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 2018

FINANCIAL SUMMARY

- Revenue for the Year amounted to HK$79.1 million (2017: HK$79.0 million), representing an increase of 0.1% as compared with the preceding year.
- Gross profit for the Year was HK$10.7 million (2017: HK$4.8 million), representing an increase of 120.5% as compared with the preceding year.
- Net loss for the Year was HK$144.7 million (2017: net loss of HK$60.7 million).
- No final dividend has been recommended by the Board for the Year (2017: 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**" or "**ELL Environmental**") for the year ended 31 December 2018 (the "**Year**").

The annual consolidated results of the Group for the Year together with the comparative figures of 2017 are as follows:

* *For identification purpose only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Revenue	3		
Construction services		**11,151**	—
Wastewater treatment facility operation services		**21,531**	37,091
Sales of electricity generated from biomass power plants		**31,245**	26,800
Imputed interest income on receivables under service concession arrangements		**15,123**	15,073
		79,050	78,964
Cost of sales		**(68,368)**	(74,120)
Gross profit		**10,682**	4,844
Other income and gains		**2,692**	8,252
Gain on disposal of a subsidiary		**—**	6,035
Impairment loss recognised in respect of goodwill	12	**(39,889)**	(43,863)
Impairment loss recognised in respect of property, plant and equipment	12	**(79,743)**	—
Administrative expenses		**(32,670)**	(24,710)
Finance costs	5	**(2,177)**	(1,449)
Loss before tax	6	**(141,105)**	(50,891)
Income tax expense	7	**(3,562)**	(9,856)
Loss for the year		**(144,667)**	(60,747)
(Loss) profit for the year attributable to:			
Owners of the Company		**(139,718)**	(61,074)
Non-controlling interests		**(4,949)**	327
		(144,667)	(60,747)
		HK cents	*HK cents*
Loss per share	9		
— Basic		**(12.58)**	(5.50)
— Diluted		**(12.58)**	(5.50)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
Loss for the year	**(144,667)**	(60,747)
Other comprehensive (expense) income		
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on translation of foreign operations	**(2,568)**	13,739
Fair value change on debt instruments at fair value through other comprehensive income	**(128)**	—
Fair value change on available-for-sale investments	**—**	(305)
Investment revaluation reserve released upon disposal of debt instruments at fair value through other comprehensive income	**404**	—
Investment revaluation reserve released upon disposal of available-for-sale investments	**—**	(492)
Item that will not be reclassified to profit or loss:		
Actuarial loss of defined benefit retirement plan	**(35)**	(21)
Total comprehensive expense for the year	**(146,994)**	(47,826)
Total comprehensive (expense) income for the year attributable to:		
Owners of the Company	**(141,843)**	(49,200)
Non-controlling interests	**(5,151)**	1,374
	(146,994)	(47,826)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**54,493**	134,326
Deposits for purchase of property, plant and equipment		**2,661**	3,408
Receivables under service concession arrangements	10	**285,230**	290,159
Goodwill	11	**—**	42,242
Available-for-sale investments		**—**	10,311
Debt instruments at fair value through other comprehensive income		**8,193**	—
Restricted bank deposits		**5,882**	12,427
		356,459	492,873
CURRENT ASSETS			
Inventories		**728**	554
Receivables under service concession arrangements	10	**29,109**	28,970
Trade receivables	13	**8,018**	6,284
Prepayments and other receivables		**7,385**	64,394
Income tax recoverable		**930**	338
Debt instruments at fair value through other comprehensive income		**23,060**	—
Restricted bank deposits		**5,882**	—
Bank balances and cash		**44,317**	35,515
		119,429	136,055
CURRENT LIABILITIES			
Trade payables	14	**4,971**	9,313
Other payables and accruals		**7,682**	5,614
Amounts due to related parties		**3,424**	6,474
Bank borrowings — due within one year	15	**32,517**	30,240
Income tax payables		**164**	4,108
		48,758	55,749
NET CURRENT ASSETS		**70,671**	80,306
TOTAL ASSETS LESS CURRENT LIABILITIES		**427,130**	573,179

	NOTES	2018 HK$'000	2017 HK$'000
CAPITAL AND RESERVES			
Share capital	*16*	**111**	111
Reserves		**350,392**	492,687
Equity attributable to owners of the Company		**350,503**	492,798
Non-controlling interests		**23,873**	29,024
TOTAL EQUITY		**374,376**	521,822
NON-CURRENT LIABILITIES			
Bank borrowings — due after one year	*15*	**6,720**	8,960
Deferred tax liabilities		**34,186**	33,591
Provision for major overhauls		**11,040**	8,635
Retirement benefit obligations		**808**	171
		52,754	51,357
		427,130	573,179

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 ("**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 that are measured at fair values at the end of each reporting period.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

New and amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) — Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 — 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

3. REVENUE

	2018	2017
	HK$'000	*HK$'000*
Types of goods and services		
Construction services	**11,151**	—
Wastewater treatment facility operation services	**21,531**	37,091
Sales of electricity generated from biomass power plants	**31,245**	26,800
Revenue from goods and services	**63,927**	63,891
Imputed interest income on receivables under service concession arrangements	**15,123**	15,073
	79,050	78,964

4. SEGMENTAL INFORMATION

The Group is engaged in the construction and operation of wastewater treatment facilities and biomass power generation business. Information reported to the chief operating decision maker of the Group (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 (the "**PRC**") and the Republic of Indonesia ("**Indonesia**").

Segment revenue and results

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

Year ended 31 December 2018

	Hong Kong	**PRC**	**Indonesia**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Results				
Segment revenue	**—**	**47,805**	**31,245**	**79,050**
Segment (loss) profit	**(17,776)**	**10,330**	**(93,751)**	**(101,197)**
Unallocated expenses				
Administrative expenses				**(19)**
Impairment loss recognised in respect of goodwill				**(39,889)**
Loss before tax				**(141,105)**

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 recognised in respect of goodwill				(43,863)
Loss before tax				(50,891)

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:

	2018	2017
	HK$'000	*HK$'000*
Customer A from the PRC segment	**37,600**	41,947
Customer B from the Indonesia segment	**31,245**	26,800
Customer C from the PRC segment	**10,205**	10,217

5. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on bank borrowings	**1,612**	1,034
Increase in discounted amounts of provision for major overhauls arising from the passage of time	**565**	415
	2,177	1,449

6. LOSS BEFORE TAX

	2018	2017
	HK$'000	*HK$'000*
Loss before tax has been arrived at after charging (crediting):		
Employee benefit expense (including Directors' remuneration):		
Salaries and other benefits	**18,642**	18,084
Discretionary bonus	**120**	120
Pension scheme contributions *(note)*	**2,236**	1,973
Share-based payments	**21**	46
	21,019	20,223
Cost of construction services	**8,875**	—
Cost of wastewater treatment facilities operation services rendered	**27,039**	40,393
Cost of power plant operation (including cost of inventories recognised as expenses of HK$21,999,000 (2017: HK$25,054,000))	**33,060**	33,727
Depreciation of property, plant and equipment	**12,949**	12,402
Impairment loss recognised in respect of goodwill	**39,889**	43,863
Impairment loss recognised in respect of property, plant and equipment	**79,743**	—
Depreciation of assets classified as held for sale	**—**	11
Minimum lease payments under operating lease	**—**	59
Auditors' remuneration	**1,300**	1,300
Foreign exchange loss (gain), net	**3,816**	(526)
Provision for major overhauls	**2,058**	1,349

Note: At 31 December 2018, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2017: nil).

7. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
PRC tax		
Charge for the year	**2,464**	6,493
Underprovision in prior years	**38**	2,584
Deferred tax	**1,060**	779
Total tax charge for the year	**3,562**	9,856

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 (2017: nil).

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The Directors considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements.

Withholding tax is calculated at 5% of the dividend income received from a subsidiary in the PRC.

The provision for the PRC income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in the PRC as determined in accordance with the relevant income tax rules and regulations of the 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 (2017: nil).

8. DIVIDEND

No interim or final dividend was proposed during both years, nor has any dividend been proposed since the end of the reporting period.

9. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	2018	2017
	HK$'000	*HK$'000*
Loss for the purposes of basic and diluted loss per share, being loss for the year attributable to owners of the Company	**(139,718)**	(61,074)

	Number of shares	
	2018	2017
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,110,975**	1,111,000

For the years ended 31 December 2018 and 2017, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share option since its exercise would result in a decrease in loss per share.

10. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

	2018	2017
	HK$'000	*HK$'000*
Receivables under service concession arrangements	**314,339**	319,129
Portion classified as current assets	**(29,109)**	(28,970)
Portion classified as non-current assets	**285,230**	290,159

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

	2018	2017
	HK$'000	*HK$'000*
Billed:		
Within 3 months	**12,113**	12,243
4 to 6 months	**7,268**	7,341
	19,381	19,584
Not yet billed	**294,958**	299,545
	314,339	319,129

11. GOODWILL

	HK$'000
COST	
At 1 January 2017	85,699
Exchange adjustments	299
At 31 December 2017	85,998
Exchange adjustments	(4,591)
At 31 December 2018	**81,407**
IMPAIRMENT	
At 1 January 2017	—
Impairment loss recognised for the year	43,863
Exchange adjustments	(107)
At 31 December 2017	43,756
Impairment loss recognised for the year	39,889
Exchange adjustments	(2,238)
At 31 December 2018	**81,407**
CARRYING VALUES	
At 31 December 2018	**—**
At 31 December 2017	42,242

Particulars regarding impairment testing on goodwill are disclosed in note 12.

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 recoverable amounts of the relevant assets have been determined on the basis of their value in use. These valuations were performed by independent qualified professional valuers from AVISTA Group, who are members of the Institute of Valuers and are not connected with the Group. The impairment loss on property, plant and equipment has been disclosed in the profit or loss as a separate line item. The details of the assumptions are set out in note 12.

12. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND GOODWILL

For the purposes of impairment testing, the property, plant and equipment used in Biomass Plant and the goodwill arising on acquisition of Weal Union Group have been allocated to only one CGU, comprising one subsidiary in the investment holding and one subsidiary in the biomass power generation business.

During the year ended 31 December 2018, the Group recognised an impairment loss of HK$79,743,000 (2017: nil) in respect of property, plant and equipment used in Biomass Plant and HK$39,889,000 (2017: HK$43,863,000) in respect of goodwill arising on acquisition of Weal Union Group.

Taking into consideration that (i) the new offered electricity unit price by the counterparty for the forthcoming one year period has decreased by 25.3% compared to the latest contracted price, (ii) the electricity grid construction by the government to connect the South Sumatra region, where the Biomass Plant was located, and the North Sumatra region, where the demand of electricity is higher, had been aborted, and (iii) the 10-year forecast of electricity growth rate in Sumatra, Indonesia, where the Biomass Plant is located, as published by the Ministry of Energy and Mineral Resources in the first quarter of 2018 had dropped to 9.1% from 11.2% as published in the first quarter of 2017, it is expected that the future electricity unit price will drop and the growth of electricity demand will slow down. Therefore, the expected utilisation growth rate of the Biomass Plant in near term is lowered. There is also no clarity as to when or whether the aforesaid infrastructure will resume and when the local economy will start to improve. Accordingly, the valuation of Weal Union Group, and hence the recoverable amount of the property, plant and equipment and goodwill, is impaired due to the lower growth rate and delay in the realisation of the expected return.

13. TRADE RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**8,018**	6,284

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK$8,018,000 and HK$6,284,000, respectively.

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 dates.

	2018	2017
	HK$'000	*HK$'000*
0 — 30 days	**5,088**	3,901
31 — 60 days	**2,930**	2,383
	8,018	6,284

14. TRADE PAYABLES

The following is an aged analysis of accounts payable presented based on the invoice date.

	2018	2017
	HK$'000	*HK$'000*
0 to 60 days	**2,790**	2,705
61 to 90 days	**504**	1,321
Over 90 days	**1,677**	5,287
	4,971	9,313

Included in the Group's trade payables are construction retention payables of HK$75,000 (2017: HK$2,201,000).

15. BANK BORROWINGS

	2018	2017
	HK$'000	*HK$'000*
On demand or within one year	**32,517**	30,240
In the second year	**2,240**	2,240
In the third to fifth year inclusive	**4,480**	6,720
	39,237	39,200
Less: Amount due within one year shown under current liabilities	**(32,517)**	(30,240)
Amount due after one year	**6,720**	8,960
Current — secured	**2,277**	—
Current — unsecured	**30,240**	30,240
Non-current — unsecured	**6,720**	8,960
	39,237	39,200

16. SHARE CAPITAL

	2018	2017
	HK$'000	*HK$'000*
Authorised:		
3,800,000,000 ordinary shares of HK$0.0001 each	**380**	380
Issued and fully paid:		
1,108,000,000 (2017: 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:

	Number of shares	Amount
		HK$'000
At 1 January 2017, 31 December 2017 and 1 January 2018	1,111,000,000	111
Shares repurchased and cancelled	(3,000,000)	N/A*
At 31 December 2018	**1,108,000,000**	**111**

* Amount less than HK$1,000.

During the Year, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares	Price per share Highest	Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$'000*
September 2018	445,000	0.150	0.149	66
October 2018	1,555,000	0.160	0.150	247
November 2018	845,000	0.160	0.160	135
December 2018	155,000	0.160	0.160	25
	3,000,000			473

The above ordinary shares were cancelled on 28 December 2018 upon repurchasing in the respective months.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2018, mounting international trade conflicts posed challenges to global economic growth. Under the support of the government's fiscal policies and the modification of macroeconomic policies, the Chinese economy prevented itself from suffering a sharp decline in its growth in the second half of 2018, with China's gross domestic product (GDP) for the Year reaching RMB90,030.9 billion, which was beyond expectation.

The issue of environmental protection has become a global concern in recent years. In accordance with the "13th Five-Year Plan" for Nationwide Integrated Treatment of Rural Environment (全國農村環境綜合整治「十三五」規劃), the Chinese government has repeatedly voiced its support for the water treatment industry to achieve full collection and treatment of wastewater in built-up areas of cities, and to accelerate comprehensive rural environment management in 130,000 administrative villages. Meanwhile, the report to the 19th National Congress of the Communist Party of China highlighted the Chinese government's commitment to preventing and controlling pollution before 2020, and to achieving a fundamental improvement in the ecological environment by 2035. We are, therefore, expected to see a continuous growth in China's environmental protection industry in the upcoming years.

ELL Environmental is an environmental protection industry services provider which offers a one-stop approach to the provision of wastewater treatment services using the "Build-Operate-Transfer" or "BOT" mode. Our services range from the design of wastewater treatment facilities, through the procurement of suitable equipment and materials to the supervision of construction as well as the ongoing operation and maintenance of the facilities throughout long-term concession periods. ELL Environmental has actively adhered to the national policies, flexibly responding to market changes and making use of development opportunities in both China and overseas, to stably operate the Group's wastewater treatment business. However, as competition in the industry has become increasingly intense, wastewater treatment projects are not as profitable as in the past. In October 2016, the Group acquired Weal Union Limited and its subsidiary in Indonesia, PT Rimba Palma Sejahtera Lestari ("**RPSL**") (collectively as "**Weal Union Group**"). In Indonesia, being the fourth most populous country in the world, the renewable energy industry is set to gain from the undersupply of electricity due to rapid urbanisation and continuing support given by the local government to the environmental protection industry. The management believes that the acquisition is in line with the Group's objective of expanding into other environmental protection businesses and beneficial to shareholders' interests and the long-term development of the Group as a whole. However, during the Year, the biomass power generation plant in Indonesia has yet to achieve its expected utilization rate due to the low market consumption of electricity in the region. This was mainly due to the fact that several urban development projects planned by the Indonesian government had been aborted, which led to a slowdown in economic growth and the local market development, hence reducing power consumption and demand, which in turn eased the power supply shortage in the vicinity of our biomass power plant. Moreover, the construction of the electricity grid connecting the South Sumatra region of Indonesia, where our biomass power plant is located, and the North Sumatra region, where the demand of electricity is higher, along with other infrastructure projects, had also been aborted, which contributed to the continued low utilization level of the power plant. The Group has also been actively negotiating with various parties on the potential collaboration in new businesses which enable self-consumption of the electricity generated by our power plants, as well as the potential disposal of the assets or equity of RPSL to external parties. At the same time, the Group will explore other suitable environmental protection projects, especially BOT investment projects, in order to provide a more stable cash flow and investment returns for the Group.

ELL Environmental's two wastewater treatment facilities are currently both located in Jiangsu Province, China, namely the Haian Hengfa Facility and the Rugao Hengfa Facility (both defined below). In 2016, the Group entered into an equity transfer agreement with Nantong Jiahe Technology Investment Development Co., Ltd. ("**Nantong Jiahe**") to dispose of all the Group's equity interest in Rugao Honghao (defined below). The remittance of consideration payment in connection with the disposal had been fully received in September 2018. Due to an increase in operating costs and the diminishing profitability of the Rugao Honghao Facility (defined below), it is believed that such disposal will provide funding for the Group's future business development and increase the overall growth in its return.

In terms of tariff adjustment, Haian Hengfa Wastewater Treatment Company Limited has made it into the last stage of examinations and discussions with the local government. As the tariff adjustment will not only raise the tariff to a reasonable level but also make up for the price difference in previous years, it is set to bring a remarkable growth in the revenue of the Group.

Outlook

In view of the aforementioned market risks and uncertainties, the Company aims to expand its business steadily in line with the principles of stability and prudence, solidify its strong foundation in China's wastewater treatment market, continue to provide high-quality services to customers, leverage its extensive experience and expertise to develop environmental protection-related industrial chain projects and actively explore potential environmental protection businesses. Meanwhile, we shall strengthen our internal management and investment project strategy management to achieve corporate sustainable development.

Financial Review

Revenue

Our total revenue remained at HK$79.1 million for the Year as compared to HK$79.0 million for the previous year. During the Year, (i) construction revenue of HK$11.2 million was recognized due to the incurrence of construction costs for our upgrade works of the wastewater treatment facility ("**Rugao Hengfa Facility**") of Rugao Hengfa Water Treatment Company Limited ("**Rugao Hengfa**") which was absent in the previous year; (ii) the revenue from wastewater treatment facility operation services decreased by HK$15.6 million or 42.0% from HK$37.1 million for the previous year to HK$21.5 million for the Year, primarily due to the absence of the revenue generated from the operation of our wastewater treatment facility ("**Rugao Honghao Facility**") of Rugao Honghao Metal Surface Water Treatment Company Limited ("**Rugao Honghao**"), which was disposed of during the previous year, and (iii) the offsetting effect from the increase in revenue from the sales of electricity generated from the biomass power plants in Indonesia by HK$4.4 million or 16.6% from HK$26.8 million for the previous year to HK$31.2 million for the Year.

Cost of Sales

Our total cost of sales decreased by HK$5.8 million or 7.8% from HK$74.1 million for the previous year to HK$68.4 million for the Year, primarily due to (i) the absence of cost of sales from the operation of Rugao Honghao in the Year which amounted to HK$12.9 million for the previous year, (ii) the offsetting effect of the recognition of construction costs for our upgrade works of Rugao Hengfa Facility amounting to HK$8.9 million which was absent in the previous year, and (iii) the increase in operating costs of our Haian Hengfa Municipal Wastewater Treatment Facility ("**Haian Hengfa Facility**") by HK$1.7 million or 19.3% from HK$8.7 million for the previous year to HK$10.4 million for the Year.

Gross Profit and Gross Profit Margin

Our gross profit increased by HK$5.8 million or 120.5% from HK$4.8 million for the previous year to HK$10.7 million for the Year, primarily due to (i) the decrease in gross loss from the operation of our biomass power plants in Indonesia by HK$5.1 million or 86.8% from HK$5.9 million for the previous year to HK$0.8 million for the Year, and (ii) the recognition of construction margin arising from the upgrade works of the Rugao Hengfa Facility amounting to HK$2.3 million for the Year, which was absent for the previous year.

Our gross profit margin increased from 6.1% for the previous year to 13.5% for the Year, as the effect of the factors discussed above.

Impairment Loss

During the Year, we recognised an impairment loss of HK$39.9 million (2017: HK$43.9 million) to the goodwill arising on acquisition of Weal Union Group (the "**Goodwill**"), and an impairment loss of HK$79.7 million (2017: nil) to the property, plant and equipment in our Indonesian subsidiary RPSL (the "**PPE of RPSL**"). The valuation, and hence the impairment loss, of the Goodwill as well as the PPE of RPSL was determined by using the value-in-use approach in calculating the recoverable amount based on the discounted cash flow model (the "**DCF model**"). This approach implies the adoption of the assumption on the ongoing operation of the existing business in RPSL, with the parameters of the DCF model taken according to the latest information available to the management. The calculated net present value of the cash flows generated from the operation of RPSL decreased by HK$127.6 million or 71.3% from HK$179.1 million for the previous year to HK$51.5 million for the Year primarily due to the decreases in (i) the expected electricity unit price by 25.3% in the forthcoming one-year period as compared to the existing contracted price, according to the offered price from the sole buyer of the electricity generated by the power plants of RPSL, (ii) the expected growth rate on the sales of electricity and (iii) the gross margin ratio, notwithstanding the offsetting effect from the increase in gross profit from the expected sales of pellets in the future.

According to HKAS 36 Impairment of Assets, the recoverable amount is defined as the higher of an asset's or a cash-generating unit's fair value less costs of disposal and its value-in-use. The management is formulating the business plan regarding the Indonesia business, which may include a potential disposal of the assets or the equity of RPSL in the future should a suitable opportunity arises to maximise the benefit to the Group and its shareholders. However, as at 31 December 2018, no binding offers have been concluded in relation to the restructuring or disposal of RPSL. Accordingly, Weal Union Group and the PPE of RPSL were valued based on its value-in-use, with the assumption that RPSL shall remain in operation. In the event a disposal of the Weal Union Group or any of the PPE of RPSL is materialised at favourable terms, we may revalue the enterprise value of the Weal Union Group as well as the PPE of RPSL based on fair value less costs of disposal, and an adjustment or reversal of the impairment on the PPE of RPSL could be resulted. As at the date of this announcement, no definitive agreement has been entered into in connection to any restructuring or disposal of the Weal Union Group. The Directors will update the shareholders as and when appropriate in accordance with applicable laws and requirements under the Listing Rules.

Administrative Expenses

Our administrative expenses increased by HK$8.0 million or 32.2% from HK$24.7 million for the previous year to HK$32.7 million for the Year. As a percentage of our revenue, our administrative expenses represented 31.3% and 41.3% for the years ended 31 December 2017 and 2018, respectively. The increase of our administrative expenses was primarily attributable to the increase in administrative expenses in our Indonesia operation by HK$5.4 million or 68.7% from HK$7.9 million for the previous year to HK$13.3 million for the Year, mainly for business development purposes.

Finance Costs

Our finance costs increased by HK$0.7 million or 50.2% from HK$1.4 million for the previous year to HK$2.2 million for the Year, primarily due to the interest expense on a short-term borrowing made during the Year.

Loss Before Tax

Our loss before tax increased by HK$90.2 million or 177.3% from HK$50.9 million for the previous year to HK$141.1 million for the Year, primarily due to the factors mentioned above.

Income Tax Expense

Our income tax expense decreased by HK$6.3 million or 63.9% from HK$9.9 million for the previous year to HK$3.6 million for the Year, primarily due to the decrease in the current tax expense in Rugao Hengfa by HK$2.9 million or 56.9% from HK$5.1 million for the previous year to HK$2.2 million for the Year as a result of the disapproval of our claims for certain tax allowances for prior years and therefore recognised as the income tax expense in the previous year, which was absent for the Year.

Loss Attributable to Owners of the Company

Our loss attributable to owners of the Company increased by HK$78.6 million or 128.8% from HK$61.1 million for the previous year to HK$139.7 million for the Year, primarily due to the factors mentioned above.

Bank Borrowings

As at 31 December 2018, the Group had: (i) an unsecured one-year bank loan with a carrying amount of HK$28.0 million, which was denominated in Hong Kong dollars (2017: HK$28.0 million) with variable interest rates at Hong Kong Interbank Offered Rate (HIBOR) plus 1.4% per annum, repayable on demand; (ii) an unsecured five-year bank loan with a carrying amount of HK$9.0 million, which was denominated in United States dollars (2017: HK$11.2 million) with variable interest rates at London Interbank Offered Rate (LIBOR) plus 1.4% per annum, and (iii) a secured 6-month bank loan with a carrying amount of HK$2.3 million, which was denominated in Renminbi with a fixed interest rate of 5.1% per annum (2017: nil), secured by HK$11.4 million of receivables under service concession arrangements.

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 2018, the net assets of the Group was HK$374.4 million, representing a decrease by HK$147.4 million or 28.3% as compared with that of HK$521.8 million as at 31 December 2017.

Gearing Ratio

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 2017 and at 31 December 2018.

Treasury Policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Year. The Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the 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 Group's cash requirements for the Group's strategy or direction from time to time can be met.

Capital Expenditures

Our major capital expenditures consist primarily of expenditures to upgrade and improve the Group's wastewater treatment facilities. During the Year, we incurred HK$8.9 million on capital expenditures for the upgrade works of the Rugao Hengfa Facility (2017: nil).

Foreign Exchange Risks

Individual member 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 unpredictable fluctuations of Renminbi against Hong Kong dollar, 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 to Indonesian Rupiah to be acceptable.

Significant Investments, Material Acquisitions And Disposals

On 21 September 2016, the Group entered into an agreement with Nantong Jiahe for the sale of all of the equity interest of Rugao Honghao at a cash consideration of RMB55.0 million which was fully settled during the Year. Save as disclosed in this announcement, the Group did not have any significant investments, material acquisitions or disposals of assets, subsidiaries, associates or joint ventures during the Year.

Future Plans for Material Investments or Capital Investments

Save as disclosed in this announcement, the Group has no plan authorised by the Board for other material investments or additions of capital assets as at the date of this announcement.

Contingent Liabilities

The Group had no contingent liabilities as at 31 December 2018. As at 31 December 2017, a fine from a court case against Rugao Hengfa ranging from RMB100,000 to RMB5,000,000 was disclosed as a contingent liability of the Group. The case was fully settled at a final fine of RMB60,000 during the Year. For details, please refer to the Company's announcements dated 12 November 2017, 14 November 2017 and 9 May 2018, respectively.

Employee and Remuneration Policies

As at 31 December 2018, the Group had 227 (2017: 227) employees (including the Directors). Employee costs (including Directors' emoluments) amounted to HK$21.0 million for the Year (2017: HK$20.2 million). Our remuneration policy for the Directors and our 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 Group and the individual performance of the Directors and our senior management members and general staff. The Group provides on-the-job training where appropriate.

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 2018 and up to the date of this announcement.

Final Dividend

No final dividend for the Year has been recommended by the Board (2017: nil).

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 specific enquiries 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

During the Year, the Company repurchased 3,000,000 shares of the Company (the "**Shares**") on the Stock Exchange for an aggregate consideration of HK$473,295 excluding transaction costs. All the repurchased Shares had been cancelled on 28 December 2018. The nominal value of the total issued capital of the Company was reduced by HK$300.

Particulars of the repurchases during the Year are as follows:

Period of repurchase	Number of Shares repurchased	Price per Share Highest *(HK$)*	Price per Share Lowest *(HK$)*	Aggregate consideration (excluding transaction costs) *(HK$)*
September 2018	445,000	0.150	0.149	66,645
October 2018	1,555,000	0.160	0.150	246,650
November 2018	845,000	0.160	0.160	135,200
December 2018	155,000	0.160	0.160	24,800
	3,000,000			473,295

Save as disclosed above, the Company did not redeem any of its Shares listed on the Main Board of the Stock Exchange nor did the Company or any of its subsidiaries purchase or sell any of such Shares during the Year.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

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, 22 March 2019

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.