THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in ELL Environmental Holdings Limited, you should at once hand this circular together with the enclosed form of proxy, to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

ELL Environmental Holdings Limited
強泰環保控股有限公司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1395)

(1) VERY SUBSTANTIAL DISPOSAL IN RELATION TO DISPOSAL OF A SUBSIDIARY; AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "DEFINITIONS" of this circular.

A letter from the Board is set out on pages 4 to 15 of this circular. A notice convening the EGM to be held at Unit 2304, 23rd Floor, Westlands Centre, 20 Westlands Road, Hong Kong on Monday, 19 September 2022 at 10:00 a.m. is set out from pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is enclosed with this circular.

A form of proxy for use in connection with the EGM is enclosed with this circular. If you do not intend to attend the EGM in person but wish to exercise your right as a Shareholder, you are requested to complete and sign the form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong not less than 48 hours before the time appointed for holding the EGM or the adjournment thereof. Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the EGM or the adjournment thereof should you so wish and in such event, the form of proxy shall be deemed to be revoked.

* *For identification purpose only*

29 August 2022

In this circular, unless the context otherwise requires, the following terms and expressions shall have the following respective meanings:

"Bangka Plant"	the Group's biomass power plant in Bangka, Indonesia
"Board"	the board of Directors
"Company"	ELL Environmental Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1395)
"Completion"	completion of sale and purchase of the Sale Shares in accordance with the Sale and Purchase Agreement
"Completion Date"	the date on which Completion takes place
"Concession Period"	the aggregated concession period from December 2002 to May 2036 under a series of concession agreements entered into among Everbest, Haian County Construction Bureau, Haian Urban Construction Development Investment and the Target Company
"Conditions Precedent"	the condition(s) precedent to the Completion as set out under the section headed "The Sale and Purchase Agreement — Conditions Precedent" of the announcement of the Company dated 21 July 2022
"Consideration"	the total consideration of approximately RMB68.2 million (inclusive of applicable tax) payable by the Purchaser to the Seller in respect of the Disposal pursuant to Sale and Purchase Agreement
"Director(s)"	director(s) of the Company
"Disposal"	the conditional disposal of the Sale Shares by the Seller to the Purchaser pursuant to the Sale and Purchase Agreement
"EGM"	the EGM of the Company to be held at Unit 2304, 23rd Floor, Westlands Centre, 20 Westlands Road, Hong Kong on Monday, 19 September 2022 at 10:00 a.m. or any adjournment thereof and notice of which is set out from pages EGM-1 to EGM-3 of this circular

"Group"	the Company and its subsidiaries from time to time
"Haian County Construction Bureau"	The Bureau of Housing and Urban-Rural Construction of Haian County (海安市住房和城鄉建設局)
"Haian Urban Construction Development Investment"	Haian Urban Construction Development Investment Group Co., Ltd. (海安市城建開發投資集團有限公司), a limited liability company established under the laws of the PRC, which is wholly-owned by Haian County State-owned Assets Supervision and Administration Office (海安市政府國有資產監督管理辦公室)
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Latest Practicable Date"	22 August 2022, being the latest practicable date prior to printing of this circular for ascertaining certain information included in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC" or "China"	the People's Republic of China, excluding, Hong Kong and the Macau Special Administrative Region
"Purchaser"	CGN Environmental Protection Industry Co., Ltd. (中廣核環保產業有限公司), a limited liability company incorporated under the laws of the PRC
"Remaining Group"	the Group, excluding the Target Company
"RMB"	Renminbi, the lawful currency of the PRC
"Rugao Hengfa"	Rugao Hengfa Water Treatment Company Limited, a limited liability company established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
"Rugao Hengfa Facility"	the wastewater treatment facility operated by Rugao Hengfa
"Sale and Purchase Agreement"	the sale and purchase agreement entered into between the Seller and the Purchaser dated 21 July 2022

"Sale Shares"	70% of the issued share capital of the Target Company
"Seller"	Everbest Water Treatment Development Company Limited (恒發水務發展有限公司), a limited liability company incorporated under the laws of Hong Kong and an indirect wholly-owned subsidiary of the Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of par value HK$0.0001 each in the share capital of our Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary"	has the meaning ascribed to it in the Listing Rules
"Tax Benefit"	the return on the annual amount of the value-added tax paid and the corporate income tax allowance based on the revenue per annum as entitled by the Target Company under the applicable PRC laws
"Target Company"	Haian Hengfa Wastewater Treatment Company Limited (海安恒發污水處理有限公司), a limited liability company established under the laws of the PRC, held by the Seller and Haian Urban Construction Development Investment, as to 70% and 30%, respectively
"Transitional Period"	the period between 31 August 2021 and the Completion Date
"%"	per cent

ELL Environmental Holdings Limited
強泰環保控股有限公司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1395)

Executive Directors:
Mr. Chau On Ta Yuen *(Chairman)*
Mr. Chan Kwan *(Chief Executive Officer)*
Mr. Radius Suhendra
Mr. Chau Chi Yan Benny

Non-Executive Directors:
Mr. Chan Pak Lam Brian

Independent non-executive Directors:
Ms. Ng Chung Yan Linda
Mr. Ng Man Kung
Ms. Leung Bo Yee Nancy

Registered Office:
Cricket Square,
Hutchins Drive, P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Headquarters:
Rugao Hengfa Municipal and Industrial Wastewater Treatment Facility
North of Huimin Road
Rugao Economic and Technological
Development Zone
Jiangsu Province
The PRC

Principal Place of Business in Hong Kong:
Unit 2304, 23/F
Westlands Centre
20 Westlands Road
Quarry Bay
Hong Kong

29 August 2022

To the Shareholders,

Dear Sir or Madam,

**(1) VERY SUBSTANTIAL DISPOSAL IN RELATION TO DISPOSAL OF A SUBSIDIARY;
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 21 July 2022 in relation to the Disposal to the Target Company. On 21 July 2022 (after trading hours), the Seller and the Purchaser entered into the Sale and Purchase Agreement, pursuant to which the Seller has

* *For identification purposes only*

conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Sale Shares at the total Consideration of approximately RMB68.2 million (inclusive of applicable tax) in accordance with the terms and conditions of the Sale and Purchase Agreement.

The purpose of this circular is to provide you with, among other things, (i) further details of the Disposal; (ii) unaudited financial information of the Target Company; (iii) unaudited pro forma financial information of the Remaining Group; (iv) the business valuation report regarding the equity value of the Target Company; and (v) a notice convening the EGM together with the form of proxy, and other information as required under the Listing Rules.

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are set out as follows:

Date

21 July 2022

Parties

(i) Everbest Water Treatment Development Company Limited ("**Everbest**"), an indirect wholly-owned subsidiary of the Company, as the seller; and

(ii) CGN Environmental Protection Industry Co., Ltd., as the purchaser.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

Subject matter

Pursuant to the Sale and Purchase Agreement, the Seller has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Sale Shares.

The Sale Shares represent 70% of the issued share capital of the Target Company.

Consideration, payment terms and schedule

The total Consideration is approximately RMB68.2 million (inclusive of applicable tax), which shall be settled by the Purchaser by way of bank transfer in the following manner:

(i) 50% of the Consideration shall be paid by the Purchaser to the Seller upon the satisfaction of the Conditions Precedent and within 30 working days upon the fulfilment of the conditions including the Target Company obtains the approval documents from the Government of Hainan Province in respect of the increase of water tariffs to RMB1.45 per tonne for the financial years ended 2020 and 2021 with retrospective effect from 1 January 2020. As at the Latest Practicable Date, the Target Company has obtained the aforementioned approval documents;

(ii) 30% of the Consideration shall be paid by the Purchaser to the Seller upon the completion of audit during the Transitional Period (the "**Audit Review**") which is expected to be completed by the end of 2022 and within 30 working days upon the fulfilment of the conditions including, among other things, (a) the satisfaction of the aforementioned payment condition; (b) the Seller writes off the required balances from the current account based on new findings in the audited report for the Transitional Period and completes the requisite filings at the local tax bureau for such write-off with losses deductible from the declaration of income tax, which is expected to be completed immediately after the completion of the Audit Review. As at the Latest Practicable Date, the Target Company recorded historical amount due from the Remaining Group of HK$0.7 million. Given such balance was non-trade in nature and does not form part of the ordinary and usual course of business of the Target Company, the parties had agreed this amount will be written-off before the Completion; (c) the Seller settles all outstanding tax payables prior to the Completion; (d) the Seller recovers the principal and interest of the related party transaction between the Target Company and Rugao Hengfa, which is expected to be completed immediately after the completion of the Audit Review (if any). As at the Latest Practicable Date, the balance of receivables between the Target Company and Rugao Hengfa was nil; (e) the Target Company receives all outstanding wastewater treatment fee payable by the government authority prior to the Completion, which is expected to be received by the end of 2022. As at the Latest Practicable Date, the outstanding wastewater treatment fee amounted to approximately RMB5.1 million; and (f) the Seller procures the execution and due filing of the new articles of association of the Target Company as agreed between Haian Urban Construction Development Investment and the Purchaser; and

(iii) the remaining 20% of the Consideration shall be paid by the Purchaser to the Seller within 30 working days upon, among other things, the satisfaction of the aforementioned payment conditions.

The Consideration was determined after arm's length negotiation between the Seller and the Purchaser after taking into account factors including (i) the historical financial performance and position of the business operated by the Target Company; and (ii) the value of approximately RMB67.3 million for 70% equity interest in the Target Company based on valuation of the Target Company as at 31 December 2021 as appraised by an independent valuer engaged by the Company in accordance with the income approach. The Consideration represents a gain of approximately RMB0.2 million (without considering the gain to be recognised by the Company in realisation of exchange reserve of the Target Company) on the Disposal to the unaudited net asset value of the Target Company as at 31 December 2021.

Details of the principal assumptions of the valuation of the Target Company are as follows:

(i) water tariffs of the wastewater treatment plant operated by the Target Company will be adjusted in each of the review interval throughout the remaining Concession Period until its expiry as stipulated under the concession agreements;

(ii) the management of the Company does not foresee any legal obstacle in renewing and retaining the Tax Benefits throughout the remaining Concession Period;

(iii) the Target Company is assumed to have no contingent assets and liabilities or any other off-balance sheet items which should be recognised or valued attributable to the Target Company;

(iv) to continue as a going concern throughout the projection period, the Target Company will successfully carry out all necessary activities for the development of its business;

(v) the contractual parties of relevant agreements will act in accordance with the terms and conditions of the agreements and understandings between the parties and will be renewable upon expiry, if applicable;

(vi) the audited/unaudited financial and operational information of the Target Company as provided to the independent valuer have been prepared in a manner which truly and accurately reflect the financial position of the Target Company as at the respective balance sheet dates;

(vii) the availability of financing will not be a constraint on the forecast growth of the Target Company's operations;

(viii) market trends and conditions where the Target Company operates will not deviate significantly from the economic forecasts in general;

(ix) key management, competent personnel and technical staff will all be retained to support ongoing operations of the Target Company;

(x) there will be no material change in the business strategy of the Target Company and its expected operating structure;

(xi) interest rates and exchange rates in the localities for the operations of the Target Company will not differ materially from those presently prevailing;

(xii) all relevant consents, business certificates, licenses or other legislative or administrative approvals from any local, provincial or national government, or private entity or organisation required to operate in the localities where the Target Company operates or intends to operate will be officially obtained and renewable upon expiry unless otherwise stated; and

(xiii) there will be no major changes in the political, legal, economic or financial conditions and taxation laws in the localities in which the Target Company operates or intends to operate, which would adversely affect the revenues and profits attributable to the Target Company.

The Consideration of approximately RMB68.2 million represents a slight premium of approximately 1.3% to the appraised value of 70% equity interest in the Target Company. Such premium was agreed based on arm's length negotiations with the Purchaser after taking into account the potential transaction and administrative costs of the Disposal.

The Directors consider that the Consideration is fair and reasonable and in the interest of the Company and its Shareholders taken as a whole.

Conditions Precedent

Completion of the Sale and Purchase Agreement shall be conditional upon:

(i) the Seller obtaining all necessary written consents or no objections from Haian County Bureau of Commerce* (海安市商務局), Haian County Construction Bureau and Haian Urban Construction Development Investment in relation to the Disposal;

(ii) the Sale and Purchase Agreement and the Disposal having been approved by the board of directors and the shareholder of the Seller (i.e., ELL Environmental Limited, a wholly-owned subsidiary of the Company incorporated under the laws of the British Virgin Islands); and

(iii) the Sale and Purchase Agreement and Disposal having been approved by the Shareholders at the EGM in compliance with the Listing Rules.

Save as the Condition Precedents (iii) above, all the Condition Precedents are required to be fulfilled (or, where applicable, waived) within 60 working days from the date of the Sale and Purchase Agreement or any such date as agreed by the Purchaser in writing. The Purchaser shall confirm the fulfillment of Conditions Precedent within five working days upon receiving the declaration of satisfaction of fulfilling the Conditions Precedent from the Seller. Otherwise, the Purchaser is entitled to terminate the Sale and Purchase Agreement within two months with liquidated damages in the amount of 30% of the Consideration.

Should the Condition Precedent (iii) above has not been fulfilled within 60 working days from the date of the Sale and Purchase Agreement or any such later date as agreed by the Purchaser in writing, either party is entitled to terminate the Sale and Purchase Agreement within one month and neither party shall have any liabilities towards each other.

Completion

Completion shall take place (a) after the fulfilment of the Conditions Precedent and within 20 working days after the Purchaser verified the details of the declaration of satisfaction of fulfilling the Conditions Precedent from the Seller; and (b) upon completion of the registration procedures in respect of the Disposal with the relevant administrative authority for industry and commerce in the PRC.

Upon Completion, the Company will cease to hold any interest in the Target Company and it will cease to be a subsidiary of the Company.

INFORMATION ON THE TARGET COMPANY

The Target Company is an indirect non-wholly-owned subsidiary of the Company and a limited liability company incorporated under the laws of the PRC, held by the Company and Haian Urban Construction Development Investment, as to 70% and 30%, respectively. The Target Company is principally engaged in wastewater treatment business in the Haian County of Jiangsu Province in the PRC.

Set out below is the unaudited financial information of the Target Company for the two years ended 31 December 2020 and 2021:

	For the year ended 31 December 2021	**For the year ended 31 December 2020**
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Revenue	37,329	25,580
Net profit before taxation	25,149	17,462
Net profit after taxation	19,892	13,475

As at 31 December 2021, the unaudited net asset value of the Target Company was approximately HK$116.7 million (equivalent to approximately RMB95.2 million).

FINANCIAL EFFECT OF THE DISPOSAL

Upon Completion, the Company will cease to hold any interest in the Target Company and the Target Company will cease to be a subsidiary of the Company. The financial results of the Target Company will no longer be consolidated into the consolidated financial statements of the Company.

It is estimated that the Company will recognise an estimated gain on the Disposal upon the Completion of approximately RMB0.2 million (without considering the gain to be recognised by the Company in realisation of exchange reserve of the Target Company). The estimated gain was calculated with reference to the difference between the Consideration for the Sale Shares of approximately RMB68.2 million (inclusive of applicable tax) after deducting (i) the unaudited net asset value calculated based on the Seller's 70% interest in the Target Company of approximately RMB66.6 million as at 31 December 2021; and (ii) the transaction costs and expenses of the

Disposal of approximately RMB1.4 million. The above financial impact is shown for illustrative purpose only and the actual gain or loss as a result of the Disposal to be recorded by the Company is subject to review by the auditors of the Group and will be assessed after Completion.

REASONS AND BENEFITS AND USE OF PROCEEDS OF THE DISPOSAL

The Company considers the Disposal provides the Group with proceeds of approximately RMB66.8 million which shall improve the overall cashflow position of the Group. The Group intends to reallocate its resources to focus on (i) potential development of Rugao Hengfa Facility; and (ii) the development of the Bangka Plant.

The Target Company recorded revenue of approximately RMB31.0 million for the year ended 31 December 2021 ("**FY2021**") which included approximately RMB13.8 million generated from the one-off retrospective upward adjustment in water tariffs of the wastewater treatment facility operated by the Target Company prior to FY2021. With the exclusion of such upward adjustment, the Target Company recorded revenue of approximately RMB17.2 million and net profit of approximately RMB2.7 million. Such upward adjustment was subject to the consent from the local governmental authority. Despite the contractual arrangement of having water tariff revised regularly, based on the experience of the Group, such revision involved lengthy negotiations with local authorities without clear benefit to the Group's cash flow position and guaranteed outcome. There is no guarantee the government will agree to any further adjustments in the future and even if the water tariff can be adjusted to the market rate, there is no guarantee that the Company will be able to collect all adjusted water tariff (if any) retrospectively. Further, as the Group holds 70% equity interest in the Target Company, the Group is entitled to approximately RMB1.9 million of the Target Group's profit with the exclusion of the one-off water tariff adjustment in FY2021. As the Group intends to utilise a portion of the net proceeds from the Disposal for the repayment of its indebtedness, this in turn assists the Group in saving no less than RMB2.1 million of finance cost. Though the research of municipal wastewater market in the PRC in the section headed "Industry Overview" in Appendix V to this circular indicates a decent growth for China's urban wastewater market, the Company is of the view that the growth of the Target Company is limited as (i) the Target Company is solely a project company holding a single project of a wastewater treatment plant without further expansion or upgrade; and (ii) the existing utilisation rate of the wastewater treatment plant has already reached an optimal capacity level of approximately 90%. The room for further growth of the Target Company is limited by the size of the project portfolio under management and the capped capacity level. Given the Consideration represents a premium to the valuation and after taking into account the aforementioned limitations, the Directors considered it is a good opportunity for the Company to realise the gain and utilise the net proceeds in the business development of the Group.

As at the Latest Practicable Date, the Group operates another wastewater treatment facility which focuses on the treatment of a mixture of municipal and industrial wastewater, the Rugao Hengfa Facility, through a wholly-owned subsidiary, Rugao Hengfa. For FY2021, Rugao Hengfa generated revenue of approximately RMB35.2 million and net profit of approximately RMB12.5 million. Upon Completion, the Group will continue to optimise its resources in operating the Rugao Hengfa Facility which has been the key revenue generator of the Group and to continue to explore any potential development and enhance the profitability of Rugao Hengfa Facility and the Group as a whole.

Furthermore, as disclosed in the circular of the Company dated 24 February 2022 in relation to the construction of the Bangka Plant in Indonesia, the Group has been actively exploring alternatives for the biomass power generation business in Jambi City, Indonesia since its suspension in 2020 as a result of a significant drop of electricity unit price in the local proximity, including but not limited to the development of biofuel pellets business and the expansion of its business footprint into other parts of Indonesia. The Bangka Plant is expected to supply electricity to the national grid at a fixed price for a period of 25 years from 2023 pursuant to a power supply agreement for a term of 25 years with PT Perusahaan Listrik Negara (Persero) (also known as State Electricity Company). As at the Latest Practicable Date, the Group has invested approximately RMB12.0 million on the construction of the Bangka Plant.

The total net proceeds from the Disposal amounts to approximately RMB66.8 million. The table below sets out the planned allocation of the net proceeds from the Disposal:

	Allocation of the net proceeds from the Disposal *RMB'000*	**Expected timeline for utilising the net proceeds from the Disposal**
Procurement of raw materials and equipment for the Bangka Plant	33,400	Expected to be fully utilised by 2022 or early 2023
Repaying indebtedness and improving liquidity of the Group	26,700	Expected to be fully utilised shortly after the full receipt of the Consideration
Replenishing the working capital of the Group (1)	6,700	N/A
Total	**66,800**	

Notes:

(1) Replenishing the working capital is related to all the business activities of the Company, so the expected timeline of full utilisation is not estimated separately.

The net proceeds from the Disposal would enable the Group to (i) provide financial resources to the development from the Bangka Plant; (ii) improve the liquidity of the Group by realising the non-current assets (i.e., receivables under service concession arrangements) of the Target Company into cash; and (iii) reduce the Group's gearing ratio and save an annual finance cost of no less than RMB2.1 million. The Group intends to apply the majority of the net proceeds of the Disposal for the construction and the development of the Bangka Plant. As Bangka has been experiencing steady growth in population and business activities, it is in need of new power plants to replace outdated and inefficient power generators in order to support its development. Given that the Group is specialised in operating small scale power supply businesses which aligns with local demand, the Directors believed the Bangka Plant would be the Group's first step in the expansion of its business footprint into other parts of Indonesia. If successful, the Bangka Plant can be replicated in other outer islands of Indonesia to strengthen the Group's income base for its long-term benefit and become its future growth driver. For further information about the business prospect of the Remaining Group, please refer to the section headed "Financial Information of the Group — 4. Financial and Trading Prospects of the Group" in Appendix I to this circular.

Based on the reasons above and taking into account the benefits brought by the Disposal to the Group, the Directors are of the view that the terms of the Sale and Purchase Agreement and the Disposal are fair and reasonable and in the interests of the Company and its Shareholders taken as a whole.

INFORMATION RELATING TO THE GROUP AND THE SELLER

The Group is principally engaged in providing wastewater treatment facilities in Jiangsu Province, China, using the "Build — Operate — Transfer" (or BOT) model. It currently operates two wastewater treatment facilities, one in Haian County and the other in the Rugao Economic and Technical Development Zone. The Group also owns a biomass power generation powerplant in Jambi City, Indonesia and is in the process of developing the Bangka Plant.

The Seller is a limited liability company incorporated under the laws of Hong Kong, an indirect wholly-owned subsidiary of the Company which principally engaged in investment holding.

INFORMATION RELATING TO THE PURCHASER

The Purchaser is a limited liability company incorporated under the laws of the PRC, a member of China General Nuclear Power Corporation which principally engaged in environmental protection and wastewater treatment businesses. Its ultimate beneficial owner is the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. As at the Latest Practicable Date, the Purchaser is operating a total of five wastewater treatment plants in the PRC.

LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios in respect of the Disposal under the Sale and Purchase Agreement exceeds 75%, the Disposal constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements thereunder.

EGM AND PROXY ARRANGEMENT

The notice of the EGM is set out on pages EGM-1 to EGM-3 of this circular. Ordinary resolution will be proposed at the EGM for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement and the Disposal contemplated thereunder. Voting on ordinary resolution to be proposed at the EGM will be taken by way of poll and an announcement will be made by the Company after the EGM on the result of the EGM with respect to whether or not the proposed ordinary resolution has been passed by the Shareholders. As at the Latest Practicable Date, no Shareholder had material interest in the Disposal, and therefore no Shareholder is required to abstain from voting on the relevant resolution at the EGM.

A form of proxy for use in connection with the EGM is enclosed with this circular and such form of proxy is also published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.ellhk.com). If you do not intend to attend the EGM in person but wish to exercise your right as a Shareholder, you are requested to complete and sign the form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited located at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time appointed for holding the EGM or the adjournment thereof. Completion and return of the form of proxy will not preclude any Shareholder from attending and voting in person at the EGM or the adjournment thereof should he/she/it so wish and in such event, the form of proxy shall be deemed to be revoked.

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at a general meeting must be taken by poll except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, all resolutions proposed at the EGM will be voted by poll and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the view that the terms of the Sale and Purchase Agreement are fair and reasonable and are on normal commercial terms, and the Disposal is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders to vote in favour of the ordinary resolution as set out in the notice of the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully
For and on behalf of the Board
ELL Environmental Holdings Limited
Chan Kwan
Executive Director and Chief Executive Officer

* *For identification purpose only*

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the financial years ended 31 December 2019, 2020 and 2021 are disclosed in the following documents which have been published both on the websites of the Stock Exchange at **https://www.hkexnews.hk** and the Company at **http://www.ellhk.com**:

Annual report of the Company for the year ended 31 December 2019 (pages 111 to 244) **https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0427/2020042700745.pdf**

Annual report of the Company for the year ended 31 December 2020 (pages 116 to 260) **https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0427/2021042701829.pdf**

Annual report of the Company for the year ended 31 December 2021 (pages 122 to 276) **https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0428/2022042802993.pdf**

INDEBTEDNESS

Borrowings

As at the close of business on 31 July 2022, the Group had an unsecured one-year bank loan with a carrying amount of HK$18.0 million, which was denominated in Hong Kong dollars ("**HK$**") with variable interest rates at Hong Kong Interbank Offered Rate (HIBOR) plus 1.4% per annum, repayable on demand, and is guaranteed by the Company and a Director.

As at the close of business on 31 July 2022, the Company had outstanding borrowings from independent third parties of the Group amounted to HK$23.9 million, which bore a fixed interest rate of 8% per annum. The loans were unsecured, unguaranteed and repayable within one year.

As at the close of business on 31 July 2022, the Company had outstanding amounts due to related parties of the Group amounted to HK$78.5 million, of which HK$55.3 million bore a fixed interest rate of 8% per annum and HK$23.2 million bore a fixed interest rate of 6% per annum. The amounts due to related parties were unsecured, unguaranteed and repayable within one year.

Contingent Liabilities

As at the close of business on 31 July 2022, the Group did not have any material contingent liabilities.

Lease Liabilities

As at the close of business on 31 July 2022, the Group had total lease liabilities, primarily the rental payable for the Group's office premise of approximately HK$1.0 million.

Commitments

As at the close of business on 31 July 2022, the Group had total capital commitments of approximately HK$64.1 million.

Save as disclosed above and apart from intra-group liabilities, as at the close of business on 31 July 2022, the Group did not have any other debt securities issued and outstanding, or authorised or otherwise created but unissued, loans or term loans (secured, unsecured, guaranteed or otherwise), other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

2. WORKING CAPITAL

The Directors, after due and careful considerations, are of the opinion that, after taking into account the financial resources available to the Group including cash and cash equivalent on hand, the internally generated funds and the existing facilities, the Group has, in the absence of unforeseeable circumstances, sufficient working capital for its present requirement for the next 12 months from the date of this circular.

The Company has obtained the relevant confirmation as required under Rule 14.66(12) of the Listing Rules.

3. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Board is not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, the date to which the latest published audited consolidated financial statements of the Company were made up and up to the Latest Practicable Date.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

With regard to the business in Indonesia, the Group's biofuel pellets manufacturing business in Jambi, Indonesia, has officially commenced and started generating revenue in 2021, while the development of the Bangka Plant in Indonesia is still in progress, it is expected the Bangka Plant will be grid-connected and commence operation in 2023.

With regard to the business in China, Rugao Hengfa successfully entered into agreement with the local authorities to raise the water tariff from RMB2.67 per tonne to RMB3.43 per tonne effective from April 2021. Such adjustment has and will continue to make positive contribution to the Group's revenue and gross profit in the current financial year.

Looking forward, China has a continued strong demand for wastewater treatment, and the Group's business in China is expected to maintain a satisfactory growth. The Group has also been endeavouring to explore overseas market opportunities and develop more paths for future environmental protection business.

Set out below are the financial information of Haian Hengfa Wastewater Treatment Company Limited (the "**Target Company**") which comprise the unaudited statements of financial position of the Target Company as at 31 December 2019, 2020 and 2021 and 30 June 2022 and the unaudited statements of profit or loss, unaudited statements of profit or loss and other comprehensive income, unaudited statements of changes in equity and unaudited statements of cash flows for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022 (the "**Relevant Periods**") and explanatory notes (the "**Financial Information**"). The Financial Information has been prepared solely for the purpose of inclusion in this circular to be issued by ELL Environmental Holdings Limited (the "**Company**") in connection with the disposal of 70% equity interest in the Target Company in accordance with Rule 14.68(2)(a)(i)(A) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The reporting accountants of the Target Company, Baker Tilly Hong Kong Limited, were engaged to review the Financial Information in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and with reference to Practice Note 750, "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal" issued by the HKICPA. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable the reporting accountants to obtain assurance that they would become aware of all significant matters that might be identified in an audit. Accordingly, the reporting accountants do not express an audit opinion.

Based on the review, nothing has come to the reporting accountants' attention that causes them to believe that the Financial Information of the Target Company for the Relevant Periods is not prepared, in all material respects, in accordance with the basis of preparation set out in the note 2 to the Financial Information.

Unaudited statements of profit or loss

For the three years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022

	Note	For the year ended 31 December 2019	2020	2021	For the six months ended 30 June 2021	2022
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	*3*	44,023	25,580	37,329	13,431	10,414
Cost of sales		(10,723)	(9,967)	(11,476)	(6,129)	(6,156)
Gross profit		33,300	15,613	25,853	7,302	4,258
Other income and net gains		4,539	3,078	997	727	903
Administrative expenses		(1,096)	(955)	(1,353)	(641)	(594)
Finance costs		(235)	(274)	(348)	(280)	(195)
Profit before tax		36,508	17,462	25,149	7,108	4,372
Income tax expense		(6,460)	(3,987)	(5,257)	(1,362)	(730)
Profit for the year/period		30,048	13,475	19,892	5,746	3,642

Unaudited statements of profit or loss and other comprehensive income

For the three years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022

	For the year ended 31 December			For the six months ended 30 June	
	2019	**2020**	**2021**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Profit for the year/period	30,048	13,475	19,892	5,746	3,642
Other comprehensive (expense)/income					
Item that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translation to presentation currency (with nil tax effect)	(2,105)	6,716	3,837	1,514	(5,402)
Total comprehensive income/(expense) for the year/period	27,943	20,191	23,729	7,260	(1,760)

Unaudited statements of financial position

As at 31 December 2019, 2020 and 2021 and 30 June 2022

					As at
			As at 31 December		**30 June**
	Note	**2019**	**2020**	**2021**	**2022**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
NON-CURRENT ASSETS					
Property, plant and equipment		716	684	629	511
Receivables under service concession arrangements	4	92,590	100,664	101,049	94,854
		93,306	101,348	101,678	95,365
CURRENT ASSETS					
Inventories		10	3	12	25
Receivables under service concession arrangements	4	4,400	5,102	5,679	11,381
Prepayments and other receivables		349	333	55	64
Amount due from immediate holding company		675	717	741	707
Other financial assets at amortised cost		—	5,934	—	—
Time deposits		—	—	12,269	11,713
Bank balances and cash		47,120	24,992	24,930	18,731
		52,554	37,081	43,686	42,621
CURRENT LIABILITIES					
Trade payables		1,748	1,684	2,135	1,614
Other payables and accruals		3,724	1,002	1,221	73
Income tax payable		5,330	1,677	3,707	309
		10,802	4,363	7,063	1,996
NET CURRENT ASSETS		41,752	32,718	36,623	40,625
TOTAL ASSETS LESS CURRENT LIABILITIES		135,058	134,066	138,301	135,990

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
CAPITAL AND RESERVES				
Share capital	28,573	28,573	28,573	28,573
Reserves	89,776	85,574	88,175	86,415
TOTAL EQUITY	118,349	114,147	116,748	114,988
NON-CURRENT LIABILITIES				
Deferred tax liabilities	12,162	14,307	14,926	14,204
Provision for major overhauls	4,547	5,612	6,627	6,798
	16,709	19,919	21,553	21,002
	135,058	134,066	138,301	135,990

Unaudited statements of changes in equity

For the three years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022

	Share capital	Exchange reserve	General reserve	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
At 1 January 2019	28,573	6,232	37	55,564	90,406
Profit for the year	—	—	—	30,048	30,048
Exchange differences arising on translation to presentation currency (with nil tax effect)	—	(2,105)	—	—	(2,105)
Total comprehensive (expense)/income for the year	—	(2,105)	—	30,048	27,943
At 31 December 2019 and 1 January 2020	28,573	4,127	37	85,612	118,349
Profit for the year	—	—	—	13,475	13,475
Exchange differences arising on translation to presentation currency (with nil tax effect)	—	6,716	—	—	6,716
Total comprehensive income for the year	—	6,716	—	13,475	20,191
Transfer to general reserve	—	—	2,710	(2,710)	—
Dividends recognised as distribution	—	—	—	(24,393)	(24,393)
	—	—	2,710	(27,103)	(24,393)
At 31 December 2020 and 1 January 2021	28,573	10,843	2,747	71,984	114,147
Profit for the year	—	—	—	19,892	19,892
Exchange differences arising on translation to presentation currency (with nil tax effect)	—	3,837	—	—	3,837
Total comprehensive income for the year	—	3,837	—	19,892	23,729
Transfer to general reserve	—	—	2,348	(2,348)	—
Dividends recognised as distribution	—	—	—	(21,128)	(21,128)
	—	—	2,348	(23,476)	(21,128)
At 31 December 2021	28,573	14,680	5,095	68,400	116,748

	Share capital	Exchange reserve	General reserve	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
At 1 January 2022	28,573	14,680	5,095	68,400	116,748
Profit for the period	—	—	—	3,642	3,642
Exchange differences arising on translation to presentation currency (with nil tax effect)	—	(5,402)	—	—	(5,402)
At 30 June 2022	28,573	9,278	5,095	72,042	114,988
At 1 January 2021	28,573	10,843	2,747	71,984	114,147
Profit for the period	—	—	—	5,746	5,746
Exchange differences arising on translation to presentation currency (with nil tax effect)	—	1,514	—	—	1,514
At 30 June 2021	28,573	12,357	2,747	77,730	121,407

Unaudited statements of cash flows

For the three years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022

	For the year ended 31 December			For the six months ended 30 June	
	2019	2020	2021	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating activities					
Profit before tax	36,508	17,462	25,149	7,108	4,372
Adjustments for:					
Bank interest income	(204)	(344)	(233)	(144)	(91)
Other interest income	(46)	—	(99)	—	(13)
Depreciation of property, plant and equipment	119	131	154	71	102
Provision for major overhauls	446	468	462	394	291
Finance costs	235	274	348	280	195
Loss on disposal on property, plant and equipment	—	—	8	—	—
Operating cash flow before movements in working capital	37,058	17,991	25,789	7,709	4,856
Decrease/(increase) in inventories	14	7	(9)	(12)	(14)
(Increase)/decrease in receivables under service concession arrangements	(5,484)	(2,624)	2,571	1,174	(4,480)
(Increase)/decrease in prepayments and other receivables	(31)	37	283	241	(12)
Increase/(decrease) in trade payables	152	(163)	387	(16)	(438)
Increase/(decrease) in other payables and accruals	3,627	(2,796)	182	(65)	(1,127)
Increase in amounts due from related companies, net	—	—	—	(5,998)	—
Cash generated from/(used in) operations	35,336	12,452	29,203	3,033	(1,215)
Income tax paid	—	(6,440)	(3,188)	(2,988)	(4,109)
Net cash from/(used in) operating activities	35,336	6,012	26,015	45	(5,324)
Investing activities					
Purchases of other financial assets at amortised cost	—	(5,619)	—	—	—
Purchases of property, plant and equipment	(274)	(59)	(86)	(22)	(9)
Proceeds from disposal of property, plant and equipment	—	—	1	—	—
Proceeds from redemption of other financial assets at amortised cost	—	—	6,021	5,996	—
Placement of time deposit	—	—	(12,045)	—	—
Interest received	250	344	332	144	104
Net cash (used in)/from investing activities	(24)	(5,334)	(5,777)	6,118	95

	For the year ended 31 December			For the six months ended 30 June	
	2019	**2020**	**2021**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Financing activity					
Dividend paid	—	(24,393)	(21,128)	—	—
Net cash used in financing activity	—	(24,393)	(21,128)	—	—
Net increase/(decrease) in cash and cash equivalents	35,312	(23,715)	(890)	6,163	(5,229)
Cash and cash equivalents at 1 January	12,553	47,120	24,992	24,992	24,930
Effect of foreign exchange rate changes	(745)	1,587	828	345	(970)
Cash and cash equivalents at 31 December/30 June	47,120	24,992	24,930	31,500	18,731
Represented by:					
Bank balances and cash	47,120	24,992	24,930	31,500	18,731

Notes to the Unaudited Financial Information of the Target Company

1 General information

Haian Hengfa Wastewater Treatment Company Limited (the "**Target Company**") is a limited company incorporated in The People's Republic of China. The principal activity of the Target Company is provision of wastewater treatment services.

The functional currency of the Target Company is Renminbi and the financial information of the Target Company is presented in Hong Kong Dollars ("**HK$**").

2 Basis of preparation of the unaudited financial information

The financial information of the Target Company for the three years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022 (the "**Financial Information**") has been prepared in accordance with Rule 14.68(2)(a)(i) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and solely for the purpose of inclusion in the circular to be issued by ELL Environmental Holdings Limited (the "**Company**") in connection with the very substantial disposal of 70% equity interest in the Target Company.

The Financial Information has been prepared using the same accounting policies as those adopted by the Company in the preparation of the consolidated financial statements of the Company and its subsidiaries for the years ended 31 December 2019, 2020 and 2021, which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The Financial Information neither contains sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 "Presentation of Financial Statements" nor a set of condensed financial statements as defined in Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA. It should be read in conjunction with the Company's relevant published annual financial statements.

3 Revenue

Revenue represents income from water treatment operation services.

4 Receivables under service concession arrangements

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Receivables under service concession arrangements	96,990	105,766	106,728	106,235
Portion classified as current assets	(4,400)	(5,102)	(5,679)	(11,381)
Portion classified as non-current assets	92,590	100,664	101,049	94,854

The following is an ageing analysis of receivables under service concession arrangements, presented based on the invoice date:

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Billed within 3 months	1,660	1,861	2,212	5,972
Billed more than 3 months but less than 1 year	—	—	—	2,018
Unbilled *(note)*	95,330	103,905	104,516	98,245
	96,990	105,766	106,728	106,235

Note: The balance represented contract assets as the rights to considerations were not yet unconditional at the end of the reporting periods.

Set out below is the management discussion and analysis on the continuing operations of the Remaining Group for the years ended 31 December 2021 ("**FY2021**"), 2020 ("**FY2020**") and 2019 ("**FY2019**") prepared on the basis that the Target Company is not consolidated, and the Company has no ownership interest in the Target Company.

The financial data in respect of the Remaining Group, for the purpose of this circular, is derived from the consolidated financial statements of the Company for the reporting periods. For further financial information of the Group, please refer to the section headed "Management Discussion and Analysis" of the Company's annual report for the years ended 31 December 2021, 2020 and 2019, respectively.

For the year ended 31 December 2021

Business prospects

Please refer to "Appendix I — Financial Information of the Group — 4. Financial and Trading Prospects of the Group" in this circular.

Revenue

The total revenue increased by HK$32.4 million or 97.0% to HK$65.8 million for FY2021 as compared to HK$33.4 million for FY2020. Such increase was primarily attributable to (i) the increase in revenue of the Rugao Hengfa Facility due to the increase in the water tariff from RMB2.67 to RMB3.43 per tonne effective from April 2021 and (ii) the increase in construction revenue arising from the construction works of the Bangka Plant during FY2021 as compared to FY2020.

Cost of sales

The total cost of sales increased by HK$18.6 million or 95.9% from HK$19.4 million for FY2020 to HK$38.0 million for FY2021, primarily due to (i) the increase in construction costs arising from the Bangka Plant during FY2021 as compared to FY2020, and (ii) the increase in operating costs for the Rugao Hengfa Facility as compared to FY2020 due to the increase in cost of material and staff and the effect of foreign exchange translation difference arising from the appreciation of RMB against HK$.

Gross profit and gross profit margin

The gross profit increased by HK$13.8 million or 98.6% from HK$14.0 million for FY2020 to HK$27.8 million for FY2021, primarily due to reasons of the aforementioned fluctuation in revenue and cost of sales. The gross profit margin increased from 41.9% for FY2020 to 42.2% for FY2021.

Other income and net gains

The other income and net gains increased by HK$1.1 million or 47.8% from HK$2.3 million for FY2020 to HK$3.4 million for FY2021, primarily due to the recognition of a net foreign exchange gain of HK$1.3 million in FY2021, as compared to a net foreign exchange loss of HK$0.5 million in FY2020.

Administrative expenses

The administrative expenses decreased slightly by HK$0.7 million or 2.6% from HK$26.9 million for FY2020 to HK$26.2 million for FY2021. Administrative expenses mainly include staff costs and other operating expenses.

Finance costs

The finance costs increased by HK$2.5 million or 147.1% from HK$1.7 million for FY2020 to HK$4.2 million for FY2021, primarily due to the increase in loan borrowing for the financing of the Bangka Plant during FY2021.

Loss before tax

The Remaining Group recorded a loss before tax of HK$2.5 million and HK$12.4 million for FY2021 and FY2020, respectively. The reduction in loss was primarily due to the significant increase in revenue in FY2021 as mentioned above.

Income tax expense

The income tax expense increased by HK$3.0 million or 90.9% from HK$3.3 million for FY2020 to HK$6.3 million for FY2021, primarily due to the significant increase in revenue in FY2021 as mentioned above.

Loss for the year attributable to owners of the Remaining Group

Loss attributable to owners of the Remaining Group decreased by HK$7.0 million or 46.4% to HK$8.1 million for FY2021 from a loss of HK$15.1 million for FY2020, primarily due to the factors mentioned above.

Liquidity, financial and capital resources

The Remaining Group's principal liquidity and capital requirements primarily relate to investments in the projects, construction and upgrading of the wastewater treatment facilities, purchases of equipment as well as costs and expenses related to the operation and maintenance of the wastewater treatment and electricity generating facilities.

As at 31 December 2021, the Remaining Group's bank balances and cash was HK$40.1 million, representing an increase of 53.6% as compared with that of HK$26.1 million as at 31 December 2020. As at 31 December 2021, the Remaining Group's bank balances and cash of HK$10.8 million, HK$4.9 million, HK$7.7 million and HK$16.7 million were denominated in RMB, HK$, Indonesian Rupiah ("**IDR**") and United States Dollars ("**US$**"), respectively (31 December 2020: HK$10.1 million, HK$6.0 million, HK$0.8 million and HK$9.2 million were denominated in RMB, HK$, IDR and US$, respectively).

Borrowings

As at 31 December 2021, the total amount of utilised bank borrowings was HK$20.2 million, which was repayable within one year. Approximately HK$18.0 million and HK$2.2 million of the outstanding bank borrowings were denominated in HK$ and US$, respectively (31 December 2020: HK$18.0 million and HK$4.5 million were denominated in HK$ and US$, respectively).

Out of the HK$20.2 million outstanding bank borrowings, HK$18.0 million bore a floating interest rate of 1.4% per annum over the Hong Kong Interbank Offered Rate (31 December 2020: HK$18.0 million), and HK$2.2 million bore a floating interest rate of 1.4% per annum over London Interbank Offered Rate (31 December 2020: HK$4.5 million). We had HK$7.3 million unutilised banking facilities as at 31 December 2021 and 31 December 2020.

As at 31 December 2021, the Remaining Group had an outstanding borrowing from an independent third party of the Remaining Group amounted to HK$14.9 million (31 December 2020: nil), which bore a fixed interest rate of 8% per annum. The loan was repayable within one year.

As at 31 December 2021, the Remaining Group had outstanding amounts due to related parties of the Remaining Group amounted to HK$39.2 million (31 December 2020: HK$13.4 million), of which HK$15.9 million bore a fixed interest rate of 8% per annum and HK$23.3 million bore a fixed interest rate of 6% per annum. The amounts due to related parties were repayable within one year. We had HK$10.9 million and HK$7.0 million unutilised facilities granted by related parties as at 31 December 2021 and 31 December 2020, respectively.

To the best knowledge of the Directors and management of the Remaining Group, all the interest rates of the above borrowings were determined on arm's length basis.

Gearing ratio

Gearing ratio is calculated by dividing total debt by total equity and then multiplied by 100%, and total debt includes the interest-bearing bank borrowings, amounts due to related parties and other borrowings. The gearing ratio increased from 13.5% as at 31 December 2020 to 27.3% as at 31 December 2021.

Charge of assets

As at 31 December 2021, the Remaining Group did not have any charge on assets (31 December 2020: nil).

Treasury policies

The Remaining Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout FY2021. The Board closely monitors the Remaining Group's liquidity position to ensure that the liquidity structure of the Remaining Group's assets, liabilities and other commitments can meet its funding requirements from time to time. Surplus cash will be invested appropriately so that the Remaining Group's cash requirements for its strategy or direction from time to time can be met.

Capital expenditures

The Remaining Group's capital expenditures consist primarily of expenditures for the construction and acquisition of machinery and equipment for the plants of Rugao Hengfa, the Bangka Plant and the biofuel pellet business in Indonesia. During FY2021, the capital expenditures amounted to HK$23.9 million (31 December 2020: HK$10.8 million), which were funded by funds generated from financing activities.

Foreign exchange risk

Individual member companies in China and Indonesia within the Remaining Group have limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. However, as these principal subsidiaries mainly carry assets and liabilities in RMB and IDR, any appreciation or depreciation of HK$ against RMB and IDR will affect the Remaining Group's consolidated financial position which is presented in HK$ and will be reflected in the exchange fluctuation reserve.

The Remaining Group does not have a foreign currency hedging policy. The Remaining Group minimises foreign exchange exposure by converting its cash and cash equivalents in other currencies generated from the operation of its foreign operating subsidiaries to HK$.

Contingent liabilities

As at 31 December 2021, the Remaining Group had no material contingent liabilities (31 December 2020: nil).

Employee and remuneration policies

As at 31 December 2021, the Remaining Group had 94 employees (31 December 2020: 85 employees). Employee costs, including Directors' emoluments, amounted to approximately HK$11.1 million for FY2021 (FY2020: HK$10.2 million). The remuneration policy for the Directors, senior management members and general staff is based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the profit performance of the Remaining Group and the individual performance of the Directors, senior management members and general staff. The Remaining Group encourages self-development of its employees and provides on-the-job training where appropriate.

The Remaining Group adopted a share option scheme on 5 September 2014 for the purpose of providing incentives and rewards to eligible directors and employees of the Remaining Group.

Significant investments, material acquisitions and disposals

Save as disclosed in the annual report of the Company for the year ended 31 December 2021, and the announcements made by the Company (i) on 31 December 2020 and 8 January 2021 regarding the purchase of a steam turbine generator; (ii) on 21 January 2021 regarding the purchase of a boiler; and (iii) on 23 December 2021 regarding the biomass power plant construction of the Bangka Plant, the Remaining Group did not have any significant investments, other material acquisitions or disposals of assets, subsidiaries, associates or joint ventures during FY2021.

Future plans for material investments or capital assets

Save as disclosed in the annual report of the Company for the year ended 31 December 2021, the Remaining Group had no plan authorised by the Board for other material investments or additions of capital assets as at the date of the annual report.

For the year ended 31 December 2020

Revenue

The total revenue remained stable at HK$33.4 million and HK$33.5 million for FY2020 and FY2019, respectively.

Cost of sales

The total cost of sales decreased by HK$13.4 million or 40.9% from HK$32.8 million for FY2019 to HK$19.4 million for FY2020, primarily due to (i) the decrease in cost of sales from the operation of the biomass power plants in Indonesia by HK$3.2 million as a result of the suspension of production activities; (ii) the recognition of construction costs in FY2019 in the Rugao Hengfa Facility amounted to HK$3.7 million which was absent in FY2020 and (iii) the decrease in replacement of machinery in the Rugao Hengfa Facility by HK$3.2 million from HK$3.5 million for FY2019 to HK$0.3 million for FY2020.

Gross profit and gross profit margin

The gross profit increased by HK$13.4 million or 2233.3% from HK$0.6 million for FY2019 to HK$14.0 million for FY2020, primarily due to reasons of the fluctuation in cost of sales as aforementioned. The gross profit margin increased from 1.9% for FY2019 to 41.9% for FY2020.

Other income and net gains

The other income and net gains decreased by HK$6.6 million or 74.2% from HK$8.9 million for FY2019 to HK$2.3 million for FY2020, primarily due to (i) the net foreign exchange losses of HK$0.5 million recognised during FY2020 as compared to the net foreign exchange gains of HK$1.7 million recorded in FY2019, and (ii) the recovery of sludge processing fees of HK$2.8 million by Rugao Hengfa in FY2019, which was absent in FY2020.

Administrative expenses

The administrative expenses decreased slightly by HK$0.2 million or 0.7% from HK$27.1 million for FY2019 to HK$26.9 million for FY2020. As a percentage of the revenue, the administrative expenses represented 81.1% and 80.5% for FY2019 and FY2020, respectively. Administrative expenses mainly include staff costs and other operating expenses.

Finance costs

The finance costs remained stable at HK$1.7 million for FY2020 as compared to HK$1.9 million for FY2019, which represented the interest expense from bank borrowings and loan from related parties.

Loss before tax

The loss before tax decreased by HK$7.1 million or 36.4% from loss of HK$19.5 million for FY2019 to a loss of HK$12.4 million for FY2020, primarily due to the drop in total cost of sales recognised in FY2020.

Income tax expenses

The income tax expense increased by HK$3.2 million or 4,130.8% from HK$78,000 for FY2019 to HK$3.3 million for FY2020, primarily due to increase in gross profit of the Remaining Group as mentioned above.

Loss for the year attributable to owners of the Remaining Group

The Remaining Group recorded a loss attributable to owners of the Remaining Group of HK$15.1 million for FY2020 as compared to a loss attributable to owners of the Remaining Group of HK$19.2 million for FY2019, primarily due to the factors mentioned above.

Liquidity, financial and capital resources

The Remaining Group's principal liquidity and capital requirements for FY2020 primarily relate to investments in its projects, which mainly include the construction works of (i) the biofuel pellet production facilities in Jambi, Indonesia and (ii) upgrades to the wastewater treatment facilities in the PRC, as well as other general operating costs and expenses. As at 31 December 2020, the book value of the net assets of the Remaining Group was HK$265.2 million, representing a decrease by HK$16.0 million or 5.7% as compared to HK$281.2 million as at 31 December 2019.

As at 31 December 2020, bank balances and cash held by the Remaining Group was HK$26.1 million, representing an increase by HK$9.1 million or 53.5% as compared to HK$17.0 million as at 31 December 2019. They were denominated in HK$, US$, RMB and IDR.

Borrowings

As at 31 December 2020, the Remaining Group had (i) an unsecured one year bank loan with a carrying amount of HK$18.0 million, which was denominated in HK$ (31 December 2019: HK$18.0 million) with variable interest rates at Hong Kong Interbank Offered Rate (HIBOR) plus 1.4% per annum, repayable on demand, and (ii) an unsecured five-year bank loan with a carrying amount of HK$4.5 million, which was denominated in US$ (31 December 2019: HK$6.7 million) with variable interest rates at London Interbank Offered Rate (LIBOR) plus 1.4% per annum. We had HK$7.3 million unutilised banking facilities as at 31 December 2020 and 31 December 2019.

As at 31 December 2020, the Remaining Group had outstanding amounts due to related parties of the Remaining Group amounted to HK$13.4 million (31 December 2019: HK$9.0 million) with a fixed interest rate of 6% per annum. The amounts due to related parties were repayable within one year.

To the best knowledge of the Directors and management of the Remaining Group, all the interest rates of the above borrowings were determined on arm's length basis.

Gearing ratio

The Remaining Group's gearing ratio is calculated by dividing total debt by total equity and then multiplied by 100%, and total debt includes the interest-bearing bank borrowings and amounts due to related parties. The gearing ratio remained at approximately the same level, being 13.5% and 12.0% as at 31 December 2020 and 31 December 2019, respectively.

Charge of assets

As at 31 December 2020, the Remaining Group had no charge on assets (31 December 2019: nil).

Treasury policies

The Remaining Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout FY2020. The Board closely monitors the Remaining Group's liquidity position to ensure that the liquidity structure of the Remaining Group's assets, liabilities and other commitments can meet its funding requirements from time to time. Surplus cash will be invested appropriately so that the Remaining Group's cash requirements for the Remaining Group's strategy or direction from time to time can be met.

Capital expenditures

The major capital expenditures consist primarily of expenditures to upgrade and improve the Remaining Group's wastewater treatment facilities and the acquisition of plant and equipment for the biofuel pellet production business in Indonesia. During FY2020, the Remaining Group incurred HK$0.6 million (FY2019: HK$3.6 million) on capital expenditures for the upgrade works of its wastewater treatment facilities, and HK$7.0 million on capital expenditures for the construction of biofuel pellet production facilities in Jambi, Indonesia (FY2019: HK$17.1 million).

Foreign exchange risk

Individual member companies in China and Indonesia within the Remaining Group have limited foreign currency risk as most of the transactions are denominated and settled in RMB and IDR, respectively. The Remaining Group did not have significant foreign currency exposures from its operations. However, the Company's consolidated financial statements are presented in HK$. Any appreciation or depreciation of HK$ against RMB and IDR will affect the financial position and will be reflected in the exchange reserve.

The Remaining Group does not have a foreign currency hedging policy and does not use any financial instruments for hedging purposes. The management monitors the Remaining Group's foreign exchange fluctuation exposure closely. In light of the unpredictable fluctuations of RMB against HK$, the Remaining Group has managed to minimise the exposures in RMB by converting a majority of the cash and bank balances into US$ or HK$. The management of the Remaining Group considers the volatility of the exchange rate of HK$ against IDR and the Remaining Group's currency exposures to IDR to be acceptable.

Contingent liabilities

The Remaining Group had no contingent liabilities as at 31 December 2020 (31 December 2019: nil).

Employee and remuneration policies

As at 31 December 2020, the Remaining Group had 85 (31 December 2019: 85) employees (including the Directors). Employee costs (including Directors' emoluments) amounted to HK$10.2 million for FY2020 (FY2019: HK$15.7 million). The remuneration policy for the Directors as well as senior management members and general staff is based on their experience, level of responsibility, length of service and general market conditions. Any discretionary bonus and other merit payments are linked to the financial results of the Remaining Group and the individual performance of the Directors, senior management members and general staff. The Remaining Group provides on-the-job training to its employees where appropriate.

The Remaining Group has adopted a share option scheme on 5 September 2014 for the purpose of providing incentives and rewards to eligible directors and employees of the Remaining Group.

Significant investments, material acquisitions and disposals

Save as disclosed in the annual report of the Company for the year ended 31 December 2020, the Remaining Group did not have any significant investments, material acquisitions or disposals of assets, subsidiaries, associates or joint ventures during FY2020.

For the year ended 31 December 2019

Revenue

The total revenue was HK$33.5 million for FY2019, in which the majority was generated from the wastewater treatment business in the Rugao Hengfa Facility.

Cost of sales

The total cost of sales was HK$32.8 million for FY2019, in which the majority was incurred from (i) the daily operation in the Rugao Hengfa Facility; (ii) the recognition of construction costs in the Rugao Hengfa Facility amounted to HK$3.7 million and (iii) the replacement of machinery in the Rugao Hengfa Facility amounted to HK$3.5 million.

Gross profit and gross profit margin

The gross profit and gross profit margin were HK$0.6 million and 1.9% for FY2019, such relatively low gross profit and gross profit margin were mainly attributable to the gross loss of HK$5.3 million recognised by the biomass power plants in FY2019.

Other income and net gains

The other income and net gains were HK$8.9 million for FY2019, which primarily consists of (i) the net foreign exchange gains of HK$1.7 million, and (ii) the recovery of sludge processing fees of HK$2.8 million by Rugao Hengfa.

Administrative expenses

The administrative expenses were HK$27.1 million for FY2019, which mainly represented staff costs and other operating expenses. As a percentage of the revenue, the administrative expenses represented 81.1% of the Remaining Group's revenue for FY2019.

Finance costs

The finance costs were HK$1.9 million for FY2019, which mainly represented the interest expense from bank borrowings.

Loss before tax

The Remaining Group recorded loss before tax of HK$19.5 million for FY2019, primarily due to the factors mentioned above.

Income tax expenses

The income tax expense was HK$78,000 for FY2019, the relatively small amount of tax expense recorded in FY2019 was mainly because the Remaining Group recorded limited amount of gross profit and relatively low gross profit margin in that period.

Loss for the year attributable to owners of the Remaining Group

The Remaining Group recorded a loss attributable to owners of the Remaining Group of HK$19.2 million for FY2019, primarily due to the factors mentioned above.

Liquidity, financial and capital resources

The Remaining Group's principal liquidity and capital requirements for FY2019 primarily relate to investments in its projects, namely the construction works that relate to upgrades to the wastewater treatment facilities in the PRC and the biofuel pellet production facilities in Indonesia, as well as the purchase of plant and equipment, operating costs and expenses. As at 31 December 2019, the book value of the net assets of the Remaining Group was HK$281.2 million and the bank balances and cash held by the Remaining Group was HK$17.0 million. They were denominated in HK$, US$, RMB and IDR.

Borrowings

As at 31 December 2019, the Remaining Group had (i) an unsecured one-year bank loan with a carrying amount of HK$18.0 million, which was denominated in HK$ with variable interest rates at Hong Kong Interbank Offered Rate (HIBOR) plus 1.4% per annum, repayable on demand, and (ii) an unsecured five-year bank loan with a carrying amount of HK$6.7 million, which was denominated in US$ with variable interest rates at London Interbank Offered Rate (LIBOR) plus 1.4% per annum. We had HK$7.3 million unutilised banking facilities as at 31 December 2019.

As at 31 December 2019, the Remaining Group had outstanding amounts due to related parties of the Remaining Group amounted to HK$9.0 million, of which HK$0.8 million was interest-free and HK$8.2 million bore a fixed interest rate of 6% per annum. The amounts due to related parties were repayable within one year.

To the best knowledge of the Directors and management of the Remaining Group, all the interest rates of the above borrowings were determined on arm's length basis.

Gearing ratio

The Remaining Group's gearing ratio is calculated by dividing total debt by total equity and then multiplied by 100%, and the total debt includes the interest-bearing bank borrowings and amounts due to related parties. The gearing ratio was 12.0% as at 31 December 2019.

Charge of assets

As at 31 December 2019, the Remaining Group had no charge on assets.

Treasury policies

The Remaining Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout FY2019. The Board closely monitors the Remaining Group's liquidity position to ensure that the liquidity structure of the Remaining Group's assets, liabilities and other commitments can meet its funding requirements from time to time. Surplus cash will be invested appropriately so that the Remaining Group's cash requirements for the Remaining Group's strategy or direction from time to time can be met.

Capital expenditures

The Remaining Group's major capital expenditures consist primarily of expenditures to upgrade and improve the Remaining Group's wastewater treatment facilities and the acquisition of plant and equipment for the biofuel pellet production business in Indonesia. During FY2019, the Remaining Group incurred HK$3.6 million on capital expenditures for the upgrade works of its wastewater treatment facilities, and HK$17.1 million on capital expenditures for the construction of biofuel pellet production facilities in Jambi, Indonesia.

Foreign exchange risk

Individual member companies in mainland China and Indonesia within the Remaining Group have limited foreign currency risk as most of the transactions are denominated and settled in RMB and IDR, respectively. The Remaining Group did not have significant foreign currency exposures from its operations. However, the consolidated financial statements are presented in HK$. Any appreciation or depreciation of HK$ against RMB and IDR will affect the financial position and will be reflected in the exchange reserve.

The Remaining Group does not have a foreign currency hedging policy and does not use any financial instruments for hedging purposes. The management monitors the Remaining Group's foreign exchange fluctuation exposure closely. In light of the unpredictable fluctuations of RMB against HK$, the Remaining Group has managed to minimise the exposures in RMB by converting a majority of the cash and bank balances into US$ or HK$. The management of the Remaining Group considers the volatility of the exchange rate of HK$ against IDR and the Remaining Group's currency exposures to IDR to be acceptable.

Contingent liabilities

The Remaining Group had no contingent liabilities as at 31 December 2019.

Employee and remuneration policies

As at 31 December 2019, the Remaining Group had 85 employees (including the Directors). Employee costs (including Directors' emoluments) amounted to HK$15.7 million for FY2019. The remuneration policy for the Directors as well as senior management members and general staff is based on their experience, level of responsibility, length of service and general market conditions. Any discretionary bonus and other merit payments are linked to the financial results of the Remaining Group and the individual performance of the Directors, senior management members and general staff. The Remaining Group provides on-the-job training to its employees where appropriate.

The Remaining Group has adopted a share option scheme on 5 September 2014 for the purpose of providing incentives and rewards to eligible directors and employees of the Remaining Group.

Significant investments, material acquisitions and disposals

Save as disclosed in the annual report of the Company for the year ended 31 December 2019, the Remaining Group did not have any significant investments, material acquisitions or disposals of assets, subsidiaries, associates or joint ventures during FY2019.

(A) The unaudited pro forma financial information of the Remaining Group

Introduction

In connection with the proposed disposal of the 70% issued share capital of Target Company by the Company, the unaudited pro forma financial information of the Remaining Group has been prepared to illustrate the effect of the proposed Disposal on the Group's financial position as at 31 December 2021 and the Group's financial performance and cash flows for the year ended 31 December 2021 as if the Disposal had been completed at 31 December 2021 and 1 January 2021 respectively.

The unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Remaining Group are prepared based on the audited consolidated statement of financial position, the audited consolidated statement of profit or loss, the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2021, which have been extracted from the published annual report of the Company for the year ended 31 December 2021.

The unaudited pro forma financial information of the Remaining Group has been prepared by the Directors in accordance with Rule 4.29 of the Listing Rules and solely for the purpose to illustrate (a) the financial position of the Remaining Group as if the Disposal had been completed on 31 December 2021; and (b) the financial results and cash flows of the Remaining Group as if the Disposal had been completed on 1 January 2021.

The unaudited pro forma financial information of the Remaining Group is prepared based on the aforesaid historical data after giving effect to the pro forma adjustments described in the accompanying notes. Narrative description of the pro forma adjustments of the proposed Disposal that are (i) directly attributable to the proposed Disposal; and (ii) factually supportable, is summarised in the accompanying notes.

The unaudited pro forma financial information of the Remaining Group has been prepared by the Directors based on certain assumptions, estimates and uncertainties for illustrative purposes only and because of its hypothetical nature, the unaudited pro forma financial information of the Remaining Group may not purport to predict what the financial position of the Remaining Group would have been if the Disposal had been completed at 31 December 2021 or at any future dates, or what the financial results and cash flows of the Remaining Group for the year ended 31 December 2021 or for any future periods would have been if the Disposal had been completed at 1 January 2021.

The unaudited pro forma financial information of the Remaining Group should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Group for the year ended 31 December 2021, the financial information of the Target Company as set out in Appendix II to this circular, and other financial information included elsewhere in this circular.

Unaudited pro forma consolidated statement of financial position of the Remaining Group as at 31 December 2021

		Pro forma adjustments					
	The Group	**The Target Company**					**The Remaining Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
NON-CURRENT ASSETS							
Property, plant and equipment	71,490	(629)					70,861
Receivables under service concession arrangements	313,194	(101,049)					212,145
Goodwill	—						—
Debt instruments at fair value through other comprehensive income	2,012						2,012
Other financial assets at amortised cost	14						14
Prepayments and other receivables	341						341
Restricted bank deposits	2,960						2,960
	390,011						288,333
CURRENT ASSETS							
Inventories	1,973	(12)					1,961
Trade receivables	73						73
Receivables under service concession arrangements	25,559	(5,679)					19,880
Prepayments and other receivables	30,867	(55)					30,812
Amount due from the Remaining Group	—	(741)			741		—
Other financial assets at amortised cost	5						5
Restricted bank deposits	2,960						2,960
Time deposits	12,269	(12,269)					—
Bank balances and cash	65,054	(24,930)	81,875			(5,783)	116,216
	138,760						171,907

		Pro forma adjustments					
	The Group	The Target Company					The Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
CURRENT LIABILITIES							
Trade payables	3,301	(2,135)					1,166
Other payables and accruals	5,984	(1,221)					4,763
Amounts due to related parties	35,207						35,207
Amount due to the Target Company	—				697		697
Borrowings	35,107						35,107
Lease liabilities	472						472
Income tax payable	4,972	(3,707)					1,265
	85,043						78,677
NET CURRENT ASSETS	53,717						93,230
TOTAL ASSETS LESS CURRENT LIABILITIES	443,728						381,563
NON-CURRENT LIABILITIES							
Amounts due to related parties	4,000						4,000
Deferred tax liabilities	36,620	(14,926)		(1,086)			20,608
Provision for major overhauls	18,978	(6,627)					12,351
Retirement benefit obligations	1,065						1,065
	60,663						38,024
NET ASSETS	383,065						343,539
CAPITAL AND RESERVES							
Issued capital	111						111
Reserves	352,754		151	1,086	44	(5,783)	348,252
Equity attributable to owners of the Company	352,865						348,363
Non-controlling interests	30,200		(35,024)				(4,824)
TOTAL EQUITY	383,065						343,539

Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Remaining Group for the year ended 31 December 2021

	The Group	The Target Company	Pro forma adjustments				The Remaining Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	Note 1	Note 7	Note 8	Note 9	Note 10	Note 11	
Revenue	103,136	(37,329)					65,807
Cost of sales	(49,498)	11,476					(38,022)
Gross profit	53,638						27,785
Other income and net gains	4,456	(997)	(100)	9,380			12,739
Impairment losses under expected credit loss model	(3,250)						(3,250)
Administrative expenses	(27,536)	1,353					(26,183)
Finance costs	(4,408)	348	(105)				(4,165)
Profit before tax	22,900						6,926
Income tax expense	(11,394)	5,257			(143)	(5,783)	(12,063)
Profit/(loss) for the year	11,506						(5,137)
Other comprehensive income:							
Item that will not be reclassified to profit or loss:							
Actuarial loss of defined benefit retirement plan	754						754
Items that may be reclassified subsequently to profit or loss:							
Exchange differences arising on translation of foreign operations	8,813	(3,837)			38		5,014
Net fair value loss on debt instruments at fair value through other comprehensive income	(1,303)						(1,303)
Release on redemption of debt instruments at fair value through other comprehensive income	5						5
Other comprehensive income for the year	8,269						4,470
Total comprehensive income/(expense) for the year	19,775						(667)
Profit/(loss) attributable to:							
Owners of the Company	6,145	(13,925)	(205)	9,380	(143)	(5,783)	(4,531)
Non-controlling interests	5,361	(5,967)					(606)
	11,506						(5,137)
Total comprehensive income/(expense) attributable to:							
Owners of the Company	13,265	(16,611)	(205)	9,380	(105)	(5,783)	(59)
Non-controlling interests	6,510	(7,118)					(608)
	19,775						(667)

Unaudited pro forma consolidated statement of cash flows of the Remaining Group for the year ended 31 December 2021

		Pro forma adjustments				
	The Group	**The Target Company**				**The Remaining Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 7*	*Note 8*	*Note 9*	*Note 11*	
Operating activities						
Profit before tax	22,900	(25,149)	(205)	9,380		6,926
Adjustments for:						
Bank interest income	(513)	233				(280)
Interest income from advance to a third party	(975)					(975)
Interest income from Remaining Group	—	99	(99)			—
Interest income from debt instruments at fair value through other comprehensive income	(205)					(205)
Depreciation of property, plant and equipment	5,341	(154)				5,187
Provision for major overhauls	757	(462)				295
Finance costs	4,408	(348)	105			4,165
Impairment losses recognised on						
— other receivables	1,008					1,008
— other financial assets at amortised cost	2,242					2,242
Write-down of inventories	1,058					1,058
Loss on redemption of debt instruments at fair value through other comprehensive income	5					5
Loss on disposal on property, plant and equipment	8	(8)				—
Gain on disposal of a subsidiary	—			(9,380)		(9,380)
Contribution to defined benefit retirement plans	466					466
Operating cash flows before movement in working capital	36,500					10,512
Increase in inventories	(2,062)	9				(2,053)
Increase in trade receivables	(72)					(72)
Increase in receivables under service concession arrangements	(13,488)	(2,571)				(16,059)
Increase in prepayments and other receivables	(20,579)	(283)				(20,862)
Increase in trade payables	471	(387)				84
Decrease in retirement benefit obligations	(36)					(36)
Decrease in other payables and accruals	(28)	(182)				(210)
Cash generated from/(used in) operations	706					(28,696)
Income tax paid	(9,728)	3,188				(6,540)
Income tax refunded	1,375					1,375
Net cash used in operating activities	(7,647)					(33,861)

		Pro forma adjustments				
	The Group	**The Target Company**				**The Remaining Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 7*	*Note 8*	*Note 9*	*Note 11*	
Investing activities						
Purchase of property, plant and equipment	(3,665)	86				(3,579)
Proceeds from disposal of property, plants and equipment	97	(1)				96
Proceeds from redemption of debt instruments at fair value through other comprehensive income	1,657					1,657
Proceeds from redemption of other financial assets at amortised cost	6,027	(6,021)				6
Withdrawal of restricted bank deposits	5,873					5,873
Proceeds from disposal of a subsidiary, net of capital gain tax	—			56,883	(5,783)	51,100
Placement of time deposit	(12,045)	12,045				—
Interest received	650	(332)	99			417
Net cash (used in)/generated from investing activities	(1,406)					55,570
Financing activities						
Repayments to related parties	(28,549)					(28,549)
Repayments of borrowings	(20,240)					(20,240)
Repayments of lease liabilities	(547)					(547)
Interest paid	(3,295)		(105)			(3,400)
New loan from related parties	54,350					54,350
New borrowings raised	32,867					32,867
Dividend paid	(6,333)	21,128	(21,128)			(6,333)
Dividend paid to non-controlling interests	(6,338)		6,338			—
Net cash from financing activities	21,915					28,148
Net increase in cash and cash equivalents	12,862					49,857
Cash and cash equivalents at 1 January	51,067	(24,992)		24,992		51,067
Effect of foreign exchange rate changes	1,125	(828)				297
Cash and cash equivalents at 31 December	65,054					101,221*

* The amount of cash and cash equivalents at 31 December 2021 differs from the bank balances and cash included in the unaudited pro forma consolidated statement of financial position of the Remaining Group as at 31 December 2021 as set out in page IV-2 of the circular due to the reinstatement of intra-group transactions between the Target Company and the Remaining Group, including dividend of HK$14.8 million paid to the Remaining Group and expenses of HK$0.2 million charged by the Target Company, both of which have been eliminated at group level.

Notes to the unaudited pro forma financial information of the Remaining Group

1. The audited consolidated statement of financial position of the Group as at 31 December 2021 and its audited consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and audited consolidated statement of cash flows for the year ended 31 December 2021 are extracted from the published annual report of the Company for the year ended 31 December 2021.

2. The adjustment represents the exclusion of the assets and liabilities of the Target Company as at 31 December 2021, assuming the Disposal had taken place on 31 December 2021. The assets and liabilities of the Target Company are extracted from the unaudited statement of financial position of the Target Company set out in Appendix II to this circular.

3. The adjustments reflect the cash consideration received upon completion of the Disposal amounting to approximately HK$83,635,000, and pro forma gain on Disposal of approximately HK$10,200,000. The calculation of the pro forma gain on Disposal is stated as follows, assuming the Disposal had taken place on 31 December 2021:

	HK$'000
Calculation of pro forma gain on Disposal:	
Cash consideration	83,635
Less: estimated professional fees and other expenses directly attributable to the Disposal *(note a)*	(1,760)
	81,875
Less: net assets of the Target Company as at 31 December 2021 *(note b)*	(116,748)
Add: release of non-controlling interests of the Target Company *(note c)*	35,024
Add: reclassification of exchange reserve to profit or loss upon disposal of the Target Company	10,049
Gain on Disposal	10,200
Cash received upon the Disposal	83,635
Less: estimated professional fees and other expenses directly attributable to the Disposal *(note a)*	(1,760)
Net proceeds arising on Disposal upon completion on 31 December 2021	81,875

Notes:

(a) The adjustment represents the recognition of the estimated transaction costs of approximately HK$1,760,000, including but not limited to legal and professional fees, directly attributable to the Disposal as estimated by the Directors.

(b) The amount represents the net assets of the Target Company as at 31 December 2021 as extracted from the unaudited statement of financial position of the Target Company set out in Appendix II to this circular.

(c) The non-controlling interests of the Target Company being disposed of is calculated based on 30% of the net assets of the Target Company as at 31 December 2021.

4. The adjustment represents the exclusion of the deferred tax liabilities in relation to the PRC withholding tax on distributable profits of the Target Company.

5. The adjustment represents the reinstatement of intra-group balance between the Target Company and the Remaining Group, which have been eliminated at group level.

6. The adjustment represents estimated capital gain taxes of HK$5,783,000 levied by the PRC tax bureau on the gain on Disposal calculated by the directors of the Company based on a tax rate of 10%, subject to the tax clearance from the PRC tax bureau.

7. The adjustment represents the exclusion of the results of the operation and cash flows of the Target Company for the year ended 31 December 2021, assuming the Disposal had taken place on 1 January 2021, which are extracted from the unaudited financial information of the Target Company as set out in Appendix II to this circular.

8. The adjustment represents the reinstatement of intra-group transactions between the Target Company and the Remaining Group, including dividend of HK$14,790,000 paid to the Remaining Group, which have been eliminated at group level, and the exclusion of the dividend of HK$6,338,000 paid by the Target Company to its non-controlling shareholders.

9. The adjustments reflect the gain on Disposal of the Target Company by the Group, assuming the Disposal had taken place on 1 January 2021:

	HK$'000
Calculation of pro forma gain on Disposal:	
Cash consideration	83,635
Less: estimated professional fees and other expenses directly attributable to the Disposal *(note a)*	(1,760)
	81,875
Less: net assets of the Target Company as at 1 January 2021 *(note b)*	(114,147)
Add: release of non-controlling interests of the Target Company *(note c)*	34,244
Add: reclassification of exchange reserve to profit or loss upon disposal of the Target Company	7,408
Gain on Disposal	9,380
Cash received upon the Disposal	83,635
Less: bank and cash balance of the Target Company as at 1 January 2021 *(note d)*	(24,992)
Less: estimated professional fees and other expenses directly attributable to the Disposal *(note a)*	(1,760)
Net cash inflow arising on Disposal upon completion on 1 January 2021	56,883

Notes:

(a) The adjustment represents the recognition of the estimated transaction costs of approximately HK$1,760,000, including but not limited to legal and professional fees, directly attributable to the Disposal as estimated by the Directors.

(b) The amount represents the net assets of the Target Company as at 1 January 2021 as extracted from the unaudited statement of financial position of the Target Company as at 31 December 2020 set out in Appendix II to this circular.

(c) The non-controlling interests of the Target Company being disposed of is calculated based on 30% of the net assets of the Target Company as at 1 January 2021.

(d) The amount represents the bank balance and cash of the Target Company as at 1 January 2021 as extracted from the unaudited statement of financial position of the Target Company as at 31 December 2020 set out in Appendix II to this circular.

10. The adjustment represents the exclusion of the reversal of deferred tax liabilities credited to profit or loss in relation to the PRC withholding tax on distributable profits of the Target Company and the exchange differences arising on translation of the corresponding deferred tax liabilities charged to other comprehensive income for the year.

11. The adjustment represents estimated capital gain taxes of HK$5,783,000 levied by the PRC tax bureau on the gain on Disposal calculated by the directors of the Company based on a tax rate of 10%, subject to the tax clearance from the PRC tax bureau.

(B) Assurance report on unaudited pro forma financial information

The following is the text of the independent reporting accountants' assurance report received from Baker Tilly Hong Kong Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the unaudited pro forma financial information of the Remaining Group prepared for the purpose of incorporation in this circular.

bakertilly
天職國際

Independent reporting accountants' assurance report on the compilation of unaudited pro forma financial information

To the Directors of ELL Environmental Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of ELL Environmental Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2021, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2021 and related notes as set out on pages IV-1 to IV-10 of the circular issued by the Company dated 29 August 2022 (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages IV-1 to IV-10 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the very substantial disposal in relation to the disposal of a subsidiary on the Group's financial position as at 31 December 2021 and the Group's financial performance and cash flows for the year ended 31 December 2021 as if the transaction had taken place at 31 December 2021 and 1 January 2021 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's consolidated financial statements for the year ended 31 December 2021, on which an audit report has been published.

Directors' responsibilities for the unaudited pro forma financial information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our independence and quality control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2021 or 1 January 2021 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

— the related pro forma adjustments give appropriate effect to those criteria; and

— the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated:

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Baker Tilly Hong Kong Limited
Certified Public Accountants
Hong Kong, 29 August 2022
Wan Wing Ping
Practising certificate number P07471

The following is the text of a valuation report, prepared for the purpose of incorporation in this circular, received from Valplus Consulting Limited, an independent valuer, in connection with this valuation as at 31 December 2021 of the fair value of the 70% equity interest in the Target Company.

Valplus
Business Advisory

Valplus Consulting Limited
Unit 907, 9/F, Houston Centre
63 Mody Road
Tsim Sha Tsui East
Hong Kong

29 August 2022

The Board of Directors,
ELL Environmental Holdings Limited,
Unit 2304, 23/F,
Westlands Centre,
20 Westlands Road,
Quarry Bay, Hong Kong

Dear Sirs/Madams,

Re: Valuation of 70% equity interests in Haian Hengfa Wastewater Treatment Company Limited

In accordance with the instructions from ELL Environmental Holdings Limited ("**Company**" and together with its subsidiaries, "**Group**"), we have conducted a valuation of fair value of 70% equity interests ("**Controlling Interests**") in Haian Hengfa Wastewater Treatment Company Limited ("**Haian Hengfa**"), a project company established and domiciled in the People's Republic of China ("**PRC**") which holds a concession to design, construct, own, operate and maintain a municipal wastewater treatment facility ("**Wastewater Treatment Plant**") with a total treatment capacity of 40,000 tons per day located at Haian County, Nantong City, Jiangsu Province of the PRC for concession periods until 2036 ("**Concession Periods**"). We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the fair value of the Controlling Interests as at 31 December 2021 ("**Valuation Date**").

This report states the purpose of valuation and premise of value, sources of information, identifies the business valued, describes the methodology of our valuation, investigation and analysis, assumptions and limiting conditions, and presents our opinion of value.

1. PURPOSE OF VALUATION

This report is being solely prepared for the directors and management of the Company for reference and incorporation into a public circular of the Company in connection with a proposed disposal ("**Proposed Disposal**") by the Company over the Controlling Interests of Haian Hengfa.

The Proposed Disposal, if approved and materialised, would be a commercial decision made by the transacting parties and the corresponding transaction price would be the result of negotiations between the transacting parties. The directors and management of the Company should be solely responsible for determining the consideration of the Proposed Disposal, in which Valplus Consulting Limited ("**Valplus**") is not involved in the negotiation and has no comment on the agreed consideration.

Furthermore, this valuation report does not constitute an opinion on the commercial merits and structure of the Proposed Disposal. We are not responsible for any unauthorised use of this report. Valplus assumes no responsibility whatsoever to any person other than the directors and management of the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely at their own risk.

2. BASIS AND PREMISE OF VALUE

Our valuation has been prepared in accordance with the International Valuation Standards ("**IVS**") published by the International Valuation Standards Council.

Our valuation is based on going concern premise and conducted on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

3. SOURCES OF INFORMATION

We relied on the following major documents and information in our valuation analysis. Some of the information and materials are furnished by the management of the Group or its representatives (together, "**Management**"). Other information is extracted from public sources such as government sources, HKEXnews, Bloomberg and Duff & Phelps, LLC, etc.

The major documents and information include the following:

- Business license(s) or certificate(s) of incorporation of Haian Hengfa;

- Agreements, contracts and research in relation to the design, development, construction and operation of the Wastewater Treatment Plant ("**Concession Agreements**"), including but not limited to:

  i. 《海安縣污水處理廠項目合作協議》 dated 25 September 2002 and entered into between 江蘇省海安縣建設局 (subsequently renamed as 海安縣住房和城鄉建設局, which is unofficially translated as "The Bureau of Housing and Urban-Rural Construction of Haian County" and hereinafter "**Haian County Construction Bureau**"), and Everbest Water Treatment Development Company Limited ("**Everbest Water**"), a wholly-owned subsidiary of the Company;

  ii. 《海安恆發污水處理有限公司增資協議》 dated 15 June 2006 and entered into between 海安縣城建開發投資有限責任公司 (unofficially translated as "Haian County Urban Construction Development Investment Company Limited" and hereinafter, "**Haian Urban Construction**") and Everbest Water;

  iii. 《海安縣污水處理廠項目補充協議》 dated 26 November 2013 and entered into between Haian County Construction Bureau, Haian Urban Construction, Everbest Water and Haian Hengfa.

- Announcement(s), circular (s) and/or prospectus made by the Company in relation to Haian Hengfa;

- Audited annual reports and unaudited interim reports of the Group;

- Historical financial information of Haian Hengfa including income statements and balance sheets provided by the Management; and

- Projections of Haian Hengfa prepared and provided by the Management ("**Projections**").

In the course of our valuation, we had discussion with the Management on the industry and the development of Haian Hengfa. Furthermore, we have made reference to or reviewed the above information and data and assumed such information and data are true and accurate without independent verification except as expressly described herein. We consider that we have obtained adequate information from the sources described above to provide a reliable opinion of value.

We have no reason to believe that any material facts have been withheld from us, however, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

In arriving at our opinion of value, it was assumed that the Projections provided to us were based on the assumptions reflecting the best available estimates, judgment and knowledge of the Management in relation to the proposed operations and are reasonable, reflecting market conditions and economic fundamentals. However, we do not express any opinion regarding the accuracy of the Projections provided by the Management.

We do not express an opinion as to whether the actual results of the operations of Haian Hengfa will approximate to the Projections because assumptions regarding future events by their nature are not capable of independent substantiation. We are making no representation that the business expansion will be successful, or that market growth and penetration will be realised.

4. COMPANY PROFILE

Haian Hengfa is a limited liability company established in the PRC on 18 December 2002 with registered capital of RMB30,000,000 and is an indirect non-wholly owned subsidiary of the Company. Haian Hengfa is a project company with business scope confined to wastewater treatment business of city. By entering into the Concession Agreements, Haian Hengfa obtained the concession for the design, construction, operation and maintenance of the Phase I ("**Phase I Facility**") and the Phase II ("**Phase II Facility**") of the Wastewater Treatment Plant under a build-operate-transfer arrangement, which has become the sole business operations of Haian Hengfa since December 2002.

5. BUSINESS OVERVIEW

The Wastewater Treatment Plant is located in Haian County, Nantong City, Jiangsu Province, the PRC with a site area of approximately 33,319 sq.m. Pursuant to the Concession Agreements, Haian Hengfa was initially granted with the concession for the construction, operation and maintenance of the Phase I Facility for a concession period of 28 years commencing in December 2002 and was subsequently extended to 34 years as approved by the local government. The Wastewater Treatment Plant was further expanded into the Phase II Facility with a concession period of 22.5 years. The concession of both the Phase I Facility and the Phase II Facility shall be expired in May 2036. Upon the completion of the Phase II Facility construction, the maximum wastewater treatment capacity reached to 40,000 tons per day. Based on the Concession Agreements, the contract value of the Phase I Facility and the Phase II Facility approximated to RMB38.6 million and RMB24.0 million, respectively.

During the operational phase, Haian Hengfa is entitled to receive monthly payments for wastewater treatment from the local governmental authority which includes a guaranteed minimum tariff based on the agreed maximum capacity of the facilities. In the case of any shortfall between the maximum capacity of the facility and the actual volume of wastewater treated, the treatment service fees of such shortfall amount shall be calculated as 85% of the predetermined tariff. This arrangement essentially secures Haian Hengfa with a minimum amount of income even when the volume of wastewater supplied fluctuates from day to day. According to the operational track records, the annual utilisation rates of the Wastewater Treatment Plant ranged from approximately 84.1% to 88.9% for the years ended 31 December 2019, 2020 and 2021, respectively. In addition, upon mutual consent between the contractual parties, the tariff can be reviewed and adjusted every two years with a retrospective effect after taking into consideration of including but not limited to historical operational costs, inflation, prevailing bank rates and other official price index movements. After making necessary adjustments, the government will make retrospective payment for relevant periods under review to Haian Hengfa as compensation. As at the Valuation Date, the unit water tariff was fixed at RMB1.45 per tonne. Upon the expiry of the Concession Periods, Haian Hengfa shall transfer the Wastewater Treatment Plant in a well-maintained and sound operating condition to the government at no cost.

6. FINANCIAL REVIEW

The following tables set forth the historical selected and unaudited financial result of Haian Hengfa for the year ended 31 December 2019 ("**FY2019**"), 2020 ("**FY2020**") and 2021 ("**FY2021**", and together with the FY2019 and the FY2020, "**Track Record Period**"). We have only reviewed the financial accounts of Haian Hengfa provided by the Management without independent verification and audit.

RMB'000	**FY2019**	**FY2020**	**FY2021**
Revenue[1]	39,194	22,855	31,113
Gross profit[2]	29,459	14,003	21,586
EBIT	28,396	13,044	20,339
EBT	32,192	15,538	20,878
Net profit	26,495	11,991	16,514
Total assets	130,512	116,641	118,477
Net assets	105,896	96,180	95,154

* *Figures above are subject to rounding.*

Table 1: Key financial performance of Haian Hengfa

Source: The Management

Notes:

1) The pre-business tax-and-surcharge revenue includes (i) construction revenue, operating revenue, imputed interest revenue (collectively, "**Concession Service Revenue**") which were recognised for accounting purpose under HK(IFRIC) — Int 12 Service Concession Arrangements; and (ii) one-off government compensation. Regarding the Concession Service Revenue, the actual cash inflow was only received in the form of cash payments of wastewater treatment fees during the operational phase of the Wastewater Treatment Plant.

2) The gross profit was adjusted to exclude depreciation expenses from the cost of sales.

	FY2019	**FY2020**	**FY2021**
Revenue growth	n/a	-41.7%	36.1%
Gross profit margin	75.2%	61.3%	69.4%
EBIT margin	72.4%	57.1%	65.4%
EBT margin	82.1%	68.0%	67.1%
Net profit margin	67.6%	52.5%	53.1%
Return on equity	25.0%	12.5%	17.4%
Return on total assets	20.3%	10.3%	13.9%

* *Figures above are subject to rounding.*

Table 2: Key financial ratios of Haian Hengfa

Source: The Management

After discussion with the Management, the following is the highlight of the major financial performance of Haian Hengfa over the Track Record Period.

- The revenue was only receivable from the provision of the wastewater treatment services which were under the guaranteed minimum tariff payment from the authority; and the one-off retrospective government compensation that is subject to the consent of tariff revision from the local governmental authority;

- Given the optimal utilisation of the Wastewater Treatment Plant and fixed water tariff, the cash inflow was relatively stable over the Track Record Period;

- Hence, there was a sluggish growth in revenue as the Wastewater Treatment Plant has limited spare capacity and stable water tariff. The future revenue growth mainly depends on the renewals of new tariff rates to be agreed by the local governmental authority;

- The cost structure of the plant remained relatively stable but was under a slightly upward pressure. With the Wastewater Treatment Plant having been in operations since mid-2000s, the frequency of repairment and replacement has been increasing as the facilities continue aging with more and more wear and tear accumulated from daily operations or use, resulting in an increase in cost of sales. Furthermore, the electricity fee, labour cost and material costs of specialised chemicals used in wastewater treatment have been rising throughout the Track Record Period;

- Owing to the government compensation, the gross profit margin, operating margin and net profit margin have been fluctuating over the Track Record Period and averaged at around 68.6%, 65.0% and 57.7%, respectively; and

- The liabilities were primarily comprised the provision for major overhauls. Based on the Concession Agreements, Haian Hengfa is obligated to maintain the Wastewater Treatment Plant at good condition upon transferring it to the government and such provision is expected to increase throughout the Concession Periods, increasing the liability to be incurred by Haian Hengfa.

7. ECONOMIC OVERVIEW

This section of economic overview is based on the data provided by Bloomberg. The pandemic outbreak had moderately impacted China's economic growth. In the near term, uncertainty around the ongoing pandemic remains, and will continue to affect China's economy. Nonetheless, China's economy is expected to resume positive growth, supported by robust foreign demand for its manufactured goods, as well as a strong construction sector. China's real gross domestic product ("**Real GDP**") growth dropped significantly from 12.7% in the second quarter of 2021 to 8.1% in the fourth quarter of 2021 on a year-over-year ("**YOY**") basis. The retail sales value growth decreased from 12.1% in the second quarter of 2021 to 1.7% in the fourth quarter of 2021. The YOY consumer price index change showed an increasing trend from 1.1% in the second quarter of 2021 to 1.5% in the fourth quarter of 2021. The producer price index growth had a rise of 10.3% in the fourth quarter of 2021 compared to the 8.8% in the second quarter of 2021. The YOY export and import trade value change showed the peaks of 32.1% and 37.1% respectively in the second quarter of 2021 and slowed down to the corresponding 20.9% and 19.5% at the year end.

	YOY change		
	Second quarter of 2021	Third quarter of 2021	Fourth quarter of 2021
Real GDP	12.7%	9.8%	8.1%
Retail sales value	12.1%	4.4%	1.7%
Consumer price index	1.1%	0.7%	1.5%
Producer price index	8.8%	10.7%	10.3%
Exports	32.1%	28.0%	20.9%
Imports	37.1%	17.2%	19.5%

* *Figures above are subject to rounding.*

Table 3: Major economic indicators of China

Source: Bloomberg

8. INDUSTRY OVERVIEW

This section of the industry overview is based on the data provided by China National Bureau of Statistics; study conducted by the International Trade Administration ("**ITA**"); the research report issued by LeadLeo ("**LeadLeo**") and Frost & Sullivan ("**F&S**") in the PRC, namely《中國水污染治理行業獨立市場研究報告》(unofficially translated as "China Water Pollution Control Industry Independent Market Research Report"); and the journal article published on Frontiers of Environmental Science & Engineering ("**FESE**"), namely "Municipal wastewater treatment in China: Development history and future perspectives".

Water resources in the PRC

China is one the most water-deficient countries in the world. China accounts for 21% of the world's population but only possesses 6% of the world's freshwater. In 2020, China's average per capita freshwater was approximately 2,100 m^3, which was lower than the global average. In addition, water resources are unevenly distributed in China, which further exacerbates China's water shortage. Pollution has further aggravated the deficit issues. Facing the widespread water pollution problems, the Chinese government has revised and issued stricter wastewater discharge standards for major polluting industries. At the same time, large-scale lake remediation had been continuously conducted to clean the polluted natural resources with the implementation of more environmental policies, such as the Action Plan for Water Pollution Prevention and Control.

Wastewater discharge in the PRC

Wastewater are generally classified as sources from (i) domestic and household use; (ii) industrial use; and (iii) centralised pollution control facilities, of which the municipal wastewater originated from domestic and household use occupied the largest market shares. According to ITA, the amount of municipal wastewater discharged in China in 2020 reached over 500 billion m^3, compared to the amount of approximately 400 billion m^3 in 2011. Urbanisation is one of the factors that contributes to the increased discharge volume of municipal wastewater. The increase in population and rising living standards are likely to lead to an increase in the demand for clean water and wastewater treatment in urban areas, which in turns would drive up the growth potential of municipal wastewater treatment industry.

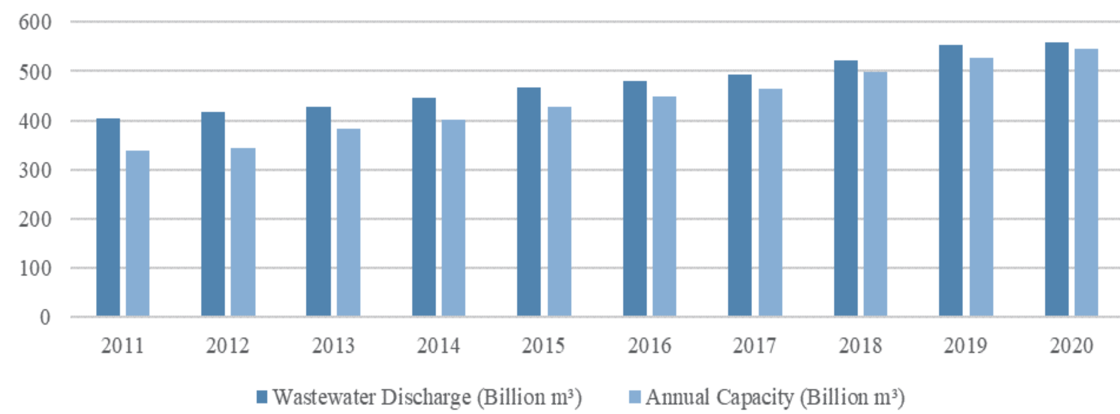

Figure 1: China municipal wastewater discharge and treatment chart (2011 — 2020)

Source: ITA

Industry chain of municipal water industry in the PRC

According to F&S, the industry chain of China's municipal water industry primarily consists of three key components, including production and supply of running water from qualified raw water sources; treatment of municipal wastewater collected through municipal pipelines; and further treatment of wastewater effluent for reuse.

Running water suppliers pay tariff to and obtain raw water from raw water producers. Some running water suppliers also obtain raw water from natural resources such as rivers and lakes. Then running water is delivered to end users through pipelines. Wastewater treatment companies usually collect wastewater treatment fees from two sources, namely government purchase, where payments are made by local government directly to wastewater treatment companies, and public procurement, where the relevant tariffs are collected by running water companies from running water users and then transferred to wastewater treatment companies. After the effluent from wastewater treatment is further treated through a series of processes, reclaimed water is delivered to end users, primarily for irrigation, roadway sanitation, and carwash, amongst others.

The Chinese municipal wastewater treatment market mainly consists of three types of players:

- The majority share of the market is held by the state-owned enterprises ("**SOEs**"), which are solely or majority owned by the central or local governments. The status of these SOE companies often facilitates their bidding for wastewater projects from local governments. Major SOE participants include but not limited to Beijing Enterprises Water Group Limited and Beijing Capital Co., Ltd.;

- Privately-owned companies with headquarters and main operations in the PRC are gradually becoming important players in the market. Leading private companies are Chongqing Kangda Environment Protection Industry (Group) Co., Ltd. and Anhui Guozhen Environmental Protection and Energy Saving Technology Co., Ltd.; and

- Few foreign invested companies such as Veolia Environment S.A., Sino French Water Development Co. Ltd. and Berlinwasser Holding AG.

Major wastewater treatment technologies in the PRC

Wastewater treatment utilises physical, chemical and biological processes to either remove pollutants or reduce them into non-toxic substances. It can be categorised into primary treatment, secondary treatment and advanced treatment. Primary treatment usually involves a physical process that settles and removes suspended substances. Secondary treatment involves biological treatment, where the activated sludge process and other technologies are used to remove organic wastes and other pollutants such as nitrogen and phosphorus. Advanced treatment further removes pollutants that have not been segregated in the secondary treatment.

Currently, biological treatment accounts for over 90% of all methods for municipal wastewater treatment in China. Other methods include physical treatment, chemical treatment, or physical-chemical treatment. Biological treatment is the preferred method for removing key pollutants from wastewater. There are five major technologies used for biological treatment, namely, activated sludge, oxidation ditch, A/O, A^2/O and SBR. The latter four technologies are upgrades derived from the traditional activated sludge process. The activated sludge process, along with its derivates, is a mature technology and has a dominant position in China.

Pursuant to FESE, the milestone municipal wastewater treatment plants ("**WWTPs**") in the development history of China are tabulated as below for illustrative purpose.

Year of operation	**Name of municipal WWTP**	**Treatment capacity (m^3/day)**	**Milestone**
1984	Tianjin Jizhuangzi WWTP	260,000	The first large-scale WWTP implementing activated sludge process in China
1993	Phase One of Beijing Gaobeidian WWTP	500,000	The first 500,000-scale WWTP in China
1991	East Handan WWTP	100,000	The first plant with three-groove oxidation ditch process (built by using the Danish government grant)
2000	Dalian Malan River WWTP	120,000	The first plant applying BIOSTYR biological aerated filter
2001	Shanghai Taopu WWTP	60,000	The first plant applying SBR process
2002	Shanghai Shidongkou WWTP	400,000	The first Unitank Municipal WWTP
2008	Wuxi Lucun Village WWTP	200,000	The first plant implementing Grade 1-A standard; the first plant adopting large-scale IFAS/MBBR system
2016	Beijing Water Reclaimation Plant	1,000,000	The largest reclaimed water plant in China

Table 4: China's municipal wastewater treatment plant development milestones (1984 — 2016)

Source: FESE

Municipal wastewater market in the PRC

According to the China National Bureau of Statistics, from 2015 to 2020, China invested US$81.6 billion in its municipal wastewater system, including sewage pipeline construction and maintenance, new treatment facilities, rainwater-sewage diversion systems, sludge mitigation, reclaimed water, and initial rainfall treatment. As of January 2020, China's 10,113 water treatment plants treated wastewater for 95% of municipalities and 30% of rural areas. In 2020, 39,000 new wastewater treatment facilities were set up. China plans to build or renovate 80,000 km of sewage collection pipeline networks and increase sewage treatment capacity by 20 million m^3/day between 2021-2025. In the next few years, China's strong policy support and investment focus will present opportunities in sewage pipeline maintenance, black and odorous water bodies treatment, and wastewater treatment facilities construction in the second and third tier cities.

Meanwhile, based on the study from LeadLeo and F&S, the municipal wastewater treatment market size also showed a dramatic increasing trend from RMB177 billion in 2016 to RMB397 billion in 2020, indicating a compound annual growth rate ("**CAGR**") of 22%. It is estimated that the rising market trend will continue and the market size will be approximated to RMB845 billion by 2025, representing a CAGR of 16%.

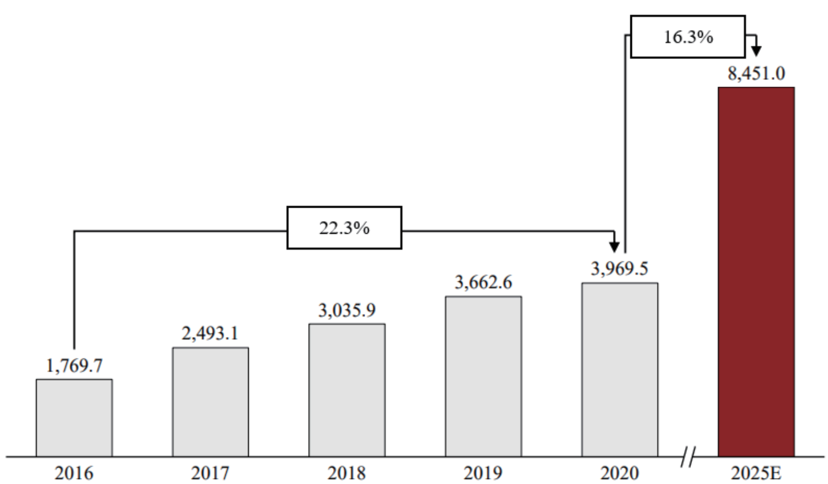

Figure 2: China's municipal wastewater market size (2016 — 2025E)

Source: LeadLeo and F&S

9. INVESTIGATION AND ANALYSIS

Our investigation included discussion with the Management in relation to historical performance, operations and industry, and other relevant information of Haian Hengfa. In addition, we have made relevant enquiries and obtained such further information including financial and business information, and statistical figures from other sources as we consider necessary for the purpose of this valuation. As part of our analysis, we have made reference to the Projections, financial information, and other pertinent data concerning Haian Hengfa provided to us by the Management.

The valuation of Haian Hengfa requires consideration of all pertinent factors, which affect the operations of the business and its ability to generate future investment returns. The factors considered in this valuation include the following:

- Nature and operations of Haian Hengfa;
- Historical information of Haian Hengfa;
- Financial condition of Haian Hengfa;
- Proposed business development of Haian Hengfa;
- Nature, terms and conditions of relevant agreements, contracts, licenses, permits and rights;
- Expected economic income from relevant agreements, contracts, licenses, permits and rights;
- Regulations and rules of relevant industries;
- Economic and industry data affecting markets and other dependent industries;
- Market-derived investment return(s) of similar business; and
- General global economic outlook.

10. GENERAL VALUATION APPROACHES AND METHODS

There are three generally accepted approaches to value a business subject:

- Market approach;
- Asset approach; and
- Income approach.

Under each approach, a number of methods are available which can be used to assess the value of a business subject. Each method uses a specific procedure to determine the business value.

Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted in valuing businesses that are similar in nature. It is also a common practice to employ a number of valuation methods under each approach. Therefore, no one business valuation approach or method is definitive. A more detailed discussion of each approach is presented in the *ADDENDUM I — VALUATION APPROACHES* of this report.

11. VALUATION ANALYSIS

11.1. Methodology

In the process of valuing a business subject, we have taken into consideration of business nature, assets type, specialty of its operations, assets owned, and liabilities assumed and industry it is participating. Having considered the three general valuation methodologies, we have adopted the income approach and rejected the use of the asset and market approaches based on the following reasons:

- Haian Hengfa is solely a project company holding the concession right for construction, management, operation and maintenance of the Wastewater Treatment Plant with a limited economic life and will not carry on or undertake any business other than the aforesaid concession as set out in the Concession Agreements. So, unlike other industry comparables to continue as going concern, such business model and operational nature is not perpetual, making the market approach not applicable and appropriate;

- There are insufficient relevant comparable transactions and companies to form a reliable basis for opinion of value as the aforesaid concession held by Haian Hengfa is subject to the Concession Agreements which is considered to be unique and specific in nature;

- By holding the concession of the Wastewater Treatment Plant, Haian Hengfa is also obligated to maintain the facilities at good condition upon transferring it to the government at the expiry of the Concession Periods. There is future provision for major overhauls which have not been measured and reported on its latest accounts. The use of current net book value ignores the potential liabilities brought by the provision and possibly overestimates the true value of Haian Hengfa;

- The cost of reproducing and replacing its assets ignore the future economic benefits of the business as a whole, and thus the asset approach is not a good and relevant valuation method; and

- Haian Hengfa has been entitled to receive a stable income mainly from the provision of wastewater treatment services throughout the Concession Periods in accordance with the Concession Agreements, which is a solid, representative and reliable reference to prepare an income forecast with supportable, verifiable and explainable basis and assumptions.

Based on the above concerns, we therefore relied solely on the income approach in determining our opinion on value as reasonable future projections could be estimated on the basis of the Concession Agreements and the historical financial results.

It is simple adopting the income approach to state the value of a business in present value terms. This method is well accepted by most analysts and practitioners. One common method under the income approach is by looking from the perspective of the firm's investors including shareholders and debtholders. That is the free cash flow available to the business as a whole ("**FCFF**").

11.2. Projections

Projections were provided and prepared by the Management throughout the remaining tenor of the Concession Periods. Details of the projections is presented in the *ADDENDUM II — CASHFLOWS PROJECTIONS* of this report. We have reviewed the calculation and had discussion with the Management regarding the assumptions and basis of the Projections as below:

Revenue

Revenue only includes the wastewater treatment service fees, which is derived based on (i) the unit tariff rate; and (ii) the volume of wastewater treated by the Wastewater Treatment Plant as stated on the Concession Agreements. The applicable unit tariff rate is RMB1.45 per tonne as at the Valuation Date and has been adjusted upward in every two years in accordance with the Concession Agreements after taking into account the historical revision of tariff and inflation in the PRC.

Cost of Sales

Cost of sales mainly comprise water and electricity fee, raw material cost, maintenance expenses, direct labour cost and other direct cost for the provision of the wastewater treatment services at the Wastewater Treatment Plant, which are based on the historical costs over the Track Record Period, and are projected to grow at the historical inflation rate in the PRC.

Administrative and Other Operating Expenses

These expenses are mainly related to depreciation, professional fee, management fee, allowances, wages, utility and other general administrative costs, which are based on actual costs incurred over the Track Record Period, and are projected to grow at the historical inflation rate in the PRC.

Tax and Other Surcharges

Haian Hengfa is subject to the business tax and surcharge rates as set forth below.

Value-added tax ("**VAT**")[1]	6.0%
Urban construction and maintenance tax	5.0%
Education surcharge	3.0%
Local educational surcharge	2.0%
Corporate income tax[2]	25.0%

Notes:

1) According to the 《資源綜合利用產品和勞務增值稅優惠目錄》 published by the PRC government and based on the Track Record Period, Haian Hengfa is subject to 70% return on the annual amount of the VAT paid ("**VAT Return**").

2) According to the《資源利用綜合企業所得稅優惠目錄》published by the PRC government and advised by the Management, Haian Hengfa is subject to corporate income tax allowance amounted to 10% of the revenue per annum ("**CIT Allowance**" and together with the VAT Return, "**Tax Benefits**").

11.3. Discount Rate

A discount rate represents the total expected rate of return that an investor would demand on the purchase price of an ownership interests in an asset given the level of risk inherent in that ownership interests. In this valuation, the discount rate applied to the cash flow streams attributable to Haian Hengfa is the weighted average cost of capital ("**WACC**").

The following criteria have been adopted for the selection of comparable sample:

- Publicly listed in Hong Kong over two years with financial information available as at the Valuation Date;
- Principal place of business based in the PRC; and
- Major revenue generated from the provision of wastewater treatment services.

Based on the above searching criteria, on best effort basis, the exhaustive list of selected comparable companies which are engaged in the similar business include:

Comparable company	**Stock code**
Beijing Enterprises Water Group Limited	371 HK
China Environmental Technology Holdings Limited	646 HK
Tianjin Capital Environmental Protection Group Company Limited	1065 HK
China Everbright Water Limited	1857 HK
Kunming Dianchi Water Treatment Co., Ltd	3768 HK
Kangda International Environmental Company Limited	6136 HK
Yunnan Water Investment Co Ltd	6839 HK

Source: Bloomberg

Set forth below are the revenue distribution among Haian Hengfa and the shortlisted comparable companies by making reference to their latest available annual financial results as at the Valuation Date.

Stock code	Revenue generated from the PRC	Revenue generated from the wastewater treatment services
Haian Hengfa	100%	100%
371 HK	94.2%	74.4%
646 HK	100.0%	100.0%
1065 HK	100.0%	73.9%
1857 HK	99.9%	100.0%
3768 HK	100.0%	59.1%
6136 HK	100.0%	91.4%
6839 HK	95.6%	65.1%

* *Figures above are subject to rounding.*

Source: Bloomberg & the Management

Based on the above findings, all the shortlisted comparable companies are considered to be relevant and appropriate as they produced income primarily from the provision of wastewater treatment services in the PRC. The basic profile of the selected comparable companies is set out in *ADDENDUM III — COMPARABLE COMPANIES PROFILE* of this report.

Our analysis suggested that a discount rate of 8.4% is appropriate for valuing Haian Hengfa as at the Valuation Date. A more detailed discussion is presented in *ADDENDUM IV — DISCOUNT RATE DERIVATION* of this report.

11.4. Non-cash Working Capital

The non-cash working capital to sales of -0.4% is estimated by making reference to the historical track record of the valuation subject.

11.5. Capital Investment

Based on the existing business model and operation, the Management confirmed that there will be no additional capital investment throughout the Concession Periods. The maintenance capital expenditure throughout the projections is approximated to the annual depreciation, which is based on the historical track record of the valuation subject.

11.6. Terminal Growth

The terminal growth rate is not applicable to this valuation as Haian Hengfa is only a project company for operation, management and maintenance of the Wastewater Treatment Plant during the Concession Periods.

11.7. Marketability Discount

We have adopted lack of marketability discount ("**DLOM**") of approximately 16.2% for Haian Hengfa as ownership interests in closely held companies are typically not readily marketable compared to similar interests in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. The discount is benchmarked to the 2021 edition of the Stout Restricted Stock Study Companion Guide, a commonly and widely used research study to assist the valuation profession in determining the DLOM.

11.8. Non-operating Assets and Liabilities

In computing the value of Haian Hengfa, we have adjusted the assessed enterprise value for the non-operating assets and liabilities as at the Valuation Date. Based on the unaudited financial results provided by the Management, the non-operating assets and liabilities are as follows:

	RMB'000
Surplus cash[1]	30,319
Other non-operating assets[2]	648
Other non-operating liabilities[3]	21,550

* *Figures above are subject to rounding.*

Notes:

1) This refers to the net of sum of excess cash and debt.

2) These comprise mainly other receivables and amount due from affiliates etc.

3) These comprise mainly provision for major overhauls and deferred tax liabilities etc.

11.9. Calculation

Based on the above parameters and inputs, the calculation of this valuation is presented as follows:

		Formula	Input value
			RMB'000
1)	Sum of discounted FCFF		99,383
2)	Net non-operating liabilities[1]		20,901
3)	Firm value before the DLOM	(1) – (2)	78,481
4)	DLOM	(3) × 16.2%	12,714
5)	Firm value	(3) – (4)	65,767
6)	Surplus cash		30,319
7)	100% equity value	(5) + (6)	96,087
8)	Controlling Interests	(7) × 70%	67,261

* *Figures above are subject to rounding.*

Note:

1) These are the sum of the non-operating assets and the non-operating liabilities.

12. VALUATION ASSUMPTIONS

- The tariff rate will be revised between each review interval throughout the remaining Concession Periods;

- The Management does not foresee any legal obstacles in renewing and retaining the Tax Benefits throughout the remaining Concession Periods;

- Haian Hengfa is assumed to have no contingent assets and liabilities or any other off-balance sheet items which should be recognised or valued attributable to Haian Hengfa;

- To continue as a going concern throughout the projection period, Haian Hengfa will successfully carry out all necessary activities for the development of its business;

- The contractual parties of relevant agreements will act in accordance with the terms and conditions of the agreements and understandings between the parties and will be renewable upon expiry, if applicable;

- The audited/unaudited financial and operational information of Haian Hengfa as supplied to us have been prepared in a manner which truly and accurately reflect the financial position of Haian Hengfa as at the respective balance sheet dates;

- The availability of financing will not be a constraint on the forecast growth of Haian Hengfa's operations;

- Market trends and conditions where Haian Hengfa operates will not deviate significantly from the economic forecasts in general;

- Key management, competent personnel and technical staff will all be retained to support ongoing operations of Haian Hengfa;

- There will be no material changes in the business strategy of Haian Hengfa and its expected operating structure;

- Interest rates and exchange rates in the localities for the operations of Haian Hengfa will not differ materially from those presently prevailing;

- All relevant consents, business certificates, licenses or other legislative or administrative approvals from any local, provincial or national government, or private entity or organization required to operate in the localities where Haian Hengfa operates or intends to operate will be officially obtained and renewable upon expiry unless otherwise stated; and

- There will be no major changes in the political, legal, economic or financial conditions and taxation laws in the localities in which Haian Hengfa operates or intends to operate, which would adversely affect the revenues and profits attributable to Haian Hengfa.

13. LIMITING CONDITIONS

Our conclusion of the value is derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

Our work in connection with this engagement is of a different nature to that of a formal audit or a review of information, as those terms are understood in applicable to relevant auditing and accounting standards. We do not, as part of this exercise, perform an audit, review, or examination of any of the historical, present or prospective financial information used and therefore, does not express any opinions with regard to it.

This valuation reflects facts and conditions existing as at the Valuation Date. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report is reasonable and accurately determined. The data, opinions, or estimates as identified or being furnished by others, which have been used in formulating this analysis, are gathered from reliable sources, however, no guarantee is made nor liability assumed for their accuracy. The value might be adjusted should more specific and update information of the valuation subject is made available to us.

We have made reference to the information provided by the Management in arriving at our opinion of value. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and that any material facts have been omitted from the information provided. No responsibility for the operational and financial information that have not been provided to us is accepted.

We accept no responsibility for the realisation and completeness of any estimated data, or estimates furnished by or sourced from any third parties which we have used in connection with this report. We assumed that financial and other information provided to us are accurate and complete.

We have not investigated the title to or any legal liabilities of Haian Hengfa. We have assumed no responsibility for the title to Haian Hengfa.

Save as and except for the purpose stated above, neither the whole nor any part of this report nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear.

In accordance with our standard practices, we must state that this report is for the exclusive use of the party to whom it is addressed and for the specific purpose stated above. Furthermore, the report and conclusion of value(s) are not intended by the author, and should not be construed by the reader, to be investment advice in any manner whatsoever. The conclusion of value(s) represents the consideration based on information furnished by the Company/engagement parties and other sources. No responsibility is accepted to any third party for the whole or any part of its contents.

Actual transactions involving the subject assets/business might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivation of the buyers and sellers at that time.

We would particularly point out that our valuation was based on the information such as company background, business nature, market share, and future prospects of Haian Hengfa provided to us by the Management.

14. REMARKS

The Management has reviewed and agreed on the report and confirmed the factual content of the report.

We hereby confirm that we have neither present nor prospective interests in Haian Hengfa, the Group or the value reported herein.

15. OPINION OF VALUE

Based on the investigation and analysis stated above and on the valuation methods employed, we are of the opinion that the fair value of the Controlling Interests as at the Valuation Date was in the sum of **RMB67,261,000** (**RENMINBI SIXTY-SEVEN MILLION TWO HUNDRED AND SIXTY-ONE THOUSAND ONLY**). A sensitivity check is presented in *ADDENDUM V — SENSITIVITY ANALYSIS.*

Respectfully submitted,
For and on behalf of
VALPLUS CONSULTING LIMITED
Damon S.T. Wan, *CFA, FRM, MRICS*
Director

Analysed and reported by: **Willy T.Y. Yu**, *CESGA* *Senior Manager* **Alfred Y.M. Wong** *Assistant Manager*

ADDENDUM I — VALUATION APPROACHES

Market Approach

The market approach values a business entity by comparison of the prices at which other similar business nature companies or interests changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to pay for an equally desirable alternative. By adopting this approach, we will first look for an indication of value from the prices of other similar companies or equity interests in companies that were sold recently.

The right transactions employed in analysing for indications of value need to be sold at an arm's length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

The derived multiples (most commonly used are: price to earnings, price to revenues and price to book multiple) based on the analysis of those transactions are then applied to the fundamental financial variables of the subject business entity to derive an indication of value.

Asset Approach

The asset approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals the value of its invested capital (equity and debt capital). In other words, the value of the business entity is represented by the money that has been made available to purchase the business assets needed.

This money comes from investors who buy stocks of the business entity (equity) and investors who lend money to the business entity (debt). After collecting the total amounts of money from equity and debt, and converted into various types of assets of the business entity for its operations, the sum of such assets equals the value of the business entity.

From a valuation perspective, we will restate the values of all types of assets of a business entity from book values, i.e. historical cost minus depreciation to appropriate standards of value. After the restatement, we can identify the indicated value of the business entity, or, by applying the accounting principle "assets minus liabilities", to arrive at the value of the equity interests of the business entity.

Income Approach

The income approach focuses on the economic benefits generated by the income producing capability of a business entity. The underlying theory of this approach is that the value of a business entity can be measured by the present worth of the economic benefits to be received over the life of the business entity.

Based on this valuation principle, the income approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realising those benefits.

Alternatively, this can be calculated by capitalising the economic benefits to be received in the next period at an appropriate capitalisation rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

ADDENDUM II — CASHFLOWS PROJECTIONS

RMB'000	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036[1]
Revenue															
— Tariff from treated volume	18,856	18,856	20,609	20,553	22,197	22,197	23,816	23,751	25,176	25,176	26,508	26,435	27,493	27,493	10,997
— Tariff from shortfall volume	2,646	2,646	2,892	2,884	3,115	3,115	3,342	3,333	3,533	3,533	3,719	3,709	3,858	3,858	1,543
Total revenue	**21,502**	**21,502**	**23,501**	**23,437**	**25,312**	**25,312**	**27,158**	**27,084**	**28,709**	**28,709**	**30,227**	**30,144**	**31,350**	**31,350**	**12,540**
Cost of sales	(9,592)	(9,784)	(9,980)	(10,179)	(10,383)	(10,590)	(10,802)	(11,018)	(11,239)	(11,463)	(11,693)	(11,927)	(12,165)	(12,408)	(5,098)
Gross profit	**11,910**	**11,718**	**13,522**	**13,258**	**14,929**	**14,722**	**16,356**	**16,066**	**17,470**	**17,246**	**18,534**	**18,218**	**19,185**	**18,942**	**7,442**
Business tax and surcharges	(129)	(129)	(141)	(141)	(152)	(152)	(163)	(163)	(172)	(172)	(181)	(181)	(188)	(188)	(75)
GP after surcharges	**11,781**	**11,589**	**13,381**	**13,117**	**14,777**	**14,570**	**16,193**	**15,903**	**17,298**	**17,073**	**18,353**	**18,037**	**18,997**	**18,754**	**7,367**
Operating expenses	(1,141)	(1,164)	(1,187)	(1,211)	(1,235)	(1,260)	(1,285)	(1,311)	(1,337)	(1,364)	(1,391)	(1,419)	(1,447)	(1,476)	(607)
EBITDA	**10,640**	**10,425**	**12,193**	**11,906**	**13,542**	**13,310**	**14,908**	**14,592**	**15,961**	**15,709**	**16,962**	**16,618**	**17,550**	**17,277**	**6,760**
Depreciation expenses	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(48)
EBIT	**10,521**	**10,306**	**12,074**	**11,787**	**13,423**	**13,191**	**14,789**	**14,473**	**15,842**	**15,590**	**16,843**	**16,499**	**17,431**	**17,158**	**6,713**
Other income[2]	903	903	987	984	1,063	1,063	1,141	1,138	1,206	1,206	1,270	1,266	1,317	1,317	527
EBIT after VAT return	**11,424**	**11,209**	**13,061**	**12,771**	**14,486**	**14,254**	**15,929**	**15,611**	**17,048**	**16,796**	**18,112**	**17,765**	**18,747**	**18,475**	**7,239**
Corporate Income tax[3]	(2,318)	(2,265)	(2,678)	(2,607)	(2,989)	(2,931)	(3,303)	(3,226)	(3,544)	(3,481)	(3,772)	(3,688)	(3,903)	(3,835)	(1,496)
After-tax EBIT	**9,105**	**8,944**	**10,384**	**10,165**	**11,497**	**11,323**	**12,626**	**12,385**	**13,503**	**13,315**	**14,340**	**14,077**	**14,844**	**14,640**	**5,743**
Adjustments:															
Depreciation expenses	119	119	119	119	119	119	119	119	119	119	119	119	119	119	48
Change in non-cash working capital[4]	137	0	8	(0)	8	0	8	(0)	7	0	6	(0)	5	0	(128)
Maintenance capital expenditure	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(119)	(48)
FCFF	**9,242**	**8,944**	**10,392**	**10,164**	**11,505**	**11,323**	**12,633**	**12,385**	**13,510**	**13,315**	**14,346**	**14,077**	**14,849**	**14,640**	**5,615**

Notes:

1) The forecast in the last year represents the five-month projected result ended 25 May 2036, the date of expiry of the Concession Agreement.

2) This refers to the VAT Return as stipulated on Tax and Other Surcharges of Section 11.2 — Projection.

3) The corporate income tax payable has been adjusted by the CIT Allowance as stipulated on Tax and Other Surcharges of Section 11.2 — Projection.

4) As advised by the Management, all the outstanding non-cash working capital shall be settled at the end of the Concession Periods.

ADDENDUM III — COMPARABLE COMPANIES PROFILE

Beijing Enterprises Water Group Limited — 371 HK

Beijing Enterprises Water Group Limited is a Hong Kong-based investment holding company principally engaged in water businesses. The company operates its businesses through three segments. The sewage and reclaimed water treatment and construction services segment is engaged in the construction and operation of sewage and reclaimed water treatment plants, the construction of a seawater desalination plants and the provision of construction services for comprehensive renovation projects. The water distribution services segment is engaged in the distribution and sales of piped water and the provision of related services. The technical and consultancy services segment is engaged in the provision of consultancy services related to sewage treatment and construction for comprehensive renovation projects, the sales of machinery, as well as the licensing of technical knowledge related to sewage treatment.

China Environmental Technology Holdings Limited — 646 HK

China Environmental Technology Holdings Limited is a Hong Kong-based investment holding company principally engaged in wastewater treatment-related businesses. The company operates through two segments. wastewater treatment and construction services segment is mainly engaged in the provision of construction and operation services of wastewater treatment plants. wastewater treatment equipment trading segment is engaged in the trading of wastewater treatment facilities and machinery and the provision of related services. The company mainly operates businesses in China.

Tianjin Capital Environmental Protection Group Company Limited — 1065 HK

Tianjin Capital Environmental Protection Group Company Limited is engaged in water utilities business, and energy cooling and heating supply business. The company's principal activities include the processing of sewage water, construction and management of related facility, supply of tap water, recycled water and supply of heating and cooling and management of related facility. Its segments include Tianjin plants, Hangzhou plants, other plants, recycled water, heating and cooling, tap water, sale of environmental protection equipment and all other. It provides design, construction and operations of sewage processing facility and financing, construction and transfer of sewage processing facility project services. The recycled water business includes developing, constructing and operating of recycled water projects, production and sale of recycled water, and provision of related research and development, and technical consultation services.

China Everbright Water Limited — 1857 HK

China Everbright Water Limited is a China-based investment holding company principally involved in the water environment management business. The company is engaged in sponge city construction, river-basin ecological restoration, wastewater treatment, water supply, reusable water, waste water source heat pump, sludge treatment and disposal, research and development of water environment technologies and engineering construction. The company operates its businesses in domestic market, including Beijing, Jiangsu, Shandong, Shaanxi, Henan, Hubei, Guangxi Zhuang Autonomous Region, Liaoning and Inner Mongolia Autonomous Region.

Kunming Dianchi Water Treatment Co., Ltd — 3768 HK

Kunming Dianchi Water Treatment Co., Ltd is primarily engaged in the provision of integrated water service. The company operates through three main segments. The wastewater treatment segment is primarily involved in the design, construction and operation of wastewater treatment facilities. The water supply segment is mainly involved in the provision of reclaimed water and running water to commercial, industrial and governmental customers. The Others segment is principally involved in the provision of services to the controlling shareholders for the management of treatment facilities under trial operations, in addition to transportation and other miscellaneous businesses.

Kangda International Environmental Company Limited — 6136 HK

Kangda International Environmental Company Limited is an investment holding company principally engaged in the constructions and operations of wastewater treatment business in China. The company operates its business through three segments. The service concession arrangements segment is engaged in the design, construction, upgrade and operation of wastewater treatment plants (WTPs) under the Build-Operate-Transfer (BOT) arrangements and the operation of WTPs under the Transfer-Operate-Transfer (TOT) arrangements. The Build-Transfer (BT) arrangements segment is engaged in the design and construction of municipal infrastructures or infrastructures related to WTPs. The others segment is engaged in the provision of operation and management (O&M) services, construction services related to other construction service projects and operation services for other water treatments.

Yunnan Water Investment Co Ltd — 6839 HK

Yunnan Water Investment Co Ltd is an investment holding company principally engaged in the provision of municipal environmental integrated services. The company operates five segments, including wastewater treatment, water supply, solid waste treatment, construction and sales of equipment and others. The others segment is engaged in the provision of operation and maintenance services and other businesses.

ADDENDUM IV — DISCOUNT RATE DERIVATION

WACC comprises of two components: cost of debt and cost of equity. It is calculated taking into account the relative weights of each component of the capital structure. It is computed using the formula below:

$$WACC = We \times Re + Wd \times Rd \times (1 - T)$$

in which

Re	=	cost of equity
Rd	=	cost of debt
We	=	portion of equity value to enterprise value
Wd	=	portion of debt value to enterprise value
T	=	corporate tax rate

The cost of equity is developed through the application of the Capital Asset Pricing Model ("**CAPM**") with reference to the required rates of return demanded by investors for similar projects. The CAPM states that an investor requires excess returns to compensate for any risk that is correlated to the risk in the return from the stock market as a whole but requires no excess return for other risks. Risks that are correlated to the risk in the return from the stock market as a whole are referred to as systematic and measured by a parameter called beta, whereas other risks are referred to as non-systematic. A major requirement in generating the cost of equity is to identify companies that are comparable to the business related to the subject in terms of business nature and associated risks.

The cost of equity for the business related to the subject is the sum of the risk-free rate return, the equity risk premium required by investors to compensate for the systematic risk assumed with adjustments for increment for risk differentials of the business related to the subject versus those of the comparable companies, if applicable, including risk adjustments for size ("**Small Capitalization Risk Premium**"), lack of marketability of privately held companies ("**Liquidity Risk Premium**") and other risk factors in relation to the comparable companies ("**Company Specific Risk Premium**").

Discount rate calculation

		Formula	Input
1)	Risk free rate		2.8%
2)	Equity beta		0.8
3)	Market risk premium		8.7%
4)	Size premium		8.1%
5)	Company specific risk premium		2.0%
6)	Cost of equity	(1) + (2) × (3) + (4) + (5)	19.8%
7)	Weight of equity		29.3%
8)	Cost of debt		4.9%
9)	After-tax cost of debt		3.7%
10)	Weight of debt		70.7%
11)	Discount rate	(6) × (7) + (9) × (10)	8.4%

* *Figures above are subject to rounding*

Notes:

1) This is the 10-year yield of China Government Bond, which is sourced from Bloomberg.

2) This is the average of adjusted beta of comparable companies, which is sourced from Bloomberg.

3) This is the adjusted equity market risk premium, which is sourced from Bloomberg and Damodaran Online, a common and widely used information source of valuation, corporate finance and investment management.

4) This is to account for the higher return of smaller company stocks, which is based on the research published by Duff & Phelps, LLC.

5) This is the increased required return for risk specific to the company in relation to the uncertainty of the tariff increase and inflation growth throughout the Concession Periods.

6) Cost of equity = risk free rate + equity beta × market risk premium + size premium + company specific risk premium.

7) This is based on weight of equity of comparable companies, which is sourced from Bloomberg.

8) This is based on the China Above-5 Year Best Lending Rate.

9) After-tax cost of debt = cost of debt × (1 − corporate income tax rate).

10) This is based on weight of debt of comparable companies, which is sourced from Bloomberg.

11) This is based on weighted average cost of capital.

ADDENDUM V — SENSITIVITY ANALYSIS

Sensitivity analysis was performed to test the sensitivity of the Controlling Interests to the changes of certain underlying variables which are considered to be risk exposures of the valuation subject, while holding other parameters unchanged:

	RMB'000
Discount rate	
1% increase	63,924
1% decrease	70,920
Revenue growth rate	
1% increase	67,546
1% decrease	66,976

* *Figures above are subject to rounding*

ADDENDUM VI — STAFF BIOGRAPHY

Damon S.T. Wan, *CFA, FRM, MRICS*
Director

Mr. Damon S.T. Wan is a CFA Charterholder, a Certified FRM and a member of Royal Institution of Chartered Surveyors. Mr. Wan has been working in the professional valuation field since 2008. He is experienced and specialised in performing properties, financial instruments, intangible assets and business valuations for the purposes of corporate advisory, merger & acquisition and public listing.

Willy T.Y. Yu, *CESGA*
Senior Manager

Mr. Willy T.Y. Yu is a Certified ESG Analyst and has been working in the banking and financial industry since 2014. He possesses experience in the aspects of corporate credit risk, cash trading and business valuation.

Alfred Y.M. Wong
Assistant Manager

Mr. Alfred Y.M. Wong has been working in the corporate finance industry since 2015. He possesses experience in the aspects of corporate finance advisory, corporate credit risk and business valuation.

ADVENT
宏智融資
Advent Corporate Finance Limited

21 July 2022

The Board of Directors
ELL Environmental Holdings Limited
Unit 2304, 23/F
Westlands Centre
20 Westlands Road
Quarry Bay, Hong Kong

Dear Sirs,

We refer to the announcement (the "**Announcement**") of ELL Environmental Holdings Limited (the "**Company**") dated 21 July 2022 in relation to the very substantial disposal of a subsidiary of the Company, Haian Hengfa Wastewater Treatment Company Limited (the "**Target Company**") and the valuation in respect of the Target Company (the "**Valuation**") prepared by Valplus Consulting Limited, the independent valuer of the Company (the "**Independent Valuer**"). We understand that the Independent Valuer has prepared the Valuation based on the discounted cash flow method, which is regarded as a profit forecast (the "**Forecast**") under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). Unless otherwise defined or if the context otherwise requires, all terms defined in the Announcement shall have the same meaning when used in this letter.

We, as the financial adviser to the Company in relation to the Forecast, have reviewed the Forecast upon which the Valuation has been made, for which you as the directors of the Company (the "**Directors**") are solely responsible. We have discussed with the management of the Company and the Independent Valuer the bases and assumptions upon which the Valuation has been prepared. We have also considered the letter from Baker Tilly Hong Kong Limited dated 21 July 2022 addressed solely to yourselves regarding the discounted future estimated cash flows. The Forecast is based on a number of bases and assumptions. As the relevant bases and assumptions are about future events which may or may not occur, the actual financial performance of the businesses of the Target Company may or may not achieve as expected and the variation may be material.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions selected by the Independent Valuer, for which the Independent Valuer and the Company are responsible, we are satisfied that the Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry by you.

The work undertaken by us in giving the above view has been undertaken for the purpose of reporting solely to you under Rule 14.62(3) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work or this letter.

Yours faithfully,
For and on behalf of
Advent Corporate Finance Limited
Jeffrey So
Managing Director

bakertilly
天職國際

21 July 2022

The Board of Directors
ELL Environmental Holdings Limited
Unit 2304, 23/F, Westlands Centre
20 Westlands Road, Quarry Bay
Hong Kong

Independent assurance report on calculations of discounted future cash flows in connection with the business valuation of Haian Hengfa Wastewater Treatment Company Limited

To the Board of Directors of ELL Environmental Holdings Limited (the "Company")

We refer to the discounted future cash flows on which the business valuation (the "**Valuation**") obtained on 18 July 2022 prepared by Valplus Consulting Limited (the "**External Valuer**") in respect of the appraisal of the fair value of the 70% equity interest of Haian Hengfa Wastewater Treatment Company Limited (the "**Target Company**") as at 31 December 2021 is based. The Valuation is prepared based in part on the discounted future cash flows and is regarded as profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' Responsibilities

The directors of the Company (the "**Directors**") are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation and the Company's announcement dated 21 July 2022 in connection with the proposed disposal of 70% equity interest in the Target Company (the "Assumptions"). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institutes of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to report, as required by Rule 14.62(2) of the Listing Rules, on the calculations of the discounted future estimated cash flows used in the Valuation. We do not review the accounting policies for the Valuation as the Valuation relates to discounted future cash flows and no accounting policies have been adopted in the preparation of the Valuation.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the Assumptions. We performed procedures on the arithmetical calculations and the compilations of the discounted cash flows in accordance with the Assumptions. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the calculations are concerned, the discounted future estimated cash flows have been properly compiled, in all material respects, in accordance with the Assumptions.

Other Matters

Without qualifying our opinion, we draw your attention that we are not reporting on the appropriateness and validity of the Assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of the Target Company or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Further, since the discounted future cash flows relates to the future, actual results are likely to be different from the discounted future cash flows because events and circumstances frequently do not occur as expected, and the differences may be material. Our work has been undertaken for the purpose of reporting solely to you under Rule 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Yours faithfully,
Baker Tilly Hong Kong Limited
Certified Public Accountants
Hong Kong, 21 July 2022
Wan Wing Ping
Practising Certificate Number P07471

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects, is not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Directors' and chief executive's interests and short positions in the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors or the chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to Section 352 of the SFO, to be entered on the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer (the "**Model Code**") set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Directors/ chief executives	Capacity/ Nature of Interest	Number of Shares held	Approximate percentage of shareholding interest in the Company
Mr. Chau On Ta Yuen ("**Mr. Chau**")	Interest in a controlled corporation	225,000,000(1)(L)	20.32%
Mr. Chan Kwan ("**Mr. Chan**")	Interest in controlled corporations	353,200,000(2)(L)	31.90%

Notes:

(1) Wealthy Sea Holdings Limited ("**Wealthy Sea**") which held 225,000,000 Shares is owned as to 90% and 10% by Mr. Chau, an executive Director and the chairman of the Board and Ms. Wong Mei Ling, the wife of Mr. Chau, respectively.

(2) Everbest Environmental Investment Limited ("**Everbest Environmental**") which held 337,500,000 Shares was owned as to 50%, 30% and 20% by Ms. Wong Shu Ying ("**Ms. Wong**"), Ms. Judy Chan and Mr. Chan, an executive Director and the chief executive officer of the Company, respectively. Mr. Chan is the sole director of Everbest Environmental. Ms. Wong is the mother of all of Ms. Judy Chan, Mr. Chan and Mr. Brian Chan, the non-executive Director of the Company. Mr. Chan also owns 20% of the issued shares in Kingdrive Limited which in turn owns 100% of the issued shares in Carlton Asia Limited ("**Carlton Asia**"). Carlton Asia held 15,700,000 Shares and is accustomed to act in accordance with the directions of Mr. Chan.

(L) All the above Shares were held in long position.

Save as disclosed above and to the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code set out in Appendix 10 to the Listing Rules.

Substantial Shareholder's Interest and Short Positions in the Shares and Underlying Shares of the Company

As at the Latest Practicable Date, the following persons/entities (other than directors of the Company) had interests or short positions in the Shares or underlying Shares, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholders	Capacity/ Nature of Interest	Number of Shares held	Total	Approximate percentage of shareholding interest in the Company
Everbest Environmental	Beneficial interest	337,500,000(1)(L)	337,500,000	30.48%

Name of Shareholders	Capacity/ Nature of Interest	Number of Shares held	Total	Approximate percentage of shareholding interest in the Company
Ms. Wong	Beneficial interest	18,915,000(1)(L)	371,080,000	33.51%
	Interest in controlled corporations	352,165,000(1)(L)		
Mr. Chan Chun Keung	Interest in controlled corporation	14,665,000(2)(L)	371,080,000	33.51%
	Interest held by spouse	356,415,000(1)(2)(L)		
Wealthy Sea	Beneficial interest	225,000,000(3)(L)	225,000,000	20.32%
Ms. Wong Mei Ling	Interest held by spouse	225,000,000(3)(L)	225,000,000	20.32%
Morgan Top Trading Co., Ltd.	Beneficial interest	143,300,000(L)	143,300,000	12.94%

Notes:

(1) Each of Everbest Environmental and Hightop Investment Limited ("**Hightop**") is owned as to 50% by Ms. Wong and therefore, Ms. Wong is deemed to be interested in the 337,500,000 Shares and 14,665,000 Shares held by Everbest Environmental and Hightop respectively pursuant to the SFO. Also, Ms. Wong is beneficially interested in 18,915,000 Shares.

(2) Hightop is also owned as to 50% by Mr. Chan Chun Keung, the husband of Ms. Wong. Therefore, Mr. Chan Chun Keung is deemed to be interested in the 14,665,000 Shares held by Hightop, 337,500,000 Shares deemed to be held by Ms. Wong through Everbest Environmental and 18,915,000 Shares beneficially owned by Ms. Wong pursuant to the SFO.

(3) Wealthy Sea is owned as to 90% and 10% by Mr. Chau, an executive Director and the chairman of the Board, and Ms. Wong Mei Ling, the wife of Mr. Chau, respectively. Ms. Wong Mei Ling is, therefore, deemed to be interested in the 225,000,000 Shares held by Wealthy Sea controlled by Mr. Chau pursuant to the SFO.

(L) All the above Shares were held in long position.

3. DIRECTORS' COMPETING INTEREST

As at the latest Practicable Date, as far as the Directors are aware, none of the Directors nor their respective close associates was interested in any business which competes or may compete, either directly or indirectly, with the business of the Group.

4. DIRECTORS' INTEREST IN ASSETS

As at the latest Practicable Date, so far as the Directors are aware, none of the Directors had any interest, either directly or indirectly, in any asset which since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Group were made up) have been acquired or disposed of by or leased to, any member of the Group or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service agreements with any member of the Group, which will not expire or is not determinable by such member of the Group within one year without payment of compensation (other than statutory compensation).

6. DIRECTORS' INTERESTS IN CONTRACT OR ARRANGEMENT OF SIGNIFICANCE

As at the latest Practicable Date, none of the Directors had a material interest, either directly or indirectly, in any subsisting contract or arrangement of significance to the business of the Group to which the Company or any of its subsidiaries is a party.

7. EXPERTS AND CONSENTS

The following sets out the qualifications of the experts who have been named in this circular:

Name	**Qualifications**
Advent Corporate Finance Limited	A licensed corporation that is licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO
Baker Tilly Hong Kong Limited	Certified public accountants
Valplus Consulting Limited	Independent valuer

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name, in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the above experts had any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.

As at the Latest Practicable Date, none of the above experts had any interest, direct or indirect, in any assets which since 31 December 2021 (being the date to which the latest published audited financial statements of the Group were made up) have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. MATERIAL CONTRACTS

The Sale and Purchase Agreement (not being contracts in the ordinary course of business) had been entered into by members of the Group within the two years preceding the date of this circular and up to the Latest Practicable Date and are or may be material.

9. LITIGATION

As at the Latest Practicable Date, save as disclosed below, none of the members of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

10. GENERAL

(a) The company secretary of the Company is Ms. Tung Wing Yee Winnie, who is a senior corporate secretarial manager of Boardroom Corporate Services (HK) Limited, and a fellow member of The Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant of the CPA Australia.

(b) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

(c) The principal place of business of the Company in Hong Kong is Unit 2304, 23/F, Westlands Centre, 20 Westlands Road, Quarry Bay, Hong Kong.

(d) The Hong Kong branch share registrar and transfer office of the Company is Boardroom Share Registrars (HK) Limited, Room 2103B, 21st Floor, 148 Electric Road, North Point, Hong Kong.

11. DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (https://www.ellhk.com/) from the date of this circular up to and including 12 September 2022:

(a) the Sale and Purchase Agreement;

(b) the report on the unaudited financial information of the Target Company, set out in Appendix II to this circular;

(c) the report on the unaudited pro forma financial information of the Remaining Group, as set out in Appendix IV to this circular;

(d) the business valuation report of the Target Company, as set out in Appendix V to this circular;

(e) the written consent of the experts referred to in the paragraph headed "Experts" in this appendix; and

(f) the material contract referred to in the section headed "Material Contracts" in this appendix.

12. MISCELLANEOUS

In the event of any inconsistency, the English version of this circular shall prevail over the Chinese version.

ELL Environmental Holdings Limited
強泰環保控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1395)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the "**EGM**") of ELL Environmental Holdings Limited (the "**Company**") will be held at Unit 2304, 23rd Floor, Westlands Centre, 20 Westlands Road, Hong Kong on Monday, 19 September 2022 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendments or supplements:

ORDINARY RESOLUTIONS

1. "**THAT**:

(a) the sale and purchase agreement dated 21 July 2022 (the "**Sale and Purchase Agreement**") entered into between Everbest Water Treatment Development Company Limited, an indirect wholly-owned subsidiary of the Company as seller, and CGN Environmental Protection Industry Co., Ltd. as purchaser in relation to the conditional disposal of 70% of the issued share capital of the Haian Hengfa Wastewater Treatment Company Limited (the "**Disposal**") be and is hereby approved, confirmed and ratified;

(b) the Disposal be and is hereby approved, ratified and confirmed; and

(c) any one or more of the directors of the Company be and is hereby authorised to do all such acts and things, negotiate, approve, sign, initial, ratify and/or execute all documents which may in his/her opinion be necessary, desirable or expedient to implement and give effect to any matters arising from, relating to or incidental to the Sale and Purchase Agreement and the Disposal."

Yours faithfully
For and on behalf of the Board
ELL Environmental Holdings Limited
Chan Kwan
Executive Director and Chief Executive Officer

Hong Kong, 29 August 2022

* *For identification purposes only*

Registered Office:
Cricket Square,
Hutchins Drive, P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong:
Unit 2304, 23/F
Westlands Centre
20 Westlands Road
Quarry Bay
Hong Kong

Notes:

1 Any member of the Company (the "**Member**") entitled to attend and vote at the EGM convened by the notice (the "**Notice**") or its adjourned meeting (as the case may be) is entitled to appoint one (or, if he/she/it holds two or more shares in the Company, more than one) proxy to attend and, on a poll, vote on his/her/its behalf subject to the provisions of the Company's articles of association. A proxy need not be a Member but must be present in person at the EGM to represent the Member. If more than one proxy is so appointed, the appointment shall specify the number and class of such shares in the Company in respect of which such proxy is so appointed.

2 In order to be valid, the duly completed and signed form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the office of the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited a Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong not less than 48 hours before the time for holding the EGM or its adjourned meeting. Completion and return of a form of proxy will not preclude a Member from subsequently attending and voting in person at the EGM or its adjourned meeting should he/she so wish.

3 For determining the Members' entitlement to attend and vote at the EGM, the register of Members will be closed from Wednesday, 14 September 2022 to Monday, 19 September 2022 (both dates inclusive), during which period no transfer of Shares will be effected. In order to qualify for attending and voting at the EGM, the non-registered Members must lodge all transfer documents, accompanied by the relevant share certificates, with the Company's Hong Kong branch share registrar, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 13 September 2022.

4 In compliance with Rule 13.39(4) of the Listing Rules, voting on all proposed resolutions set out in the Notice will be decided by way of a poll.

5 (a) Subject to paragraph (b) below, if a tropical cyclone warning signal No. 8 or above is expected to be hoisted or a black rainstorm warning signal is expected to be in force at any time between 7:00 a.m. and 5:00 p.m. on the date of the EGM, the EGM will be postponed and Members will be informed of the date, time and venue of the postponed EGM by a supplemental notice posted on the respective websites of the Company and The Stock Exchange of Hong Kong Limited.

(b) If a tropical cyclone warning signal No. 8 or above or a black rainstorm warning signal is lowered or cancelled three hours or more before the appointed time of the EGM and where conditions permit, the EGM will be held as scheduled.

(c) The EGM will be held as scheduled when a tropical cyclone warning signal No. 3 or below is hoisted or an amber or red rainstorm warning signal is in force.

(d) After considering their own situations, Members should decide on their own whether or not they would attend the EGM under any bad weather condition and if they do so, they are advised to exercise care and caution.

6 The translation into Chinese language of this Notice is for reference only. In case of any inconsistency, the English version shall prevail.