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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 2020

FINANCIAL SUMMARY

- Revenue for FY2020 amounted to HK\$59.0 million (FY2019: HK\$77.5 million), representing a decrease of 23.8% as compared with FY2019.
- Gross profit for FY2020 was HK\$29.6 million (FY2019: HK\$33.9 million), representing a decrease of 12.7% as compared with FY2019.
- Profit before tax for FY2020 was HK\$5.1 million (FY2019: HK\$17.0 million), representing a decrease of 70.1% as compared with FY2019.
- Net loss for FY2020 was HK\$1.5 million (FY2019: net profit of HK\$9.6 million).
- No final dividend has been recommended by the Board for FY2020 (FY2019: HK0.5 cent per share).

The board of directors of ELL Environmental Holdings Limited (the “**Board**”, the “**Directors**” and the “**Company**”, respectively) is pleased to announce the audited annual consolidated results of the Company and its subsidiaries (collectively, the “**Group**” or “**ELL Environmental**”) for the year ended 31 December 2020 (“**FY2020**” or the “**Year**”).

The audited annual consolidated results of the Group for FY2020, together with the comparative figures for the year ended 31 December 2019 (“**FY2019**”), are as follows:

* For identification purpose only

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

		2020	2019
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	59,017	77,473
Cost of sales		<u>(29,399)</u>	<u>(43,552)</u>
Gross profit		29,618	33,921
Other income and net gains		5,329	13,403
Administrative expenses		(27,867)	(28,213)
Finance costs	5	<u>(1,984)</u>	<u>(2,073)</u>
Profit before tax	6	5,096	17,038
Income tax expense	7	<u>(6,581)</u>	<u>(7,438)</u>
(Loss)/profit for the year		<u>(1,485)</u>	<u>9,600</u>
(Loss)/profit for the year attributable to:			
Owners of the Company		(4,956)	970
Non-controlling interests		<u>3,471</u>	<u>8,630</u>
		<u>(1,485)</u>	<u>9,600</u>
		<i>HK cent</i>	<i>HK cent</i>
(Loss)/earnings per share	9		
— Basic		<u>(0.45)</u>	<u>0.09</u>
— Diluted		<u>(0.45)</u>	<u>0.09</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/profit for the year	(1,485)	9,600
Other comprehensive income/(expense)		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	17,245	(6,046)
Investment revaluation reserve released upon disposal of debt instruments at fair value through other comprehensive income	84	78
<i>Item that will not be reclassified to profit or loss:</i>		
Actuarial loss of defined benefit retirement plan	(4)	(194)
Total comprehensive income for the year	<u>15,840</u>	<u>3,438</u>
Total comprehensive income/(expense) for the year attributable to:		
Owners of the Company	10,385	(4,581)
Non-controlling interests	5,455	8,019
	<u>15,840</u>	<u>3,438</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	NOTES	2020 HK\$'000	2019 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		73,470	71,423
Deposits paid for purchase of property, plant and equipment		897	1,280
Receivables under service concession arrangements	10	292,899	282,308
Goodwill	11	—	—
Debt instruments at fair value through other comprehensive income		3,380	3,390
Other financial assets at amortised cost		2,038	—
Restricted bank deposits		6,015	6,070
		<u>378,699</u>	<u>364,471</u>
CURRENT ASSETS			
Inventories		964	613
Receivables under service concession arrangements	10	21,883	18,182
Prepayments and other receivables		10,175	10,612
Income tax recoverable		771	776
Debt instruments at fair value through other comprehensive income		1,592	15,128
Other financial assets at amortised cost		6,215	—
Restricted bank deposits		6,015	6,070
Bank balances and cash		51,067	64,074
		<u>98,682</u>	<u>115,455</u>
CURRENT LIABILITIES			
Trade payables	12	2,764	3,003
Other payables and accruals		6,491	11,067
Amounts due to related parties		13,406	8,986
Bank borrowings	13	20,240	20,240
Lease liabilities		547	525
Income tax payable		2,213	5,408
		<u>45,661</u>	<u>49,229</u>
NET CURRENT ASSETS		<u>53,021</u>	<u>66,226</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>431,720</u></u>	<u><u>430,697</u></u>

	<i>NOTES</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
CAPITAL AND RESERVES			
Share capital	<i>14</i>	111	111
Reserves		345,025	345,713
		<hr/>	<hr/>
Equity attributable to owners of the Company		345,136	345,824
Non-controlling interests		30,028	31,892
		<hr/>	<hr/>
TOTAL EQUITY		375,164	377,716
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Bank borrowings	<i>13</i>	2,240	4,480
Lease liabilities		472	1,019
Deferred tax liabilities		35,774	33,331
Provision for major overhauls		16,656	13,147
Retirement benefit obligations		1,414	1,004
		<hr/>	<hr/>
		56,556	52,981
		<hr/>	<hr/>
		431,720	430,697
		<hr/> <hr/>	<hr/> <hr/>

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 (the “**Listing Rules**”) 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 AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Company and its subsidiaries (collectively referred to as “**the Group**”) has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020, for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year has no material impact on the Group’s consolidated financial statements for the years presented.

3. REVENUE

	2020 <i>HK\$’000</i>	2019 <i>HK\$’000</i>
Types of goods and services		
Construction services	4,646	6,170
Wastewater treatment facility operation services	39,821	55,428
Sales of electricity generated from biomass power plants	—	1,130
Revenue from goods and services	44,467	62,728
Imputed interest income on receivables under service concession arrangements	14,550	14,745
	<u>59,017</u>	<u>77,473</u>

4. SEGMENTAL INFORMATION

The Group is engaged in the construction and operation of wastewater treatment facilities, construction of power plant 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 locations of its manpower and customers, including Hong Kong, the People's Republic of China (the "PRC" or "China") 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:

For the year ended 31 December 2020

	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Indonesia <i>HK\$'000</i>	Total <i>HK\$'000</i>
Results				
Segment revenue	<u>—</u>	<u>55,852</u>	<u>3,165</u>	<u>59,017</u>
Segment (loss)/profit	<u>(9,928)</u>	<u>26,641</u>	<u>(11,575)</u>	<u>5,138</u>
Unallocated expenses				
Administrative expenses				<u>(42)</u>
Profit before tax				<u>5,096</u>

For the year ended 31 December 2019

	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Indonesia <i>HK\$'000</i>	Total <i>HK\$'000</i>
Results				
Segment revenue	<u>—</u>	<u>76,343</u>	<u>1,130</u>	<u>77,473</u>
Segment (loss)/profit	<u>(16,343)</u>	<u>41,331</u>	<u>(7,913)</u>	<u>17,075</u>
Unallocated expenses				
Administrative expenses				<u>(37)</u>
Profit before tax				<u>17,038</u>

There are no inter-segment sales for both years.

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

Segment assets and liabilities

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

As at 31 December 2020

	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Indonesia <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets				
Segment and total consolidated assets	<u>21,487</u>	<u>355,153</u>	<u>100,741</u>	<u>477,381</u>
Liabilities				
Segment and total consolidated liabilities	<u>40,874</u>	<u>58,061</u>	<u>3,282</u>	<u>102,217</u>

For the year ended 31 December 2020

	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Indonesia <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amounts included in the measure of segment profit or loss or segment assets:				
Loss on modification of other financial assets measured at amortised cost	—	—	471	471
Additions to non-current assets (<i>note</i>)	—	58	7,049	7,107
Depreciation of property, plant and equipment	544	446	3,478	4,468
Bank interest income	<u>2</u>	<u>370</u>	<u>575</u>	<u>947</u>

As at 31 December 2019

	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Indonesia <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets				
Segment and total consolidated assets	<u>28,694</u>	<u>359,123</u>	<u>92,109</u>	<u>479,926</u>
Liabilities				
Segment and total consolidated liabilities	<u>40,171</u>	<u>57,597</u>	<u>4,442</u>	<u>102,210</u>

For the year ended 31 December 2019

	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Indonesia <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets (<i>note</i>)	1,629	274	17,149	19,052
Depreciation of property, plant and equipment	91	459	3,390	3,940
Bank interest income	<u>116</u>	<u>231</u>	<u>727</u>	<u>1,074</u>

The Group's non-current assets by geographical locations of the assets are detailed below:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Hong Kong	995	1,538
PRC	1,823	2,113
Indonesia	71,549	69,052
	<u>74,367</u>	<u>72,703</u>

Note: Non-current assets excluded debt instruments at fair value through other comprehensive income, other financial assets at amortised cost, receivables under service concession arrangements and restricted bank deposits.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Customer A from the PRC segment	25,580	44,018
Customer B from the PRC segment	<u>30,272</u>	<u>32,325</u>

5. FINANCE COSTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest on bank borrowings	569	1,267
Interest on loan from related parties	585	142
Interest on lease liabilities	50	11
Increase in discounted amounts of provision for major overhauls arising from the passage of time	780	653
	<u>1,984</u>	<u>2,073</u>

6. PROFIT BEFORE TAX

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit before tax has been arrived at after charging/(crediting):		
Employee benefit expense (including directors' remuneration):		
Salaries and other benefits	11,745	16,309
Discretionary bonus	308	342
Pension scheme contributions (<i>note</i>)	1,159	1,937
	<u>13,212</u>	<u>18,588</u>
Cost of construction services	4,305	4,870
Cost of wastewater treatment facilities operation services rendered	25,094	32,297
Cost of power plant operation (including cost of inventories recognised as expenses of HK\$nil (2019: HK\$577,000))	—	6,385
Depreciation of property, plant and equipment	4,468	3,940
Auditors' remuneration	1,024	1,048
Loss on modification of other financial assets measured at amortised cost	471	—
Research and development cost recognised as an expense (included in administrative expenses)	—	38
Foreign exchange loss/(gain), net	484	(1,721)
Provision for major overhauls	1,771	1,692
	<u>1,771</u>	<u>1,692</u>

Note: As at 31 December 2020, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2019: nil).

7. INCOME TAX EXPENSE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current tax:		
Hong Kong	6	25
PRC	<u>6,215</u>	<u>7,482</u>
	<u>6,221</u>	<u>7,507</u>
Under/(over) provision in prior years:		
Hong Kong	—	(3)
PRC	<u>—</u>	<u>162</u>
	<u>—</u>	<u>159</u>
Deferred tax	<u>360</u>	<u>(228)</u>
Total tax charge for the year	<u><u>6,581</u></u>	<u><u>7,438</u></u>

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.

For the year ended 31 December 2020, the provision for Hong Kong Profits Tax was calculated at 16.5% (2019: 16.5%) of the estimated assessable profit for the year.

The provision for the PRC income tax is based on the respective corporate income tax rates applicable to the subsidiaries of the Company 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 (2019: nil).

8. DIVIDEND

No interim dividend was proposed during the years ended 31 December 2020 and 2019.

During the year ended 31 December 2020, the Company declared a final dividend in respect of the year ended 31 December 2019 of HK0.5 cent per share, in aggregate amount of approximately HK\$5,536,500, which was fully paid on 31 July 2020.

During the year ended 31 December 2020, the Company declared a special dividend in respect of the year ended 31 December 2020 of HK0.5 cent per share, in an aggregate amount of approximately HK\$5,536,500, which was partly paid of approximately HK\$4,739,000 on 31 December 2020.

No final dividend was proposed in respect of the year ended 31 December 2020.

9. (LOSS)/EARNINGS PER SHARE

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
(Loss)/profit for the purposes of basic and diluted (loss)/earnings per share, being (loss)/profit for the year attributable to owners of the Company	<u>(4,956)</u>	<u>970</u>
	Number of shares	
	2020	2019
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	<u>1,107,300</u>	<u>1,107,327</u>

For the years ended 31 December 2020 and 2019, the computation of diluted (loss)/earnings per share does not assume the exercise of the Company's outstanding share options since their exercise would result in a decrease in (loss)/increase in earnings per share.

10. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Receivables under service concession arrangements	314,782	300,490
Portion classified as current assets	<u>(21,883)</u>	<u>(18,182)</u>
Portion classified as non-current assets	<u>292,899</u>	<u>282,308</u>

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Billed:		
Within 3 months	9,558	8,931
4 to 6 months	<u>—</u>	<u>1,521</u>
Not yet billed	<u>9,558</u>	<u>10,452</u>
	<u>305,224</u>	<u>290,038</u>
	<u>314,782</u>	<u>300,490</u>

11. GOODWILL

HK\$'000

COST

As at 1 January 2019, 31 December 2019, 1 January 2020 and **31 December 2020** 81,407

IMPAIRMENT

As at 1 January 2019, 31 December 2019, 1 January 2020 and **31 December 2020** 81,407

CARRYING VALUES

As at **31 December 2020** —

As at 31 December 2019 —

The amount represents goodwill arising on the acquisition of Weal Union Limited and its subsidiary on 21 October 2016, and is allocated to the Group's cash-generating unit in the biomass power generation business. In prior years, as the carrying amount of the cash-generating unit was determined to be higher than its recoverable amount, impairment losses were recognised.

The goodwill was fully impaired during the year ended 31 December 2018.

12. TRADE PAYABLES

The following is an aged analysis of trade payables, presented based on the invoice date:

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
0–60 days	649	776
61–90 days	3	566
Over 90 days	<u>2,112</u>	<u>1,661</u>
	<u><u>2,764</u></u>	<u><u>3,003</u></u>

Included in the Group's trade payables are construction retention payables of approximately HK\$78,000 (2019: HK\$74,000).

13. BANK BORROWINGS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
On demand or within one year	20,240	20,240
In the second year	2,240	2,240
In the third to fifth years inclusive	—	2,240
	<u>22,480</u>	<u>24,720</u>
Less: Amount due within one year shown under current liabilities	<u>(20,240)</u>	<u>(20,240)</u>
Amount due after one year	<u>2,240</u>	<u>4,480</u>
Current — unsecured	20,240	20,240
Non-current — unsecured	<u>2,240</u>	<u>4,480</u>
	<u>22,480</u>	<u>24,720</u>

The bank borrowings comprise of:

	Effective interest rate	Carrying amount	
		2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Floating-rate borrowings:			
Unsecured HK\$ bank borrowing	1.68%	18,000	18,000
Unsecured US\$ bank borrowing	2.07%	<u>4,480</u>	<u>6,720</u>
Total bank borrowings		<u>22,480</u>	<u>24,720</u>

Note: The bank borrowings denominated in Hong Kong dollars (“**HK\$**”) and United States (“**US**”) dollars (“**US\$**”) are guaranteed by a Director and the Company.

14. SHARE CAPITAL

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Authorised:		
3,800,000,000 ordinary shares of HK\$0.0001 each	<u>380</u>	<u>380</u>
Issued and fully paid:		
1,107,300,000 (2019:1,107,300,000) ordinary shares of HK\$0.0001 each	<u>111</u>	<u>111</u>

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

	Number of shares	Amount <i>HK\$'000</i>
As at 1 January 2019	1,108,000,000	111
Shares repurchased and cancelled	<u>(700,000)</u>	<u>N/A*</u>
As at 31 December 2019, 1 January 2020 and 31 December 2020	<u>1,107,300,000</u>	<u>111</u>

* Amount less than HK\$1,000.

During the year ended 31 December 2019, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares	Price per share		Aggregate consideration paid <i>HK\$'000</i>
		Highest <i>HK\$</i>	Lowest <i>HK\$</i>	
January 2019	<u>700,000</u>	0.140	0.140	<u>98</u>

The above ordinary shares were cancelled on 10 May 2019.

None of the Company's subsidiaries purchased or sold any of the Company's listed securities during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2020, the outbreak of COVID-19 severely disrupted the global economy. The Chinese economy and production activity inevitably suffered unprecedented negative impacts. Through implementing stringent travel restrictions and community quarantine measures, China successfully controlled the pandemic by mid-2020 and economic activity resumed its positive growth in the second half of the year. China's gross domestic product for the first three quarters of 2020 was RMB72.3 trillion¹, representing an increase of 0.7% when compared with the corresponding period of last year.

The overall environmental protection industry in China has not been significantly affected during this period. In the "Report on Achievements in Economic and Social Development in the 70 years since the Founding of the PRC" published by China's National Bureau of Statistics in 2019, it was mentioned that China had put much focus on environmental protection, hoping that the long-standing issue of deteriorating water quality can be effectively improved. During the "14th Five-Year" period, the Ministry of Ecology and Environment will focus on promoting the development of environmental protection industry, including increasing capital investment, strengthening capital guidance as well as driving and leading the development of environmental protection industry through innovation and technology. The development of environmental protection industry will conform to the trend of domestic macro-circulation and facilitate the transformation of Chinese economy to become the major driver in promoting green development. In terms of prevention and control of water pollution, China has also set goals of promoting the full coverage of sewage network in municipals and eliminating black and odorous water bodies in cities. The "Action Plan for Prevention and Control of Water Pollution" put forward various goals for 2020, which includes the overall target for the ratio of quality water in seven key basins (such as Yangtze River, Yellow River, Pearl River and Songhua River) reaching over 70%; the overall ratio for water quality of centralized drinking water sources in the cities at prefecture level or above reaching or exceeding Class III (i.e. applicable to secondary protected area of centralized drinking water sources, general marine protected area and swimming area) reaching over 93%; and the black and odorous water bodies in built-up areas to be contained at 10% or below. From January to October 2020, according to the data provided by the China's Ministry of Ecology and Environment, among approximately 2,000 national surface water assessment sections, the proportion of sections with excellent water quality reached 81.8%², representing an increase of 6.4% over the same period last year. Meanwhile, the proportion of sections with poor water quality standard was 0.8%, representing a drop of 2.4% over the same period last year. All of the above showed that China possesses great determination and implementation capability to achieve the goal of significantly improving water quality.

Notes:

1 http://www.stats.gov.cn/tjsj/zxfb/202010/t20201020_1794939.html

2 http://www.mee.gov.cn/xxgk2018/xxgk/xxgk15/202011/t20201119_808653.html

In general, the Group has consistently adopted a prudent and risk-oriented approach to business development in the past. The Group owns two wastewater treatment facilities in Jiangsu Province, China, respectively operated by Hai'an Hengfa Wastewater Treatment Company Limited (“**Haian Hengfa**”) and Rugao Hengfa Water Treatment Company Limited (“**Rugao Hengfa**”). For Hai'an Hengfa, our management has reached an agreement with the relevant authorities to raise water tariffs from RMB0.91 per tonne to RMB1.14 per tonne in 2020, resulting in considerable growth in both revenue and profits for the year. For Rugao Hengfa, the Group has reached preliminary consensus with the Rugao Economic and Technological Development Zone Administrative Committee and the water tariffs are expected to raise from RMB2.67 per tonne to over RMB3 per tonne in the near future, bringing a better and sound performance for the Group. Looking forward, the Group expects that upon gradual adjustment of tariffs, its revenue and gross profit will be further increased.

Furthermore, the Group owns two generating units in biomass power generation business in Jambi, Indonesia the operation of which had been fully suspended since 2020 as a result of a significant drop of electricity unit price in the local proximity. However, we have been developing a biofuel pellets manufacturing plant on the site, which is expected to commence operation in late 2021. The management is confident that the business of biofuel pellets production will provide new growth momentum to the Group and will enable the Group to achieve diversified development of its environmental protection business in the long run. Besides, we are also actively preparing for the development of a new power plant in Bangka, Indonesia with a capacity of 10 megawatts. To this end, we entered into a purchase agreement and its supplemental agreement with the supplier on 31 December 2020 and 8 January 2021, respectively, for the purchase of steam turbine generator facility at a consideration of US\$1.1 million. On 21 January 2021, we entered into an agreement with another supplier for the manufacturing of a boiler for the same project for a consideration of approximately RMB10.4 million. We will continue the study on the feasibility of developing other new energy investment projects in other regions of Indonesia, while actively promoting the “Build-Operate-Transfer” or “BOT” investment projects in order to create more value and generate more optimal cash flows and investment return to the Group.

Outlook

Despite the ever-changing external economic environment and competition in the industry, the Company will deal with various challenges calmly and will evaluate the risks and opportunities of different development projects. ELL Environmental will also actively align its operations with national policies, while remaining flexible in coping with market changes. Sustainable development is one of the global trends, and the Group will strive to make a contribution to environmental protection. We shall continue to solidify our strong foundation in China's wastewater treatment market and provide high-quality services to customers, creating a pristine water quality domestically. Meanwhile, through leveraging on our extensive experience and expertise accumulated throughout the years, we will strive to develop and actively implement potential environmental protection-related industrial chain projects, and will keep trying and look for breakthroughs in order to obtain better achievements for the Group in the future and enhance the long-term returns for our shareholders.

Financial Review

Revenue

Our total revenue decreased by HK\$18.5 million or 23.8% to HK\$59.0 million for FY2020 as compared to HK\$77.5 million for FY2019, mainly attributable to the retrospective adjustment in water tariff in FY2019 by Hai'an Hengfa, a subsidiary of the Company, which was absent in FY2020.

Cost of Sales

Our total cost of sales decreased by HK\$14.2 million or 32.5% from HK\$43.6 million for FY2019 to HK\$29.4 million for FY2020, primarily due to (i) the decrease in cost of sales from the operation of the biomass power plants by HK\$6.4 million or 100.0% from HK\$6.4 million for FY2019 to nil for FY2020 as a result of the suspension of production activities; (ii) the recognition of construction costs in our Rugao Hengfa facility amounted to HK\$3.7 million which was absent in FY2020 and (iii) the decrease in replacement of machinery in our 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

Our gross profit decreased by HK\$4.3 million or 12.7% from HK\$33.9 million for FY2019 to HK\$29.6 million for FY2020, primarily due to reasons of the fluctuation in revenue and cost of sales as aforementioned. Our gross profit margin increased from 43.8% for FY2019 to 50.2% for FY2020.

Other Income and Net Gains

Our other income and net gains decreased by HK\$8.1 million or 60.2% from HK\$13.4 million for FY2019 to HK\$5.3 million for FY2020, primarily due to (i) foreign exchange losses of HK\$0.7 million recognised in relation to the Company's Indonesia subsidiaries during FY2020 as compared to foreign exchange gains of HK\$3.4 million recorded in FY2019, and (ii) the recovery of sludge processing fees of HK\$2.8 million by Rugao Hengfa, a subsidiary of the Company, in FY2019, which was absent in FY2020.

Administrative Expenses

Our administrative expenses decreased slightly by HK\$0.3 million or 1.2% from HK\$28.2 million for FY2019 to HK\$27.9 million for FY2020. As a percentage of our revenue, our administrative expenses represented 36.4% and 47.2% for FY2019 and FY2020, respectively. Administrative expenses mainly include staff costs and other operating expenses.

Finance Costs

Our finance costs remained stable at HK\$2.0 million for FY2020 as compared to HK\$2.1 million for FY2019, which represented the interest expense from bank borrowings and loan from related parties.

Profit Before Tax

Our profit before tax decreased by HK\$11.9 million or 70.1% from HK\$17.0 million for FY2019 to HK\$5.1 million for FY2020, primarily due to the factors mentioned above.

Income Tax Expense

Our income tax expense decreased by HK\$0.9 million or 11.5% from HK\$7.4 million for FY2019 to HK\$6.6 million for FY2020, primarily due to decrease in profit before tax in the PRC subsidiaries of the Company as mentioned above.

Loss/Profit Attributable to Owners of the Company

We recorded a loss attributable to owners of the Company of HK\$5.0 million for FY2020 as compared to a profit attributable to owners of the Company of HK\$1.0 million for FY2019, primarily due to the factors mentioned above.

Bank Borrowings

As at 31 December 2020, the 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.

Liquidity and Financial Resources

Our principal liquidity and capital requirements for FY2020 primarily relate to investments in our projects, which mainly include the construction works of (i) our biofuel pellet production facilities in Jambi, Indonesia and (ii) upgrades to our 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 Group was HK\$375.2 million, representing a decrease by HK\$2.5 million or 0.7% as compared to HK\$377.7 million as at 31 December 2019.

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 remained at approximately the same level, being 0.07 and 0.06 as at 31 December 2019 and 31 December 2020, respectively.

Charge on Assets

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

Treasury Policies

The 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 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 and the acquisition of plant and equipment for the biofuel pellet production business in Indonesia. During FY2020, we incurred HK\$1.1 million (FY2019: HK\$4.9 million) on capital expenditures for the upgrade works of our 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 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 ("RMB") and Indonesian Rupiah ("IR"), respectively. The Group did not have significant foreign currency exposures from its operations. However, our consolidated financial statements are presented in HK\$. Any appreciation or depreciation of HK\$ against RMB and IR will affect our financial position and will be reflected in the exchange reserve. The Group does not have a foreign currency hedging policy and does not use any financial instruments for hedging purposes. The management monitors the Group's foreign exchange fluctuation exposure closely. In light of the unpredictable fluctuations of RMB against HK\$, the Group has managed to minimise the exposures in RMB by converting a majority of the cash and bank balances into US\$ or HK\$. Management considers the volatility of the exchange rate of HK\$ against IR and the Group's currency exposures to IR to be acceptable.

Significant Investments, Material Acquisitions and Disposals

The Group did not have any significant investments, material acquisitions or disposals of assets, subsidiaries, associates or joint ventures during FY2020.

Future Plans for Material Investments or Capital Assets

Save as disclosed in this announcement and the announcements made by the Company on 21 January 2021, 8 January 2021 and 31 December 2020 in relation to its new power plant project in Bangka, Indonesia, 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 2020 (31 December 2019: nil).

Employee and Remuneration Policies

As at 31 December 2020, the Group had 114 (31 December 2019: 116) employees (including the Directors). Employee costs (including Directors' emoluments) amounted to HK\$13.2 million for FY2020 (FY2019: HK\$18.6 million). Our remuneration policy for the Directors as well as our senior management members and general staff (the "**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 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 Period

The Group had no material event subsequent to 31 December 2020 and up to the date of this announcement.

Final Dividend

No final dividend has been recommended by the Board for FY2020 (FY2019: HK0.5 cent per share).

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 FY2020.

SCOPE OF WORK OF THE COMPANY’S EXTERNAL AUDITORS

The figures in respect of the Group’s consolidated statement of financial position as at 31 December 2020, consolidated statement of profit or loss and other comprehensive income for FY2020 and the notes thereto as set out in this announcement above have been agreed by the Company’s external auditors to the amounts set out in the Group’s audited consolidated financial statements for FY2020. 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 three members, namely Ms. Ng Chung Yan Linda (who is also the chairlady of the Audit Committee), Mr. Ng Man Kung and Ms. Leung Bo Yee Nancy, all being the independent non-executive Directors. 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 FY2020.

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 FY2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During FY2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 FY2020 will be dispatched to the Shareholders 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, 31 March 2021

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