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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 2020

FINANCIAL HIGHLIGHTS

- Revenue for the year was approximately HK\$305.0 million, representing a year-on-year decrease of approximately HK\$210.4 million or approximately 41% as compared to approximately HK\$515.4 million in the preceding year.
- Gross profit for the year was approximately HK\$199.2 million, representing a year-on-year increase of approximately HK\$28.1 million or approximately 16% as compared to approximately HK\$171.1 million in the preceding year.
- Profit for the year was approximately HK\$126.5 million, representing a year-on-year increase of approximately HK\$18.8 million or approximately 17% as compared to approximately HK\$107.7 million in the preceding year.

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 2020 (the “**Reporting Period**”) with the comparative figures for the preceding financial year, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

	Note	2020 HK\$'000	2019 HK\$'000
Revenue			
— Wastewater treatment operation services		129,152	132,226
— Wastewater treatment construction services		51,105	274,168
— Finance income from service concession arrangement		118,577	103,095
— Others		6,144	5,912
	3	<u>304,978</u>	<u>515,401</u>
Cost of sales		<u>(105,821)</u>	<u>(344,312)</u>
Gross profit		199,157	171,089
Other income	4	15,301	23,041
Other gains, net		11	4,461
General and administrative expenses		<u>(15,409)</u>	<u>(20,638)</u>
Operating profit		199,060	177,953
Finance costs	5	<u>(44,961)</u>	<u>(42,591)</u>
Profit before income tax		154,099	135,362
Income tax expense	6	<u>(27,563)</u>	<u>(27,666)</u>
Profit for the year		<u>126,536</u>	<u>107,696</u>
Profit for the year attributable to:			
Owners of the Company		<u>126,536</u>	<u>107,696</u>
Earnings per share profit attributable to owners of the Company			
Basic and diluted (<i>expressed in HK\$ per share</i>)	7	<u>0.13</u>	<u>0.11</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit for the year	126,536	107,696
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss:</i>		
Currency translation differences	69,106	(17,719)
Reclassification of exchange reserve upon deregistration of a subsidiary	<u>173</u>	<u>–</u>
Total comprehensive income for the year	<u>195,815</u>	<u>89,977</u>
Total comprehensive income attributable to:		
Owners of the Company	<u>195,815</u>	<u>89,977</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	2020 HK\$'000	2019 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		2,454	2,222
Right-of-use assets		2,359	3,075
Receivable under service concession arrangement	9	1,583,840	1,477,659
Intangible assets		80,020	76,282
Restricted bank balances		4,751	4,474
		<u>1,673,424</u>	<u>1,563,712</u>
Current assets			
Inventories		1,202	1,146
Trade and other receivables	10	390,983	197,352
Receivable under service concession arrangement	9	301,250	269,717
Cash and cash equivalents		107,325	186,289
		<u>800,760</u>	<u>654,504</u>
Total assets		<u><u>2,474,184</u></u>	<u><u>2,218,216</u></u>
EQUITY			
Capital and reserves			
Share capital		10,000	10,000
Reserves		739,360	670,081
Retained earnings		506,411	379,875
		<u>1,255,771</u>	<u>1,059,956</u>
Total equity		<u><u>1,255,771</u></u>	<u><u>1,059,956</u></u>

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
LIABILITIES			
Non-current liabilities			
Long-term borrowings	<i>11</i>	777,460	713,116
Lease liabilities		1,702	2,361
Deferred tax liabilities		140,815	118,653
		<u>919,977</u>	<u>834,130</u>
Current liabilities			
Trade and other payables	<i>12</i>	243,190	239,443
Tax payable		4,229	2,772
Current portion of long-term borrowings	<i>11</i>	27,599	68,204
Short-term borrowings	<i>11</i>	22,565	12,864
Lease liabilities		853	847
		<u>298,436</u>	<u>324,130</u>
Total liabilities		<u>1,218,413</u>	<u>1,158,260</u>
Total equity and liabilities		<u>2,474,184</u>	<u>2,218,216</u>
Net current assets		<u>502,324</u>	<u>330,374</u>
Total assets less current liabilities		<u>2,175,748</u>	<u>1,894,086</u>

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The consolidated financial statements of the Group has been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by the 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

Standards and amendments to standards adopted in 2020

In 2020, the Group has adopted the following standards and amendments to standards which are relevant to its operations:

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

The adoption of the above standards and amendments to standards has no material effect on the results and financial position of the Group.

Standards and amendments to standards 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 2021 and later periods and have not been early adopted:

		Effective for accounting periods beginning on or after
HKFRS 16 (Amendments)	COVID-19-Related Rent Concessions	1 June 2020
HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform — Phase 2	1 January 2021
Annual Improvements Project (Amendments)	Annual Improvements to HKFRSs 2018–2020	1 January 2022
HKFRS 3 (Amendments)	Reference to Conceptual Framework	1 January 2022
HKAS 16 (Amendments)	Proceeds before Intended Use	1 January 2022
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Wastewater treatment operation services	129,152	132,226
Wastewater treatment construction services	51,105	274,168
Finance income from service concession arrangement	118,577	103,095
Recycle water supply operation services	6,144	5,912
	<u>304,978</u>	<u>515,401</u>

4. OTHER INCOME

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Government subsidy (<i>note (i)</i>)	11,363	17,605
Interest income	2,384	3,548
VAT refund (<i>note (ii)</i>)	1,216	1,406
Others	338	482
	<u>15,301</u>	<u>23,041</u>

Notes:

- (i) The government subsidy of HK\$11.4 million in 2020 represents the incentive received from Ningxia Hui Autonomous Region Finance Bureau and Ningxia Hui Autonomous Region Housing and Urban-Rural Development Bureau for successfully upgraded the Plant 4 Phase 2 to Quasi Surface Water Standard Class IV discharge standard.

The government subsidy of HK\$17.6 million in 2019 represents the incentive received 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 ("**Stock Exchange**").

- (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 Transfer-Operate-Transfer ("**TOT**") agreement. Hence the Group recognised these VAT refunds attributable to intangible assets as other income.

5. FINANCE COSTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest expenses on borrowings	44,786	42,511
Interest expenses on lease liabilities	175	80
	<u>44,961</u>	<u>42,591</u>

6. INCOME TAX EXPENSE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current income tax	13,512	13,531
Deferred income tax	14,051	14,135
	<u>27,563</u>	<u>27,666</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.

	2020	2019
Profit attributable to the ordinary shareholders of the Company <i>(HK\$'000)</i>	126,536	107,696
Weighted average number of ordinary shares in issue <i>(thousand)</i>	1,000,000	1,000,000
Basic earnings per share <i>(HK\$ per share)</i>	<u>0.13</u>	<u>0.11</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 31 December 2019 and 2020, respectively.

8. DIVIDENDS

No dividend has been paid or declared by the Company for the year ended 31 December 2019 and 2020, respectively.

9. RECEIVABLE UNDER SERVICE CONCESSION ARRANGEMENT

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
— Current	301,250	269,717
— Non-current	1,583,840	1,477,659
	<u>1,885,090</u>	<u>1,747,376</u>

On 27 July 2020, the 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**”).

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 has not drawn any conclusion as at to date. There is no impairment indicator identified as of the financial year ended 31 December 2020. The Group will continue to monitor the ongoing development of the Proposal and its potential impact on the financial position and operating results accordingly.

10. TRADE AND OTHER RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables (<i>note</i>)	364,201	174,604
Other receivables	15,667	5,109
Loan receivable	–	6,809
Prepayments	11,115	10,830
	<u>390,983</u>	<u>197,352</u>

Note: The increase was primarily due to 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. The management considered the expected credit loss was minimal because (i) the majority of the trade and other receivables are due from governmental authorities in the PRC which has no recent history of impairment; (ii) there is no deterioration on the credit rating of the debtor; and (iii) the Group has continued to receive partial repayments from the debtor and have discussed the latest settlement plan with the debtor. The amortised cost remains the same before and after the modification of settlement plan.

In general, the Group agreed the credit periods with each customer individually. Aging analysis of trade receivables based on the invoice dates is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0–30 days	25,689	22,456
31–60 days	27,362	48,201
61–90 days	25,471	21,923
Over 90 days	285,679	82,024
	<u>364,201</u>	<u>174,604</u>

11. BORROWINGS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current		
Long-term borrowings	777,460	713,116
Current		
Current portion of long-term borrowings	27,599	68,204
Short-term borrowings	22,565	12,864
	<u>827,624</u>	<u>794,184</u>

12. TRADE AND OTHER PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	111,849	36,665
Retention payables	40,596	38,874
Other payables and accruals	90,745	163,904
	<u>243,190</u>	<u>239,443</u>

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0–30 days	5,823	5,881
31–60 days	3,611	27,120
61–90 days	3,603	2,139
Over 90 days	98,812	1,525
	<u>111,849</u>	<u>36,665</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 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 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 recycle water, which is 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 2020, our aggregate daily wastewater treatment capacity was 475,000 cubic metres per day, and the discharge standard for all wastewater treatment plants were Class IA and Quasi Surface Water Standard Class IV (準四類水標準).

During the Reporting Period, the tariff at Plant 3 has been revised from RMB2.49 per cubic metre to RMB2.57 per cubic metre, representing an increase of approximately 3%. The tariff revision was approved by the local government, which was in accordance with the Concession Agreement. The said wastewater treatment plant has commenced billing to the customer on the volume of wastewater treated based on the new tariff with effect from 1 January 2020.

The expansion of Plant 4 has commenced operations on 1 January 2020 after obtaining the environmental acceptance on 31 December 2019 and the said wastewater treatment plant has commenced billing to the customer on the volume of wastewater treated based on interim tariff of RMB2.00 per cubic metre.

For the year ended 31 December 2020, the total quantity of water effluent treated was approximately 104.6 million cubic metres, representing an increase of approximately 5% from the year ended 31 December 2019 at approximately 100.1 million cubic metres, mainly due to overall higher inflow of wastewater during the second half of 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.

Despite the on-going COVID-19 pandemic, our Group has experienced minimal disruption on our wastewater treatment plants' operations as our operations are not labour intensive, where our wastewater treatment plants' set up are largely automated and monitored through our quality control system. We also have enough stock of consumables to ensure minimal disruption to our operations and the treated wastewater quality throughout the year meets all the required discharge standards/parameters. Our Group has adopted precautionary measures for the staff's safety by implementing remote work flexibility for employees (except operation team) and carrying out daily cleaning and disinfection at all our wastewater treatment plants. The COVID-19 pandemic has affected our collection of receivables from our customer as the time for payment processing has been prolonged. However, no impairment provision is made on the trade receivables as at 31 December 2020, as the management considered the expected credit loss was minimal based on our assessment.

The Group reported a full year revenue and profit after tax (“PAT”) of HK\$305.0 million and HK\$126.5 million, respectively. The revenue was lower than the preceding year revenue of HK\$515.4 million. However, the PAT was higher than the preceding year PAT of HK\$107.7 million.

The lower revenue for the Reporting Period was primarily attributable to lower construction revenue recognised as Plant 4 expansion was completed. The higher PAT for the Reporting Period was mainly attributable to lower chemical costs by approximately HK\$21.9 million resulted from management’s continuous efforts to optimise the consumption of chemicals.

DEVELOPMENT STRATEGY AND PROSPECTS

For the year 2021, China’s economy is expected to grow by approximately 8%, with strong demand and a quicker-than-expected resumption of production and exports spearheading a strong rebound. China’s output is estimated to rebound at a faster-than-expected pace, primarily due to support from infrastructure spending¹.

China’s swift economic recovery after the COVID-19 pandemic was due to the improvement in infrastructure investment supported by acceleration in housing sales, as well as improvement in manufacturing investment supported by the strong global demand for durable goods including electronics. There also has been an increase in consumer spending with the growth in retail sales. This reflects stronger job market and the success in containing the COVID-19 pandemic. The containment of new COVID-19 cases has allowed socially intensive consumption to return, as evidenced in the surge in retail sales growth².

The Group’s strategy for this year is to focus on finalising the new tariff and new basic volume with the local authorities for the expansion and/or upgrading works done on Plant 1, Plant 2 Phase 1, Plant 4 Phase 1 (upgrading works) and Plant 4 Phase 2 (expansion works), respectively. The management will continue to work closely with the local authorities and the independent auditor which are jointly appointed by the Municipal Administration of Yinchuan (銀川市市政管理局), Yinchuan Treasury Bureau (銀川市財政局) and us on this matter.

Operationally, our Group will continue to strengthen our mission of ensuring stable operations, 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 will also continue to focus on cost optimisation and increase efficiency in managing our wastewater treatment plants. Moreover, our Group strives to manage cash flow prudently especially during the on-going COVID-19 pandemic where the collection from the customer is slow.

Our Group is also eyeing for potential merger and acquisition opportunities for wastewater treatment assets in Yinchuan, Ningxia and other regions within the PRC with the aim of strengthening our footprint in the PRC and the region.

¹ Source: *Global Economic Prospects — January 2021, World Bank Group*

² Source: *Global Economic Outlook — December 2020, Fitch Ratings*

FINANCIAL REVIEW

Results of Operations

Revenue

The Group's revenue is derived from (i) wastewater treatment operation services; (ii) wastewater treatment construction services for the upgrading and expansion of our existing wastewater treatment facilities; 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\$515.4 million for the year ended 31 December 2019 to approximately HK\$305.0 million for the year ended 31 December 2020, representing a year-on-year decrease of approximately HK\$210.4 million or approximately 41%. The revenue contributions by our three major components during the year were as follows: (i) approximately 42% of our revenue was derived from wastewater treatment operation services; (ii) approximately 17% of our revenue was derived from wastewater treatment construction services and (iii) approximately 39% 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\$132.2 million for the year ended 31 December 2019 to approximately HK\$129.2 million for the year ended 31 December 2020, representing a year-on-year decrease of approximately HK\$3.0 million or approximately 2%. As our operation revenue is recognised on the basis of actual cost with reasonable profit margin, the decrease was mainly attributable to lower costs of wastewater treatment operation incurred during the Reporting Period such as chemical costs. Please refer to the section headed "Financial Review — Cost of sales" in this announcement for further analysis;
- revenue derived from the wastewater treatment construction services decreased from approximately HK\$274.2 million for the year ended 31 December 2019 to approximately HK\$51.1 million for the Reporting Period, representing a year-on-year decrease of approximately HK\$223.1 million or approximately 81%. 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 has been completed. 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\$103.1 million for the year ended 31 December 2019 to approximately HK\$118.6 million for the year ended 31 December 2020, representing a year-on-year increase of approximately HK\$15.5 million or approximately 15%, 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\$5.9 million and HK\$6.1 million for the two years ended 31 December 2019 and 2020, respectively.

Cost of sales

Our cost of sales decreased from approximately HK\$344.3 million for the year ended 31 December 2019 to approximately HK\$105.8 million for the year ended 31 December 2020, representing a year-on-year decrease of approximately HK\$238.5 million or approximately 69%, 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\$77.9 million for the year ended 31 December 2019 to approximately HK\$54.9 million for the year ended 31 December 2020, representing a decrease of approximately HK\$23.0 million or approximately 30%. The decrease was mainly attributable to lower chemical cost by approximately HK\$21.9 million resulted from the management's continuous efforts to optimise the consumption of chemical;
- construction costs decreased from approximately HK\$249.2 million for the year ended 31 December 2019 to approximately HK\$34.2 million for the year ended 31 December 2020, representing a decrease of approximately HK\$215.0 million or approximately 86%. The decrease was primarily attributable to the 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 1, 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\$17.2 million for the year ended 31 December 2019 to approximately HK\$16.8 million for the year ended 31 December 2020. The decrease was mainly attributable to: (i) a decrease of approximately HK\$1.1 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 government's effort to help businesses during this challenging period of COVID-19 pandemic; and (ii) a decrease of approximately HK\$0.9 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\$171.1 million for the year ended 31 December 2019 to approximately HK\$199.2 million for the year ended 31 December 2020, representing a year-on-year increase of approximately HK\$28.1 million or approximately 16%. The increase was primarily attributable to the decrease in chemical costs during the Reporting Period. Our gross profit margin increased from 33% for the year ended 31 December 2019 to 65% for the year ended 31 December 2020.

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\$43.1 million in preceding year to approximately HK\$63.7 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 and lower social security contributions due to the temporary relief from the local government;
- construction services, which contributed to approximately 17% of our revenue for the year ended 31 December 2020 (2019: approximately 53%), has lower gross profit margin than wastewater treatment operation services, which contributed to approximately 42% of our revenue for the year ended 31 December 2020 (2019: approximately 26%); and
- our finance income from service concession arrangement, representing the imputed interest income, amounted to approximately HK\$103.1 million and HK\$118.6 million for the year ended 31 December 2019 and 2020, respectively.

Other income

Other income decreased from approximately HK\$23.0 million for the year ended 31 December 2019 to approximately HK\$15.3 million for the year ended 31 December 2020, representing a decrease of approximately HK\$7.7 million, or approximately 33%. The decrease was mainly attributable to lower one-off cash incentive received from local authorities.

During the Reporting Period, we received a one-off government cash incentive of approximately HK\$11.1 million (equivalent to RMB10.0 million) from Ningxia Hui Autonomous Region Finance Bureau (寧夏回族自治區財政局) and Ningxia Hui Autonomous Region Housing and Urban-Rural Development Bureau (寧夏回族自治區住房和城鄉建設局) for the successful upgrade of Plant 4 expansion to Quasi Surface Water Standard Class IV (準四類水標準) discharge standard.

In the preceding year, we received a one-off cash incentive of approximately HK\$17.6 million (equivalent to RMB15.0 million) 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\$0.01 million for the year ended 31 December 2020, representing a year-on-year decrease of approximately HK\$4.5 million or approximately 100%, from other gains, net of approximately HK\$4.5 million for the year ended 31 December 2019. The decrease in the other gains, net balance was mainly attributable to the change in carrying amounts of receivable under service concession arrangement of approximately HK\$4.7 million in the previous year.

General and administrative expenses

General and administrative expenses decreased from approximately HK\$20.6 million for the year ended 31 December 2019 to approximately HK\$15.4 million for the year ended 31 December 2020, representing a decrease of approximately HK\$5.2 million or approximately 25%. The decrease was primarily due to decrease in the legal and professional fee during the Reporting Period amounted to approximately HK\$4.1 million and lower travelling expenses by approximately HK\$1.3 million due to the movement control imposed by the government in order to control the COVID-19 pandemic.

Finance costs

Finance costs increased by approximately HK\$2.4 million, or approximately 6%, to approximately HK\$45.0 million for the year ended 31 December 2020 from approximately HK\$42.6 million for the year ended 31 December 2019. The increase was in line with higher bank borrowings for the Group as at 31 December 2020. The additional drawdown of loan during the Reporting Period was used to finance the Plant 4 expansion.

Income tax expenses

We incurred income tax expense of approximately HK\$27.7 million for the year ended 31 December 2019 and approximately HK\$27.6 million for the year ended 31 December 2020 at effective tax rates of approximately 20% and 18%, 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 businesses 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 to approximately HK\$126.5 million for the year ended 31 December 2020 from approximately HK\$107.7 million for the year ended 31 December 2019, representing an increase of approximately HK\$18.8 million, or approximately 17%.

The total comprehensive income for the year ended 31 December 2020 amounted to approximately HK\$195.8 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 (2020 RMB/HK\$ closing rate: 1.1876; 2019 RMB/HK\$ closing rate: 1.1186).

Earnings per share

For the year ended 31 December 2020, the earnings per share for profit attributable to owners of the Company (basic and diluted) was HK\$0.13 per share as compared to HK\$0.11 per share for the year ended 31 December 2019. The increase was primarily due to higher profit attributable to owners of the Company for the Reporting Period.

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\$301.3 million as at 31 December 2019 and 2020, respectively; and (ii) non-current assets were approximately HK\$1,477.7 million and HK\$1,583.8 million as at 31 December 2019 and 2020, respectively.

Our total receivable under service concession arrangement amounted to approximately HK\$1,747.4 million and HK\$1,885.1 million as at 31 December 2019 and 2020, respectively. This represented a year-on-year increase of approximately 8% from 2019 to 2020, primarily due to the tariff payments received by our Group was lower 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 2020.

Trade and other receivables

Our Group's trade and other receivables increased by approximately HK\$193.6 million, or approximately 98%, to approximately HK\$391.0 million for the year ended 31 December 2020 from approximately HK\$197.4 million for the year ended 31 December 2019. The increase was primarily attributable to the increase of trade receivables by approximately HK\$189.6 million, as there was a delay in the collection of receivables from our customer where the time taken for payment processing has been prolonged due to extended holidays and remote working arrangements caused by the COVID-19 outbreak.

Cash and bank balances

Our Group's cash and bank balances decreased by approximately 42% to approximately HK\$107.3 million in 2020 as compared to approximately HK\$186.3 million in 2019. The decrease in cash on bank balances was due to longer receivables turnover period (2020: 444 days; 2019: 124 days), as well as higher net repayments of borrowing of approximately HK\$44.7 million as at 31 December 2020 (2019: HK\$55.0 million). The cash and bank balances were denominated in HK\$, RMB and US\$.

Borrowings

As at 31 December 2020, our Group had bank borrowings, which were denominated in RMB, of approximately HK\$827.6 million (2019: HK\$794.2 million), represented by short-term working capital loan of HK\$22.6 million (2019: HK\$12.9 million) and long-term loan of HK\$805.0 million (2019: HK\$781.3 million). The increase in borrowings was due to the higher drawdown of loans to fund Plant 4 expansion, as well as higher utilisation of short-term working capital loans during the Reporting Period.

Gearing ratio

As at 31 December 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% (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 31 December 2019 and 2020, respectively.

Dividends

No final dividend has been recommended by the Board for the year ended 31 December 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\$145.0 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 (the “**Supplemental Prospectus**”) during the Reporting Period .

The net proceeds utilised by the Group as at 31 December 2020 are as follows:

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

Change in Use of Proceeds

In order to strengthen the use efficiency of the proceeds, the Board has resolved to change the use of net proceeds from the Share Offer. The proportion of net proceeds for identification and evaluation of new wastewater treatment projects in Yinchuan and/or other regions in the PRC and establishing and future upgrading of centralised monitoring system will be reduced to supplement the general working capital.

Reasons for and Benefits of the Change in Use of Proceeds

- (i) Due to the COVID-19 pandemic, our Company currently has not yet identified any suitable wastewater treatment project, resulting in a low efficiency of the capital use. Our Company strives to manage cash flow prudently especially during the on-going COVID-19 pandemic. The reduction from original amount of HK\$10.4 million to HK\$3.4 million for identification and evaluation of new wastewater treatment projects in Yinchuan and/or other regions in the PRC, where HK\$7.0 million will be used as general working capital and be applied on general uses as required by the Company in its daily operations, is more beneficial to meet the operation needs of our Company and increase its financial effects as well as provide more buffer to cope with the economic uncertainty in the future.

Our Company will use internally generated funds for identification and evaluation of new wastewater treatment projects in PRC, as our Company expects that majority of the costs are payable in RMB.

- (ii) Based on the preliminary quotations for establishing and upgrading of centralised monitoring system currently obtained by our Company from a few PRC suppliers, the estimated budget for such purpose will be lower than HK\$5.2 million. Our Company has decided to use internally generated funds to fund this capital expenditure in RMB. As such, it is more appropriate to adjust such amount of HK\$5.2 million to supplement our general working capital to better meet the current business needs of our Group.

For the reasons set out above, the Board has resolved to change the use of net proceeds from the Share Offer as follows:

	Net proceeds (HK\$ million)			Revised allocation
	Original allocation	Utilised amount as at the date of this announcement	Unutilised balance as at the date of this announcement	
Complete the contemplated upgrading and expansion works of existing wastewater treatment facilities	83.9	(71.3)	12.6	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	3.4 ^(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)	–	12.2 ^(note 4)
Total	104.7	(76.5)	28.2	28.2

Notes:

1. Due to the COVID-19 pandemic, an amount of HK\$12.6 million has not yet been utilised to complete the contemplated upgrading and expansion works of our existing facilities as intended. It is expected that these unutilised proceeds will be used by December 2021, barring any unforeseen circumstances.
2. The original amount of HK\$10.4 million has been revised to HK\$3.4 million, where HK\$7.0 million will be used as general working capital.

As to approximately HK\$3.4 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. The original amount of HK\$5.2 million will be used as general working capital.
4. It is expected that these unutilised proceeds will be used by December 2022, barring any unforeseen circumstances.

Save for the aforesaid changes, there are no other material changes in the use of the net proceeds from the Share Offer. The Board considers that the development direction of our Group is still in line with the disclosure in the Supplemental Prospectus in spite of such change in use of proceeds as stated above. The aforesaid change in the use of net proceeds from the Share Offer is in the interest of our Company and its Shareholders as a whole.

The unutilised net proceeds from the Share Offer are deposited in the bank accounts of our Group with a licensed bank in Hong Kong. The planned use of proceeds as stated herein were based on the best estimation and assumption of future market conditions and industry development made by our Company while the proceeds were applied based on the actual development of our Group's business and the industry.

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 2020. 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 2020 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

Our Group has no material subsequent event 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 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 in 2020.

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

Hong Kong, 30 March 2021

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.