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)

ANNOUNCEMENT OF FINAL RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL SUMMARY

- Revenue for the Year amounted to HK$79.0 million (2016: HK$100.3 million), representing a decrease of 21% as compared with the preceding year.
- Gross profit for the Year was HK$4.8 million (2016: HK$34.3 million), representing a decrease of 86% as compared with the preceding year.
- Net loss for the Year was HK$60.7 million (2016: net profit of HK$11.5 million).
- No final dividend has been recommended by the Board for the Year (2016: nil).

The board (the "**Board**") of directors (the "**Directors**") of ELL Environmental Holdings Limited (the "**Company**") announces the annual consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017 (the "**Year**").

The annual consolidated results of the Group for the Year together with the comparative figures of 2016 are as follows:

* *For identification purpose only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
REVENUE	3	**78,964**	100,317
Cost of sales		**(74,120)**	(66,011)
Gross profit		**4,844**	34,306
Other income and gains		**8,252**	11,357
Gain on disposal of a subsidiary		**6,035**	—
Impairment loss on goodwill	12	**(43,863)**	—
Administrative expenses		**(24,710)**	(25,172)
Finance costs	5	**(1,449)**	(1,969)
(Loss) profit before tax	6	**(50,891)**	18,522
Income tax expense	7	**(9,856)**	(7,029)
(Loss) profit for the year		**(60,747)**	11,493
(Loss) profit for the year attributable to:			
Owners of the Company		**(61,074)**	10,343
Non-controlling interests		**327**	1,150
		(60,747)	11,493
(Loss) earnings per share	9	***HK cents***	*HK cents*
— Basic		**(5.50)**	1.05
— Diluted		**(5.50)**	1.05

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017	2016
	HK$'000	*HK$'000*
(Loss) profit for the year	**(60,747)**	11,493
Other comprehensive income (expense)		
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on translation of foreign operations	**13,739**	(28,366)
Fair value change on available-for-sale investments	**(305)**	2,125
Investment revaluation reserve released upon disposal of available-for-sale investments	**(492)**	(819)
Item that will not be reclassified to profit or loss:		
Actuarial loss of defined benefit retirement plan	**(21)**	—
Total comprehensive expense for the year	**(47,826)**	(15,567)
Total comprehensive (expense) income attributable to:		
Owners of the Company	**(49,200)**	(15,624)
Non-controlling interests	**1,374**	57
	(47,826)	(15,567)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**134,326**	143,130
Deposits for purchase of property, plant and equipment		**3,408**	—
Receivables under service concession arrangements	*10*	**290,159**	288,638
Goodwill	*11*	**42,242**	85,699
Available-for-sale investments		**10,311**	23,383
Restricted bank deposits		**12,427**	—
		492,873	540,850
CURRENT ASSETS			
Inventories		**554**	882
Receivables under service concession arrangements	*10*	**28,970**	30,814
Trade receivables	*13*	**6,284**	2,840
Prepayments and other receivables		**64,394**	1,569
Income tax recoverable		**338**	405
Bank balances and cash		**35,515**	25,104
		136,055	61,614
Assets classified as held for sale		**—**	78,676
		136,055	140,290
CURRENT LIABILITIES			
Trade payables	*14*	**9,313**	19,955
Other payables and accruals		**5,614**	4,783
Amounts due to related parties		**6,474**	6,542
Bank borrowings — due within one year	*15*	**30,240**	32,426
Income tax payables		**4,108**	122
		55,749	63,828
Liabilities associated with assets classified as held for sale		**—**	9,848
		55,749	73,676
NET CURRENT ASSETS		**80,306**	66,614
TOTAL ASSETS LESS CURRENT LIABILITIES		**573,179**	607,464

	Notes	**2017**	2016
		HK$'000	*HK$'000*
CAPITAL AND RESERVES			
Share capital	*16*	**111**	111
Reserves		**492,687**	541,841
Equity attributable to owners of the Company		**492,798**	541,952
Non-controlling interests		**29,024**	27,650
TOTAL EQUITY		**521,822**	569,602
NON-CURRENT LIABILITIES			
Bank borrowings — due after one year	*15*	**8,960**	—
Deferred tax liabilities		**33,591**	31,251
Provision for major overhauls		**8,635**	6,611
Retirement benefit obligations		**171**	—
		51,357	37,862
		573,179	607,464

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**" and the "**Listing Rules**", respectively) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values at the end of each reporting period.

2. APPLICATION OF AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures relating to changes in financial assets if cash flows from those financial assets were, or future cash flows will be included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing activities; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

3. REVENUE

	2017	2016
	HK$'000	*HK$'000*
Construction services	—	36,206
Wastewater treatment facility operation services	**37,091**	40,618
Imputed interest income on receivables under service concession arrangements	**15,073**	19,465
Sales of electricity generated from biomass power plants	**26,800**	4,028
	78,964	100,317

4. SEGMENT INFORMATION

The Group is engaged in the construction and operation of wastewater treatment facilities and biomass power generation business. Information reported to the Group's chief operating decision maker (i.e. the executive Directors) for the purposes of resource allocation and assessment of performance is focused on geographical location of its manpower and customers including Hong Kong, the People's Republic of China ("**PRC**") and the Republic of Indonesia ("**Indonesia**").

The following is an analysis of the Group's revenue and results by reportable and operating segments:

Year ended 31 December 2017

	Hong Kong	**PRC**	**Indonesia**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Results				
Segment revenue	—	**52,164**	**26,800**	**78,964**
Segment (loss) profit	**(14,929)**	**11,620**	**(9,739)**	**(13,048)**
Unallocated expenses				
Administrative expenses				**(15)**
Gain on disposal of a subsidiary				**6,035**
Impairment loss on goodwill				**(43,863)**
Loss before tax				**(50,891)**

Year ended 31 December 2016

	Hong Kong	PRC	Indonesia	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Results				
Segment revenue	—	96,289	4,028	100,317
Segment (loss) profit	(12,586)	33,697	(2,555)	18,556
Unallocated expenses				
Administrative expenses				(34)
Profit before tax				18,522

There are no inter-segment sales for both years.

All of the segment revenue reported above is from external customers.

Revenue from customers of the corresponding years contributing over 10% of the Group's revenue are as follows:

	2017	2016
	HK$'000	*HK$'000*
Customer A from PRC segment	**41,947**	84,333
Customer B[1] from Indonesia segment	**26,800**	N/A
Customer C from PRC segment	**10,217**	12,614

1 The corresponding revenue of this customer during the year ended 31 December 2016 is not disclosed as it individually did not contribute over 10% of the Group's total revenue in 2016.

5. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interest on bank borrowings	**1,034**	1,560
Increase in discounted amounts of provision for major overhauls arising from the passage of time	**415**	409
	1,449	1,969

6. (LOSS) PROFIT BEFORE TAX

	2017	2016
	HK$'000	*HK$'000*
(Loss) profit before tax has been arrived at after charging (crediting):		
Employee benefit expense (including Directors' remuneration)		
Salaries and other benefits	**18,084**	10,980
Discretionary bonus	**120**	172
Pension scheme contributions *(note)*	**1,973**	1,559
Share-based payments	**46**	54
	20,223	12,765
Cost of construction services	—	25,531
Cost of wastewater treatment facilities operation services rendered	**40,393**	35,006
Cost of power plant operation	**33,727**	5,474
Cost of inventories recognised as expenses	**25,054**	13,833
Depreciation of property, plant and equipment	**12,402**	2,513
Depreciation of assets classified as held for sale	**11**	—
Minimum lease payment under operating lease	**59**	—
Auditors' remuneration	**1,300**	1,200
Fair value gain of a derivative financial instrument — a transaction not designated as a hedge	—	(1,231)
Foreign exchange gain, net	**(526)**	(177)
Provision for major overhauls	**1,349**	1,616

Note:

At 31 December 2017, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2016: nil).

7. INCOME TAX EXPENSE

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("**BVI**"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

No provision for Hong Kong profits tax had been made as the Group did not generate any assessable profits arising in Hong Kong during the Year (2016: nil).

Withholding tax is calculated at 5% of the dividend income received from a subsidiary in PRC. No tax refunds for prior years' withholding tax are realised during the Year (2016: HK$764,000).

The provision for PRC income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in PRC as determined in accordance with the relevant income tax rules and regulations of PRC.

No provision for Indonesian income tax had been made as the Group did not generate any assessable profits arising in Indonesia during the Year (2016: nil).

	2017	2016
	HK$'000	*HK$'000*
Current PRC tax for the Year	**6,493**	2,842
Underprovision in prior years	**2,584**	—
Tax refunds	**—**	(764)
Deferred tax	**779**	4,951
Total tax charge for the Year	**9,856**	7,029

8. DIVIDEND

	2017	2016
	HK$'000	*HK$'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the Year:		
2016 Final — nil (2016: 2015 Final dividend — HK one cent) per ordinary share *(Note (a))*	**—**	9,520
	—	9,520

Notes:

(a) During the year ended 31 December 2016, the Company declared a final dividend in respect of the year ended 31 December 2015 of HK one cent per ordinary share of the Company in an aggregate amount of HK$9,520,000, which was paid on 13 June 2016.

(b) No final dividend in respect of the year ended 31 December 2017 has been recommended by the Board (2016: nil).

9. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the shareholders of the Company is based on the following data:

	2017	2016
	HK$'000	*HK$'000*
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share, being (loss) profit for the Year attributable to shareholders of the Company	**(61,074)**	10,343

	Number of shares	
	2017	2016
	'000	*'000*
Weighted average number of ordinary shares for the purpose of (loss) earnings per share	**1,111,000**	982,493

For the year ended 31 December 2017, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share option since their exercise would result in a decrease in loss per share.

For the year ended 31 December 2016, the computation of the diluted earnings per share did not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares for the year ended 31 December 2016.

10. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

	2017	2016
	HK$'000	*HK$'000*
Receivables under service concession arrangements	**319,129**	319,452
Portion classified as current assets	**(28,970)**	(30,814)
Portion classified as non-current assets	**290,159**	288,638

The following is an aged analysis of receivables under service concession arrangements, based on invoice date, at the end of the reporting period:

	2017	2016
	HK$'000	*HK$'000*
Billed:		
Within 3 months	**12,243**	8,276
4 to 6 months	**7,341**	13,925
	19,584	22,201
Not yet billed	**299,545**	297,251
	319,129	319,452

There is no allowance for doubtful debts for both years.

11. GOODWILL

	HK$'000
COST	
At 31 December 2016 and 1 January 2017	85,699
Exchange adjustments	299
At 31 December 2017	85,998
IMPAIRMENT	
Impairment loss recognised in the Year	43,863
Exchange adjustments	(107)
At 31 December 2017	43,756
CARRYING VALUES	
At 31 December 2017	42,242
At 31 December 2016	85,699

The amount represents goodwill arising on the acquisition of Weal Union Limited and its subsidiary (the "**Weal Union Group**") on 21 October 2016. The recoverable amount of this cash generating unit ("**CGU**") has been determined based on a value in use calculation. The Group engaged an independent professional valuer to perform such valuation which requires the use of key assumptions, including the discount rate, terminal growth rate, budgeted sales and gross margin, taking into account the relevant industry growth forecasts, financial budgets approved by the Directors from the management's experience from provision of electricity services and management's expectations for the market development. The detailed assumptions were set out in note 12.

12. IMPAIRMENT ASSESSMENT ON GOODWILL

For the purposes of impairment assessment, goodwill with indefinite useful life set out in note 11 have been allocated to only one CGU, comprising one subsidiary acting as the investment holding company and one subsidiary engaging in the biomass power generation business. The carrying amount of goodwill (net of accumulated impairment losses) as at 31 December 2017 allocated to this CGU was set out in note 11.

During the year ended 31 December 2017, the Group recognised an impairment loss of HK$43,863,000 (2016: nil) in relation to goodwill arising on acquisition of Weal Union Group. The biomass power plants of the Group in Indonesia had yet to reach their expected utilisation rate. It was resulted from (i) the low electricity consumption by the local end-users in the vicinity of the power plants as compared to the expected level of electricity consumption for the year; (ii) the increased competition with other coal power plants; (iii) the delay of certain government projects which resulted in lower growth rate of market and economy, and hence the energy consumption in the vicinity of such operations; (iv) the delay of construction of power lines and other infrastructure by the government to connect the South of Sumatra, Indonesia, where the biomass power plants are located, to the North of Sumatra, where the energy demand is much higher. While such factors for sales growth as the improvement in local economy and new infrastructures in favor of the operation of the power plants did not materialise as expected during the year, the management expects that the situation will, at a slower pace than the original plan, improve gradually with the abovementioned growth drivers in place in the future. The valuation of Weal Union, and hence the recoverable amount of the goodwill, is impaired due to the lower growth rate and delay in the realisation of the expected return. Nonetheless, management believes the long-term profitability will be achievable and sustainable, in a longer time in future. Management will continue to invest in improving the efficiency of the power plants in order to lower the cost of sales, as well as analysing other possibilities in increasing the utilisation of the biomass power plants.

The recoverable amount of Weal Union Group have been determined on the basis of value in use calculations which uses cash flow projections based on financial budgets approved by management. In view of the above, when preparing the cash flow projects for the impairment assessment of goodwill as at 31 December 2017, certain assumptions in the cash flow projections (such as utlilisation rate and unit price) during the budget period are adjusted. Expected cash inflows/outflows, which include budgeted sales, gross margin and raw material price inflation have been adjusted based on the performance of the biomass power plants for the year ended 31 December 2017 and management's expectations for the market development. The financial budgets approved by management covering a 5-year period, and a discount rate of 18.2% (2016: 18.2%). Cash flows of Weal Union Group beyond the 5-year period are extrapolated using a growth rate at 5% (2016: 5%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

13. TRADE RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**6,284**	2,840

Trade debtors mainly arise from sales of electricity generated from biomass power plants. The Company's credit terms are negotiated at terms determined and agreed with its trade customers. The credit periods are ranging from 30 to 60 days.

The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	2017	2016
	HK$'000	*HK$'000*
0-30 days	**3,901**	344
31-60 days	**2,383**	2,496
	6,284	2,840

14. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2017	2016
	HK$'000	*HK$'000*
0-60 days	**2,705**	7,040
61-90 days	**1,321**	1,207
Over 90 days	**5,287**	11,708
	9,313	19,955

15. BANK BORROWINGS

	2017	2016
	HK$'000	*HK$'000*
On demand or within one year	**30,240**	32,426
In the second year	**2,240**	—
In the third to fifth years inclusive	**6,720**	—
	39,200	32,426
Less: Amount due within one year shown under current liabilities	**(30,240)**	(32,426)
Amount due after one year	**8,960**	—
Current-secured	**—**	2,176
Current-unsecured	**30,240**	30,250
	30,240	32,426
Non-current-unsecured	**8,960**	—
	39,200	32,426

16. SHARE CAPITAL

	2017	2016
	HK$'000	*HK$'000*
Authorised:		
3,800,000,000 ordinary shares of HK$0.0001 each	**380**	380
Issued and fully paid:		
1,111,000,000 (2016: 1,111,000,000) ordinary shares of HK$0.0001 each	**111**	111

A summary of movements in the Company's issued capital is as follows:

	Notes	**Number of shares**	**Amount**
			HK$'000
At 1 January 2016		952,000,000	95
Issue of shares pursuant to the acquisition of subsidiaries	*(i)*	159,000,000	16
At 31 December 2016, 1 January 2017 and 31 December 2017		1,111,000,000	111

Notes:

(i) On 21 October 2016, 159,000,000 new ordinary shares of HK$0.0001 each were duly allotted and issued at a price of HK$0.5 per ordinary share to Morgan Top Trading Company Limited, a nominee of Fusion Joy Holdings Inc., an independent third party, and Carlton Asia Limited, a company substantially owned by close family members of a director of the Company, for the acquisition of subsidiaries pursuant to the share purchase agreement dated 16 June 2016. Further details are set out in the announcements of the Company dated 16 June 2016 and 21 October 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The year 2017 proved to be an economically fruitful year for China by recording a gross domestic product (GDP) growth of 6.9% and saw China playing an irreplaceably important role in driving the global economic development. Meanwhile, the Chinese government has expanded its overall development plan from the four pillars of economic, political, cultural and social developments to five pillars with the addition of ecological development and made overarching plans and deployments around this new goal in different aspects, including integrated environmental management, ecological security protection mechanism, and environmental industry development. The Amendment to the Water Pollution Prevention and Control Law which became effective on 1 January 2018 also underscores China's determination to control water pollution and promote the environmental industry.

Despite the increase in resources invested by the Chinese government in environmental protection, the Group currently still faces a challenging business environment because of intensified industry competition and the delay in the local authorities' implementation of water tariff adjustment. In view of this, the Group decided to expand to new business areas in 2016 and acquired Weal Union Limited ("**Weal Union**") and its subsidiary in Indonesia, RPSL, which is engaged in the biomass power generation business in Jambi, Indonesia. RPSL's power plant has two generating units, mainly powers its palm kernel oil production facility and also meets the unsatisfied local electricity demand. Indonesia is the largest economy in the Association of Southeast Asian Nations (ASEAN) and has maintained an annual economic growth of over 5% in recent years. The soaring electricity demand driven by the country's rapid urbanization, coupled with the local government's environmental drive in recent years, is expected to create excellent opportunities for the renewable energy industry.

Over the nearly one year since the acquisition of the Weal Union Group, the local electricity demand in Indonesia has fallen short of expectation, with the result that the biomass power plant has failed to reach its expected utilisation rate, leading to a net loss of approximately HK$9.7 million recorded by RPSL. To increase the power plant's efficiency, the Group is investing in improvement works in order to lower the cost of sales and improving its financial performance. Meanwhile, the Group is considering investing in the production and sale of biofuel pellets that will enable self-consumption of the electricity produced by the biomass power plant, and hence, will increase its utilisation rate. The Group is also seeking opportunities to utilise the biomass power plant units by supplying electricity to regions other than Jambi. Furthermore, the Group is looking into other suitable environmental protection projects, especially on a "Build, Operate and Transfer ("**BOT**")" basis. As most BOT projects guarantee a minimum investment return, the Company expects to recover investment and operations and maintenance costs, and obtain a reasonable return during the term of concession, which will not only boost the Group's revenue and gross profit margin but also provide more stable cash-flow to serve shareholder interests and the Group's long-term development. This investment represented the Group's first investment in Indonesia's environmental industry. The management holds the firm belief that with Indonesia's development potential, our biomass power generation business and any upcoming environmental projects will bring new growth momentum to the Group and facilitate the Group's expansion in other environmental business areas and its strategic diversification.

To support the Group's strategic plan to expand into other business areas of environmental protection, the Group entered into an agreement with Nantong Jiahe Technology Investment Development Co., Ltd. ("**Nantong Jiahe**"), an independent third party, on 21 September 2016, for the sale of all of the equity interest of Rugao Honghao at a cash consideration of RMB55.0 million (the "**Rugao Honghao Disposal Agreement**"). The deal has received preliminary regulatory approval for the remittance of consideration payment and the banks are currently processing the remittance. Except for the receipt of such payment and the completion of the applicable filings and registration with local registration bureaus, which remain pending as at the date of this announcement, all other aspects of the transaction had been completed and from the accounting perspective, Rugao Honghao had ceased to be our subsidiary during the Year. We shall work to close the deal as soon as possible to provide an additional source of capital to fund the Group's future business development opportunities.

In the wastewater treatment business, the Group is currently in active negotiations with relevant governmental authorities for an upward adjustment of wastewater treatment tariffs. As part of this work, Haian Hengfa is examining and discussing the final particulars with the local government. The adjustment, which is expected to not only make up the price difference in the past more than ten years, but also raise the tariff to a reasonable level, will bring a remarkable growth in the revenue of the Company and further strengthen the Group's financial position in the coming years.

Outlook

Looking forward, the Group will remain committed to operating business in a prudent and stable way, further solidifying its position in China's wastewater treatment market, providing customers with high-quality services, and at the same time leverage its rich experience and deep expertise to develop other environmental protection related projects and explore new promising business areas of environmental protection. As regards internal management, the Group will strengthen mechanisms to ensure efficient operations and full regulatory compliance and maintain a healthy cash flow. Meanwhile, we shall strategically manage our existing investment projects to achieve stable and sustainable development of the Group.

Financial Review

Revenue

Our total revenue decreased by 21.3% to HK$79.0 million for the Year from HK$100.3 million for the previous year. The decrease in revenue was primarily attributable to (i) the absence of construction revenue for the Year, which amounted to HK$36.2 million for the previous year due to the completion of the upgrade works of the wastewater treatment facility of Rugao Hengfa Water Treatment Company Limited ("**Rugao Hengfa**" and the "**Rugao Hengfa Facility**", respectively) in the previous year; and (ii) the pending water tariff adjustments for the wastewater treatment facilities to cover the increase in costs of raw materials and overheads for the Year, for which negotiations with the local governments are in progress. Such decrease in revenue was offset by the increase in revenue recognised by RPSL of HK$26.8 million for the Year from HK$4.0 million for the previous year which only included two months of operation.

Cost of Sales

Our total cost of sales increased by 12.3% to HK$74.1 million for the Year from HK$66.0 million for the previous year, primarily due to the increase in cost of sales of the biomass power plant of RPSL to HK$31.4 million for the Year from HK$5.5 million for the previous year which only included two months of operation. Such increase in cost of sales was partly offset by the absence of cost of construction for the Year as compared to HK$25.5 million for the previous year upon the completion of the upgrade works of Rugao Hengfa Facility in 2016.

Gross Profit and Gross Profit Margin

Our gross profit decreased by 85.9% to HK$4.8 million for the Year from HK$34.3 million for the previous year, primarily due to (i) the absence of the recognition of construction margin arising from the upgrade works of the Rugao Hengfa Facility amounting to HK$10.7 million for the previous year due to its completion during 2016 as abovementioned; (ii) the decrease in the gross profit of Rugao Hengfa and Haian Hengfa to HK$11.1 million and HK$1.5 million, respectively for the Year from HK$16.0 million and HK$5.1 million, respectively for the previous year due to the increases in cost of raw materials and overhead costs per unit of wastewater treated as abovementioned; (iii) the gross loss of HK$0.6 million in Rugao Honghao as compared to the gross profit of HK$3.9 million recognised in the previous year; and (iv) the increase in the gross loss of RPSL to HK$5.9 million for the Year from HK$1.4 million for the previous year.

Our gross profit margin decreased to 6.1% for the Year as compared to 34.2% for the previous year, as the effect of the factors discussed above.

Gain on Disposal of a Subsidiary

We recorded a gain of HK$6.0 million on the disposal of Rugao Honghao for the Year and the terms of such disposal were governed by the Rugao Honghao Disposal Agreement. The deal has received preliminary regulatory approval for the remittance of consideration payment and the banks are currently processing the remittance. Except for our receipt of such payment and the completion of the applicable filings and registration with the local registration bureaus, which remain pending as at the date of this announcement, all other aspects of the transaction had been completed and from the accounting perspective, Rugao Honghao had ceased to be our subsidiary during the Year.

Impairment Loss

We recognised an impairment loss of HK$43.9 million for the Year (2016: nil) in relation to goodwill arising on acquisition of Weal Union. The biomass power plants of the Group in Indonesia had yet to reach their expected utilisation rate. It was resulted from (i) the low electricity consumption by the local end-users in the vicinity of the power plants as compared to the expected level of electricity consumption for the Year; (ii) the increased competition with other coal power plants; (iii) the delay of certain government projects which resulted in lower growth rate of market and economy, and hence the energy consumption in the vicinity of such operations; (iv) the delay of construction of power lines and other infrastructure by the government to connect the South of Sumatra, Indonesia, where the biomass power plants are located, to the North of Sumatra, where the energy demand is much higher. While such factors for sales growth as the improvement in local economy and new infrastructures in favor of the operation of the power plants did not materialise as expected during the Year, we expect that the situation will, at a slower pace than the original plan, improve gradually with the abovementioned growth drivers in place in the future. The valuation of Weal Union, and hence the recoverable amount of the goodwill, is impaired due to the lower growth rate and delay in the realisation of the expected return. Nonetheless, we believe the long-term profitability will be achievable and sustainable, in a longer time in future. We will continue to invest in improving the efficiency of the power plants in order to lower the cost of sales, as well as analysing other possibilities in increasing the utilisation of the biomass power plants.

Administrative Expenses

Our administrative expenses decreased by 1.8% to HK$24.7 million for the Year from HK$25.2 million for the previous year. As a percentage of our revenue, our administrative expenses represented 31.3% and 25.1% for the years ended 31 December 2017 and 2016, respectively. Such increase of our administrative expenses as a percentage of our revenue was a result of the completion of upgrade works of Rugao Hengfa Facility in 2016, which had an insignificant impact on our administrative expenses but resulted in a significant decrease of our revenue for the Year.

Finance Costs

Our finance costs decreased by 26.4% to HK$1.4 million for the Year from HK$2.0 million for the previous year, primarily due to a full settlement of a bank loan during the Year.

Loss Before Tax

Our loss before tax was HK$50.9 million for the Year as compared to the profit before tax of HK$18.5 million for the previous year, primarily due to the factors mentioned above.

Income Tax Expense

Our income tax expense increased by 40.2% to HK$9.9 million for the Year from HK$7.0 million for the previous year, primarily due to an increase in tax expense of approximately HK$2.6 million as a result of the disapproval of our claims for certain tax allowances for prior years.

Loss Attributable to Owners of the Company

Our loss attributable to owners of the Company was HK$61.1 million for the Year as compared to profit attributable to owners of the Company of HK$10.3 million for the previous year, primarily due to the factors mentioned above.

Bank Borrowings

As at 31 December 2017, the Group had: (i) an unsecured one-year bank loan with a carrying amount of HK$28 million, which was denominated in Hong Kong dollars (2016: HK$30.3 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$11.2 million, which was denominated in United States dollars (2016: nil) with variable interest rates at London Interbank Offered Rate (LIBOR) plus 1.4% per annum. The loan is unsecured.

Liquidity and Financial Resources

Our principal liquidity and capital requirements primarily relate to investments in our projects, construction of our wastewater treatment facilities and purchase of equipment, as well as costs and expenses. As at 31 December 2017, the net assets of the Group amounted to HK$521.8 million, decreased by 8.4% as compared with that of HK$569.6 million as at 31 December 2016.

The Group's gearing ratio is calculated by dividing total debt by total equity and total debt is the bank borrowings. The gearing ratio was kept stable, being 0.1 as at 31 December 2016 and at 31 December 2017.

Capital Expenditures

Our major capital expenditures consist primarily of expenditures to upgrade and improve the Group's wastewater treatment facilities. During the Year, we did not incur capital expenditures for the upgrade works of the Rugao Hengfa Facility, which was completed in the previous year (2016: HK$25.5 million).

Foreign Exchange Risks

Individual companies in Mainland China and Indonesia within the Group have limited foreign currency risk as most of the transactions are denominated and settled in Renminbi and Indonesian Rupiah, respectively. The Group did not have significant foreign currency exposures from its operations. However, our consolidated financial statements are presented in Hong Kong dollars. Any appreciation or depreciation of Hong Kong dollar against Renminbi and Indonesian Rupiah will affect our financial position and will be reflected in the exchange reserve. The Group does not have a foreign currency hedging policy. The management monitors the Group's foreign exchange fluctuation exposure closely. In light of the continued depreciation of Renminbi against Hong Kong dollar recently, the Group has managed to minimize the exposures in Renminbi by converting a majority of the cash and bank balances into United States dollars or Hong Kong dollars. Management considers the volatility of the exchange rate of Hong Kong dollar against Indonesian Rupiah and the Group's currency exposures of Indonesian Rupiah to be acceptable.

* *the English translation of the Chinese name is for information purpose only and should not be regarded as the official English translation of such Chinese name.*

Contingent Liabilities

Rugao Hengfa, a subsidiary of the Company, received as a defendant on 8 November 2017 a summons from the People's Court of the Haian County of Jiangsu Province, the PRC (the "**Court**") for a court hearing scheduled on 5 December 2017 in connection with an alleged breach of environmental pollution related regulations by allowing the discharge of wastewater containing toxic materials of levels that exceed the statutorily prescribed standards (the "**Proceedings**"). As at the date of this announcement, Rugao Hengfa had not received the verdict from the Court. The Company had sought legal advice from its PRC legal adviser (the "**PRC Counsel**") and was advised that Rugao Hengfa has solid bases for pleading not guilty in the Proceedings. The PRC Counsel had advised the Company that in the event that Rugao Hengfa is found guilty by the Court in the Proceedings, a fine ranging from RMB100,000 to RMB5,000,000 could be imposed on Rugao Hengfa based on the relevant laws and regulations. However, based on the circumstances of the case and the fact that no party has reported any loss or casualty in connection with the alleged breach, the PRC Counsel has advised the Company that any amount of fines that may be imposed on Rugao Hengfa will likely fall towards the low end of the aforesaid range and that the risk of the Court imposing any administrative penalty, including suspension of operations or revocation of any licence, or any penalties against any director or legal representative of Rugao Hengfa, is highly remote.

Save as disclosed above, the Group had no contingent liabilities as at 31 December 2017 (2016: nil).

Employee and Remuneration Policies

As at 31 December 2017, the Group had 227 (2016: 223) employees (including the Directors). Employee costs (including Directors' emoluments) amounted to HK$17.9 million for the Year (2016: HK$12.8 million). Our remuneration policy for the Directors and our senior management members 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 Group and the individual performance of the Directors and senior management members.

The Company 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 Group.

Events After the Reporting Date

The Group had no material event subsequent to 31 December 2017 and up to the date of this announcement.

Final Dividend

No final dividend for the Year has been recommended by the Board (2016: nil).

ANNUAL GENERAL MEETING

The Company will hold its annual general meeting on Friday, 25 May 2018 (the "**2018 AGM**"), the notice of which will be published and dispatched to the shareholders of the Company (the "**Shareholders**") in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the Shareholders' entitlement to attend and vote at the 2018 AGM, the register of members will be closed from Saturday, 19 May 2018 to Friday, 25 May 2018 (both dates inclusive), during which period no transfer of shares of the Company will be effected. In order to qualify for attending and voting at the 2018 AGM, the non-registered Shareholders 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 Friday, 18 May 2018.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all applicable code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "**CG Code**") throughout the Year.

SCOPE OF WORK OF THE COMPANY'S EXTERNAL AUDITORS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the notes thereto for the Year as set out in this announcement have been agreed by the Company's external auditors to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by the Company's external auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently, no assurance has been expressed by the Company's external auditors on this announcement.

AUDIT COMMITTEE'S REVIEW

The Company has established an audit committee (the "**Audit Committee**") in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code for the purpose of reviewing and providing supervision over the Group's financial reporting process, risk management and internal controls. The Audit Committee comprises four members, namely Ms. Ng Chung Yan Linda (who is also the chairlady of the Audit Committee), Mr. Ng Man Kung and Mr. Sze Yeuk Lung Benedict, all being the independent non-executive Directors and Mr. Chau Chi Yan Benny, a non-executive Director. The Audit Committee has reviewed with the Company's management the accounting principles and practices adopted by the Group and the annual consolidated results of the Group for the Year.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its own code of conduct governing securities transactions by the Directors. Following a specific enquiry made by the Company on the Directors, all of them have confirmed that they had complied with the required standard set out in the Model Code throughout the Year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares listed on the Main Board of the Stock Exchange during the Year.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website (http://www.hkex.com.hk) and the Company's website (http://www.ellhk.com). The Company's annual report for the Year will be dispatched to the Shareholders and will be available on the respective websites of the Stock Exchange and the Company in due course.

APPRECIATION

I would like to take this opportunity to express my most sincere thanks and gratitude to our Shareholders and various parties for their continuous support as well as my fellow Directors and our staff for their dedication and diligence.

By order of the Board
ELL Environmental Holdings Limited
Chau On Ta Yuen
Chairman

Hong Kong, 23 March 2018

As at the date of this announcement, the Board comprises Mr. Chau On Ta Yuen (Chairman), Mr. Chan Kwan (Chief Executive Officer) and Mr. Radius Suhendra as executive Directors, Mr. Chan Pak Lam Brian and Mr. Chau Chi Yan Benny as non-executive Directors, and Ms. Ng Chung Yan Linda, Mr. Ng Man Kung and Mr. Sze Yeuk Lung Benedict as independent non-executive Directors.