2018: approximately 50%), has lower gross profit margin than wastewater treatment operation services, which contributed to approximately 26% of our revenue for the year ended 31 December 2019 (2018: approximately 29%); and
- our finance income from service concession arrangement, representing the imputed interest income, amounted to approximately HK\$95.0 million and HK\$103.1 million for the year ended 31 December 2018 and 2019, respectively.

Other income

Other income increased by approximately HK\$18.9 million, or approximately 461%, to approximately HK\$23.0 million for the year ended 31 December 2019 from approximately HK\$4.1 million for the year ended 31 December 2018. Such increase was mainly attributable to one-off cash incentive of approximately HK\$17.6 million (equivalent to RMB15.0 million) that we received from Ningxia Hui Autonomous Region Finance Bureau for our successful listing on the Main Board of the Stock Exchange.

Other gains, net

Our Group recorded other gains, net of approximately HK\$4.5 million for the year ended 31 December 2019, representing a year-on-year decrease of approximately HK\$0.9 million or approximately 17%, from other gains, net of approximately HK\$5.4 million for the year ended 31 December 2018. Such decrease in the other gains, net balance was mainly attributable to a combined effect of the increase in change in the carrying value of receivable under service concession arrangement by approximately HK\$4.7 million (2018: nil) offsetted by the unfavourable movement in RMB/HKD during the Reporting Period resulted in net foreign exchange loss of approximately HK\$0.2 million (2018: net foreign exchange gains of approximately HK\$3.9 million).

General and administrative expenses

General and administrative expenses, excluding one-off listing expenses of approximately HK\$19.0 million recognised in 2018, increased by approximately HK\$2.7 million, or approximately 15%, to approximately HK\$20.6 million for the year ended 31 December 2019 from approximately HK\$17.9 million for the year ended 31 December 2018. Such increase was primarily due to increase in the legal and professional fee for the year ended 31 December 2019 amounted to approximately HK\$4.6 million.

Finance costs

Finance costs decreased by approximately HK\$1.0 million, or approximately 2%, to approximately HK\$42.6 million for the year ended 31 December 2019 from approximately HK\$43.6 million for the year ended 31 December 2018. Such decrease was mainly attributable to depreciation of our functional currency, RMB against our reporting currency, HK\$ during the Reporting Period.

Income tax expenses

We incurred income tax expense of approximately HK\$35.0 million for the year ended 31 December 2018 and approximately HK\$27.7 million for the year ended 31 December 2019 at effective tax rates of approximately 33% and 20%, respectively. The decrease in 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 environment protection industry for tax assessment years from 2019 to 2021.

Profit and total comprehensive income for the year

As a result of the foregoing factors, our profit for the year increased from approximately HK\$70.1 million for the year ended 31 December 2018 to approximately HK\$107.7 million for the year ended 31 December 2019, representing an increase of approximately HK\$37.6 million, or approximately 54%.

The total comprehensive income for the year ended 31 December 2018 amounted to approximately HK\$28.0 million compared to approximately HK\$90.0 million for the year ended 31 December 2019. The difference between the profit for the year and the total comprehensive income for the year was due to currency translation differences from the translation of RMB being our functional currency to HK\$ being our reporting currency (2019 RMB/HK\$ average rate: 1.1349; 2018 RMB/HK\$ average rate: 1.1869).

Earnings per share

For the year ended 31 December 2019, the earnings per share for profit attributable to owners of the Company (basic and diluted) was HK\$0.11 per share as compared to HK\$0.26 per share for the year ended 31 December 2018. Such decrease was primarily due to increase in the number of ordinary shares in issue pursuant to capitalisation of shareholders' loan and the Share Offer (as defined below) which took place 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\$269.7 million as at 31 December 2018 and 2019, respectively; and (ii) non-current assets were approximately HK\$1,266.9 million and HK\$1,477.7 million as at 31 December 2018 and 2019, respectively.

Our total receivable under service concession arrangement amounted to approximately HK\$1,531.8 million and HK\$1,747.4 million as at 31 December 2018 and 2019, respectively. This represented a year-on-year increase of approximately 14% from 2018 to 2019, primarily due to the tariff payments received by our Group being less 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 year ended 31 December 2019.

Cash and bank balances

Our Group's cash and bank balances decreased by approximately 37% to approximately HK\$186.3 million in 2019 as compared to approximately HK\$296.9 million in 2018, mainly due to longer receivables turnover period (2019: 124 days; 2018: 37 days). The cash and bank balances were denominated in HK\$, RMB and US\$.

Borrowings

As at 31 December 2019, our Group had bank borrowings of approximately HK\$794.2 million (2018: HK\$763.7 million), represented by short-term working capital loan of HK\$12.9 million (2018: HK\$12.0 million) and long-term loan of HK\$781.3 million (2018: HK\$751.7 million), which were denominated in RMB.

Gearing ratio

As at 31 December 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 57% (2018: approximately 48%).

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, 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 31 December 2019.

Dividends

No final dividend has been recommended by the Board for the year ended 31 December 2018 and 2019, respectively.

Contractual Obligations

Capital commitments

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

	As at 31 December	
	2019	2018
	HK\$'000	HK\$'000
Contracted but not provided for	—	88,725

As at 31 December 2018, our capital commitments of approximately HK\$88.7 million was related to the expansion works of Plant 4.

Lease commitments

As at 31 December 2018, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As at 31 December 2018 HK\$'000
Within one year	439

Effective from 1 January 2019, the Group has recognised right-of-use assets for these leases.

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 31 December 2019 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 in 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 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 31 December 2019, 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 3.12 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 consolidated annual results of our Group for the financial year ended 31 December 2019. The Audit Committee has also reviewed our Group’s internal control and risk management systems.

SCOPE OF WORK OF THE AUDITOR

The figures as set out in this announcement in respect of our Group’s results for the year ended 31 December 2019 have been agreed by our Company’s auditor, PricewaterhouseCoopers, to the amounts set out in our Group’s draft consolidated financial statements for the year. 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.

EVENT 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 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Our Company has made specific enquiries with all of its 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 ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The annual 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 annual report of our Company for the year ended 31 December 2019 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 in 2019.

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

Hong Kong, 31 March 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.