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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 INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

FINANCIAL SUMMARY

- Revenue for the six months ended 30 June 2015 amounted to HK\$79.7 million (2014: HK\$43.2 million), representing an increase of 84.4% as compared with the preceding period.
- Gross profit for the six months ended 30 June 2015 was HK\$26.6 million (2014: HK\$26.1 million), representing an increase of 2.0% as compared with the preceding period.
- Net profit for the six months ended 30 June 2015 was HK\$17.0 million (2014: HK\$1.3 million), representing an increase of approximately 12.33 times as compared with the preceding period.
- An interim dividend of HK2 cents per ordinary share is declared by the Board for the six months ended 30 June 2015 (2014: Nil).

The board (the “Board”) of directors (the “Directors”) of ELL Environmental Holdings Limited (“ELL Environmental” or the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2015 (the “Period”), together with the relevant comparative figures as follows:

* *For identification purpose only*

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2015

	Notes	Six months ended 30 June 2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
REVENUE	3	79,670	43,205
Cost of sales		<u>(53,083)</u>	<u>(17,129)</u>
Gross profit		26,587	26,076
Other income and gains	3	3,431	173
Administrative expenses		<u>(6,864)</u>	<u>(18,526)</u>
Finance costs	4	<u>(555)</u>	<u>(413)</u>
PROFIT BEFORE TAX	5	22,599	7,310
Income tax expense	6	<u>(5,598)</u>	<u>(6,035)</u>
PROFIT FOR THE PERIOD		<u>17,001</u>	<u>1,275</u>
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of financial statements of entities not using Hong Kong dollar as functional currency		(508)	(7,753)
Changes in fair value of available-for-sale investments		<u>249</u>	<u>—</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		<u>(259)</u>	<u>(7,753)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>16,742</u>	<u>(6,478)</u>
Profit attributable to:			
Owners of the parent		16,441	150
Non-controlling interest		<u>560</u>	<u>1,125</u>
		<u>17,001</u>	<u>1,275</u>
Total comprehensive income attributable to:			
Owners of the parent		16,167	(6,934)
Non-controlling interest		<u>575</u>	<u>456</u>
		<u>16,742</u>	<u>(6,478)</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	8	<u>HK1.93 cents</u>	<u>HK0.03 cent</u>

Condensed Consolidated Statement of Financial Position
30 June 2015

	<i>Notes</i>	30 June 2015 <i>(Unaudited)</i> HK\$'000	31 December 2014 <i>(Audited)</i> HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		2,593	2,778
Available-for-sale investments		65,300	—
Receivables under service concession arrangements	9	<u>335,524</u>	<u>292,759</u>
Total non-current assets		<u>403,417</u>	<u>295,537</u>
CURRENT ASSETS			
Inventories		318	308
Receivables under service concession arrangements	9	39,671	42,240
Prepayments and other receivables		1,268	647
Cash and cash equivalents		<u>149,665</u>	<u>99,064</u>
Total current assets		<u>190,922</u>	<u>142,259</u>
CURRENT LIABILITIES			
Trade payables	10	4,887	5,062
Other payables and accruals		2,562	6,424
Interest-bearing bank borrowings	11	3,072	12,720
Income tax payables		<u>740</u>	<u>848</u>
Total current liabilities		<u>11,261</u>	<u>25,054</u>
NET CURRENT ASSETS		<u>179,661</u>	<u>117,205</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>583,078</u>	<u>412,742</u>

Condensed Consolidated Statement of Financial Position (continued)
30 June 2015

	<i>Notes</i>	30 June 2015 <i>(Unaudited)</i> HK\$'000	31 December 2014 <i>(Audited)</i> HK\$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowing	11	4,062	5,621
Deferred tax liabilities		40,303	37,017
Provision for major overhauls		<u>5,999</u>	<u>5,275</u>
Total non-current liabilities		<u>50,364</u>	<u>47,913</u>
Net assets		<u>532,714</u>	<u>364,829</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	12	96	80
Reserves		<u>503,809</u>	<u>336,515</u>
		503,905	336,595
Non-controlling interest		<u>28,809</u>	<u>28,234</u>
Total equity		<u>532,714</u>	<u>364,829</u>

Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 June 2015

	Attributable to owners of the parent									
	Issued capital	Share premium	Other reserves	Available-for-sale investments revaluation reserve	Exchange fluctuation reserve	Reserve funds	Retained profits	Total	Non-controlling interest	Total equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015	80	183,340*	(31,476)*	—*	25,678*	13,830*	145,143*	336,595	28,234	364,829
Profit for the period	—	—	—	—	—	—	16,441	16,441	560	17,001
Other comprehensive income for the period:										
Exchange differences on translation of financial statements of entities not using Hong Kong dollar as functional currency	—	—	—	—	(523)	—	—	(523)	15	(508)
Changes in fair value of available-for-sale investments	—	—	—	249	—	—	—	249	—	249
Total comprehensive income for the period	—	—	—	249	(523)	—	16,441	16,167	575	16,742
Issue of shares pursuant to the Placing (note 12(iv))	16	151,127	—	—	—	—	—	151,143	—	151,143
Transfer to reserve funds	—	—	—	—	—	1,830	(1,830)	—	—	—
At 30 June 2015	<u>96</u>	<u>334,467*</u>	<u>(31,476)*</u>	<u>249*</u>	<u>25,155*</u>	<u>15,660*</u>	<u>159,754*</u>	<u>503,905</u>	<u>28,809</u>	<u>532,714</u>

* These reserve accounts comprise the consolidated reserves of HK\$503,809,000 (31 December 2014: HK\$336,515,000) in the condensed consolidated statement of financial position.

Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended 30 June 2015

	Attributable to owners of the parent								
	Issued capital	Share premium	Other reserves	Exchange fluctuation reserve	Reserve funds	Retained profits	Total	Non-controlling interest	Total equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2014	—	—	—	38,640	11,219	138,487	188,346	26,906	215,252
Profit for the period	—	—	—	—	—	150	150	1,125	1,275
Other comprehensive income for the period:									
Exchange differences on translation of financial statements of entities not using Hong Kong dollar as functional currency	—	—	—	(7,084)	—	—	(7,084)	(669)	(7,753)
Total comprehensive income for the period	—	—	—	(7,084)	—	150	(6,934)	456	(6,478)
Issue of shares pursuant to the Share Swap (note 12(ii))	60	113,720	(113,780)	—	—	—	—	—	—
Capitalisation of shareholders' loans	—	—	82,304	—	—	—	82,304	—	82,304
Transfer to reserve funds	—	—	—	—	225	(225)	—	—	—
At 30 June 2014	<u>60</u>	<u>113,720</u>	<u>(31,476)</u>	<u>31,556</u>	<u>11,444</u>	<u>138,412</u>	<u>263,716</u>	<u>27,362</u>	<u>291,078</u>

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2015

	Six months ended	
	30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated (used in)/from operations	(21,263)	25,693
Income tax paid	<u>(2,449)</u>	<u>(13,359)</u>
Net cash flows (used in)/from operating activities	<u>(23,712)</u>	<u>12,334</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(42)	(139)
Purchases of available-for-sale investments	(64,724)	—
Decrease in amounts due from related parties	—	533
Other cash flows arising from investing activities	<u>275</u>	<u>118</u>
Net cash flows (used in)/from investing activities	<u>(64,491)</u>	<u>512</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank borrowing	—	18,000
Repayment of bank borrowings	(11,208)	(3,900)
Decrease in amounts due to related parties	—	(15,849)
Decrease in an amount due to a non-controlling equity holder of a subsidiary	—	(32,847)
Gross proceeds from the Placing	156,800	—
Payment of expenses directly attributable to the Placing	(5,657)	—
Other cash flows used in financing activities	<u>(390)</u>	<u>(288)</u>
Net cash flows from/(used in) financing activities	<u>139,545</u>	<u>(34,884)</u>

Condensed Consolidated Statement of Cash Flows (continued)

For the six months ended 30 June 2015

	Six months ended	
	30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	51,342	(22,038)
Cash and cash equivalents at beginning of period	99,064	75,625
Effect of foreign exchange rate changes, net	<u>(741)</u>	<u>(1,439)</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>149,665</u>	<u>52,148</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	67,206	52,148
Non-pledged time deposits with original maturity of less than three months when acquired	<u>82,459</u>	<u>—</u>
	<u>149,665</u>	<u>52,148</u>

Notes to Condensed Interim Financial Information

30 June 2015

1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

The unaudited condensed interim financial information of the Group has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

The unaudited condensed interim consolidated financial information does not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2014.

This unaudited condensed interim financial information is presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand (“HK\$’000”) except when otherwise indicated. This unaudited condensed interim financial information has not been audited or reviewed by the Company’s external auditors, but has been reviewed by the Company’s audit committee (the “Audit Committee”).

The accounting policies and basis of preparation adopted in the preparation of the unaudited interim condensed consolidated financial information is consistent with those adopted in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2014, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong, except for the adoption of the following new amendments to HKFRSs for the first time for the current period’s unaudited interim condensed consolidated financial information:

Amendments to HKAS 19 <i>Annual Improvements</i> <i>2010-2012 Cycle</i>	<i>Defined Benefit Plans: Employee Contributions</i> Amendments to a number of HKFRSs
<i>Annual Improvements</i> <i>2011-2013 Cycle</i>	Amendments to a number of HKFRSs

The adoption of these revised HKFRSs has had no significant financial effect on the unaudited interim condensed consolidated financial information.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective in current accounting period.

In addition, the Group adopted the accounting policy for its available-for-sale financial assets as below:

Available-for-sale financial investments are non-derivative financial assets in listed debt securities. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investments revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investments revaluation reserve to profit or loss. Interests earned whilst holding the available-for-sale financial investments is reported as interest income and is recognised in profit or loss.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

2. SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment which is the construction and operation of wastewater treatment facilities. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

Geographical information

All of the Group's revenue during the six months ended 30 June 2014 and 2015 are derived from customers located in Mainland China, and all of the Group's non-current assets are located in Mainland China as at 31 December 2014 and 30 June 2015.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue is set out below:

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Customer A	6,702	13,059
Customer B	<u>72,968</u>	<u>30,146</u>
	<u><u>79,670</u></u>	<u><u>43,205</u></u>

3. REVENUE, OTHER INCOME AND GAINS

Revenue represents: (1) an appropriate proportion of contract revenue of construction contracts under service concession arrangements; (2) revenue from operation of wastewater treatment facilities under service concession arrangements, net of government surcharges; and (3) the imputed interest income on receivables under service concession arrangements.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Construction services	45,964	9,458
Wastewater treatment facilities operation services	26,405	26,595
Imputed interest income on receivables under service concession arrangements	<u>7,301</u>	<u>7,152</u>
	<u><u>79,670</u></u>	<u><u>43,205</u></u>
Other income and gains		
Interest income	602	51
Government grants [#]	1,720	—
Foreign exchange gains, net	1,011	77
Others	<u>98</u>	<u>45</u>
	<u><u>3,431</u></u>	<u><u>173</u></u>

[#] Government grants have been received from local government in Jiangsu Province for the purpose of carrying out environmental works. There was no unfulfilled conditions or contingencies relating to the grant as at 30 June 2015.

4. FINANCE COSTS

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans	390	288
Increase in discounted amounts of provision for major overhauls arising from the passage of time	<u>165</u>	<u>125</u>
	<u>555</u>	<u>413</u>

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of construction services	37,067	8,362
Cost of wastewater treatment facilities operation services rendered	16,016	8,767
Depreciation	228	198
Listing expenses	<u>—</u>	<u>14,835</u>

6. INCOME TAX

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

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 period (six months ended 30 June 2014: Nil). The provision for the PRC income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in Mainland China as determined in accordance with the relevant income tax rules and regulations of the PRC.

Haian Hengfa Wastewater Treatment Company Limited ("Haian Hengfa") and Rugao Hengfa Water Treatment Company Limited* ("Rugao Hengfa") obtained preferential income tax treatment in 2014 whereby their income taxes are taxed at the taxable profit based on 90% of the revenue generated for the current and the prior period.

* *The English name of this entity represents management's best effort at translating its Chinese name as it did not register any official English name.*

	Six months ended 30 June	
	2015	2014
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax charge for the period		
— Mainland China	2,341	5,534
Deferred tax	<u>3,257</u>	<u>501</u>
Total tax charge for the period	<u><u>5,598</u></u>	<u><u>6,035</u></u>

7. DIVIDEND

The Board declared an interim dividend of HK2 cents per ordinary share for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil). No dividend had been paid by the Company during the period ended 30 June 2015 (six months ended 30 June 2014: Nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount for the six months ended 30 June 2015 is based on the profit for the period attributable to ordinary equity holders of the parent of HK\$16,441,000 (six months ended 30 June 2014: HK\$150,000), and the weighted average number of ordinary shares of 850,387,000 (six months ended 30 June 2014: 600,000,000, as if the reorganisation had been effective since 1 January 2014) in issue during the period.

The weighted average number of ordinary shares used to calculate the basic earnings per share amounts for the six months ended 30 June 2014 included the 1,000 ordinary share of the Company issued upon incorporation (note 12(i)) and the 599,999,000 new ordinary shares issued in the Share Swap (note 12(ii)), as if all these shares had been in issue throughout the six months ended 30 June 2014.

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2014 and 2015 as the Company had no potentially dilutive ordinary share in issue during the reporting periods.

9. SERVICE CONCESSION ARRANGEMENTS

Receivables under service concession arrangements represented receivables from the construction and operation services under “Build-Operate-Transfer” contracts (service concession agreements). Receivables under service concession arrangements are usually due for settlement within 10 days after each month end.

	30 June 2015	31 December 2014
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Receivables under service concession arrangements	375,195	334,999
Portion classified as current assets	<u>(39,671)</u>	<u>(42,240)</u>
Non-current portion	<u>335,524</u>	<u>292,759</u>

An ageing analysis of receivables under service concession arrangements, based on invoice date, is as below:

	30 June 2015	31 December 2014
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Billed:		
Within 3 months	18,522	15,947
4 to 6 months	14,318	14,784
7 to 12 months	<u>—</u>	<u>5,001</u>
	32,840	35,732
Not yet billed	<u>342,355</u>	<u>299,267</u>
	<u>375,195</u>	<u>334,999</u>

As at 31 December 2014, certain wastewater treatment concession rights of the Group comprising receivables under service concession arrangements with a carrying amount of HK\$225,139,000 were pledged to secure a bank loan granted to the Group. This bank loan was fully repaid in February 2015.

10. TRADE PAYABLES

An aged analysis of the trade payables, based on invoice date, is as follows:

	30 June 2015 <i>(Unaudited)</i> HK\$'000	31 December 2014 <i>(Audited)</i> HK\$'000
Within 1 month	3,670	3,900
1 to 3 months	100	404
Over 3 months	<u>1,117</u>	<u>758</u>
	<u>4,887</u>	<u>5,062</u>

The trade payables are non-interest-bearing and are normally settled on terms of 30 days.

11. INTEREST-BEARING BANK BORROWINGS

	30 June 2015 <i>(Unaudited)</i> HK\$'000	31 December 2014 <i>(Audited)</i> HK\$'000
Current		
Interest-bearing bank loans - secured	3,072	12,720
Non-current		
Interest-bearing bank loan - secured	<u>4,062</u>	<u>5,621</u>
	<u>7,134</u>	<u>18,341</u>
Analysed into:		
Bank loans repayable:		
Within one year or on demand	3,072	12,720
In the second year	3,286	3,176
In the third to fifth years, inclusive	<u>776</u>	<u>2,445</u>
	<u>7,134</u>	<u>18,341</u>

As at 30 June 2015, the Group had a three-year bank loan of HK\$7,134,000 (31 December 2014: HK\$8,591,000) which was denominated in Renminbi with a fixed interest rate at 6.77% (31 December 2014: 6.77%) per annum. This bank loan was secured by the Group's land use rights and properties used in the operation of the Group's wastewater treatment business with a total construction cost of HK\$6,047,000 which had been charged to the cost of sales in the years of construction in prior years in accordance with HK(IFRIC)-Int 12.

During the six months ended 30 June 2015, the Group has repaid a bank loan with a carrying amount as at 31 December 2014 of HK\$9,750,000. This bank loan was a five-year term loan repayable on demand. It was denominated in United State dollar (“US\$”) with a floating interest rate at 1.25% above the US\$ prime rate per annum. As at 31 December 2014, it was secured by the wastewater treatment concession rights comprising receivables under service concession arrangements with a carrying amount of HK\$225,139,000.

12. SHARE CAPITAL

Shares

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Authorised:		
3,800,000,000 (31 December 2014: 3,800,000,000) ordinary shares of HK\$0.0001 (31 December 2014: HK\$0.0001) each	<u>380</u>	<u>380</u>
Issued and fully paid:		
960,000,000 (31 December 2014: 800,000,000) ordinary shares of HK\$0.0001 (31 December 2014: HK\$0.0001) each	<u>96</u>	<u>80</u>

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

	Notes	Number of ordinary shares in issue (Unaudited)	Issued capital (Unaudited) HK\$'000
At 25 February 2014 (date of incorporation)		—	—
Issue of shares	(i)	1,000	—
Issue of shares pursuant to the Share Swap	(ii)	599,999,000	60
Issue of shares pursuant to the Share Offer	(iii)	<u>200,000,000</u>	<u>20</u>
At 31 December 2014 and 1 January 2015		800,000,000	80
Issue of shares pursuant to the Placing	(iv)	<u>160,000,000</u>	<u>16</u>
At 30 June 2015		<u>960,000,000</u>	<u>96</u>

Notes:

- (i) On the date of incorporation, one ordinary share was allotted and issued by the Company to the initial subscriber, Mapcal Limited, at HK\$0.0001 per share and such one share was transferred to Wealthy Sea Holdings Limited (“Wealthy Sea”) on the same day. On the same day, 625 ordinary shares were allotted and issued to Everbest Water Treatment Investment (Haian) Limited (“Everbest Investment Haian”) and another 374 ordinary shares were allotted and issued to Wealthy Sea for cash at par value. Wealthy Sea and Everbest Investment Haian were the shareholders of Everbest Water Treatment Development Limited (“Everbest Water Treatment Development”) prior to the completion of the reorganisation (the “Reorganisation”) on 25 February 2014 in connection with the listing of the Company.
- (ii) On 25 February 2014, Everbest Investment Haian and Wealthy Sea transferred all the shares they held in Everbest Water Treatment Development to a directly wholly-owned subsidiary of the Company in consideration of the Company allotting and issuing 374,999,375 and 224,999,625 ordinary shares to them, respectively, in connection with the Reorganisation (the “Share Swap”).
- (iii) In connection with the listing of the shares of the Company on the Stock Exchange (the “Share Offer”), 200,000,000 new ordinary shares of HK\$0.0001 each were issued at a price of HK\$0.55 per ordinary share for a total cash consideration, before expenses, of HK\$110,000,000. Dealings in the shares of the Company on the Stock Exchange commenced on 26 September 2014.
- (iv) On 5 May 2015, 160,000,000 new ordinary shares of HK\$0.0001 each were issued at a price of HK\$0.98 per ordinary share pursuant to the top-up placing and top-up subscription agreement under the general mandate of the Company (the “Placing”) for a total cash consideration, before expenses, of HK\$156,800,000. Further details are set out in the announcements of the Company dated 23 April 2015 and 5 May 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

ELL Environmental is a wastewater treatment services provider with three wastewater treatment facilities in Jiangsu Province, the People's Republic of China ("PRC"). We offer a one-stop approach to the provision of wastewater treatment services using the "Build-Operate-Transfer" or "BOT" model. We cover the whole spectrum of activities from the design of wastewater treatment facilities, through the procurement of suitable equipment and materials, to the supervision of their construction as well as the on-going operation and maintenance of the facilities throughout long-term concession periods. We currently have three wastewater treatment facilities, including one in Haian County, namely the Haian Hengfa Facility, and two in Rugao Economic and Technological Development Zone (the "Rugao ETDZ"), namely the Rugao Hengfa Facility and the Rugao Honghao Facility. The daily wastewater treatment capacities of the three facilities are about 40,000 tonnes, 40,000 tonnes and 3,500 tonnes, respectively.

The PRC government's continuous promotion of urbanisation, the increasing awareness towards water pollution among the Chinese community, together with the inadequate wastewater treatment capacities in the country lay strong foundation for the long-term growth potential for the wastewater treatment industry in the PRC. On 16 April 2015, the State Council promulgated the "Water Pollution Prevention and Control Action Plan". Pursuant to which, The PRC's water environment quality will gradually be improved by 2020 and the overall quality of the ecological environment will be improved by 2030. Based on the input—output model analysis of the Ministry of Environmental Protection, the implementation of the new plan is expected to boost the country's GDP by around RMB5.7 trillion.

Therefore, the Group proactively enhances its capability in wastewater treatment. The upgrade works of the Rugao Hengfa Facility is expected to be completed in 2015, thereby becoming a new growth driver of the Group this year. Moreover, on 16 April 2015, the Group entered into a letter of intent with Fujian Wuping State-Owned Investment Group Co., Ltd. (福建武平國有投資集團有限公司) ("Fujian Wuping") in relation to the proposed acquisition of a wastewater treatment facility, namely Wuping Second Waste Water Treatment Facility (武平縣第二污水處理廠) (the "Wuping Facility"). Located in Wuping County of Fujian Province, the Wuping Facility primarily treats industrial wastewater containing heavy metals that is discharged from factories operating in Wuping County Yanqian Industrial Concentration District.

The current wastewater treatment capacity of the Wuping Facility is 4,000 cubic meters per day. The Group plans to expand such capacity to 10,000 cubic meters per day eventually after the acquisition.

The Group is negotiating with the local government to adjust the water tariff. We expect to see a reasonable increment to our water tariff after the completion of the upgrade works of the Hai'an Hengfa Facility and the Rugao Hengfa Facility. In addition, the productivity of Rugao Honghao Facility will be further increased to strengthen the project capability of the Group.

On 17 July 2015, the Group completed the environmental inspection and acceptance procedures and obtained the pollutants discharge permit for the Rugao Honghao Facility.

To provide financial support to the acquisition of the Wuping Facility and other future investments, on 30 April 2015, an aggregate of 160,000,000 existing shares (the "Top-up Placing Shares") have been successfully placed to not less than six independent places at the placing price of HK\$0.98 per Top-up Placing Share. On 5 May 2015, an aggregate of 160,000,000 Shares (the "Top-up Subscription Shares"), representing approximately 16.7% of the enlarged issued share capital of the Company immediately after the issue of such Top-up Subscription Shares, have been issued and allotted to Wealthy Sea (the "Subscriber") at the subscription price of HK\$0.98 per Top-up Subscription Share ("Top-up subscription"). The net proceeds from the Top-up Subscription amounted to approximately HK\$151.1 million and will be used in the potential acquisition of the Wuping Facility and other potential investments, as well as for further capital expenditure required for the upgrade works of the Rugao Hengfa Facility, in addition to the projected capital expenditure disclosed in the prospectus of the Company dated 12 September 2014 (the "Prospectus").

Looking ahead, the wastewater treatment industry in Jiangsu Province and peripheral provinces remains to be our development focus. Leveraging our long accumulated experience, established network and relationships in Jiangsu Province, and proficient and effective project capability, our management believes that the Company possesses unique business strengths to ensure sustainable development of the Group. The Group will actively identify opportunities to develop and acquire other wastewater treatment projects, with a view to enhancing its wastewater treatment capacity. In light of the country's promotion of environmental protection industry, the Group will evaluate the possibility to expand into other green businesses and extend our foothold to overseas market.

We will adopt a strict and disciplined approach when pursuing any new opportunities. In addition to applying our careful project selection criteria, which take into account key factors such as profitability, growth potential and technical requirements, we will ensure that (i) we will only pursue such opportunities if they are in the best interest of the shareholders of the Company, and (ii) we have or are able to employ the necessary personnel with the appropriate experience and expertise to execute the projects.

FINANCIAL REVIEW

Revenue

Our total revenue increased by approximately 84.4% to approximately HK\$79.7 million for the six months ended 30 June 2015 from approximately HK\$43.2 million for the six months ended 30 June 2014, of which revenue excluding the imputed interest income increased to approximately HK\$72.4 million for the six months ended 30 June 2015 from approximately HK\$36.1 million for the six months ended 30 June 2014. During this period, the increase in revenue was primarily attributable to the recognition of construction revenue as a result of the upgrade works of the Rugao Hengfa Facility which amounted to approximately HK\$46.0 million, as compared to approximately HK\$9.4 million construction revenue recognised for the six months ended 30 June 2014.

Cost of sales

Our total cost of sales increased by approximately 209.9% to approximately HK\$53.1 million for the six months ended 30 June 2015 from approximately HK\$17.1 million for the six months ended 30 June 2014 primarily due to (i) the construction costs of approximately HK\$37.1 million incurred as a result of the upgrade works of the Rugao Hengfa Facility during the six months ended 30 June 2015, as compared to approximately HK\$8.4 million incurred as a result of the upgrade works of the Haian Hengfa Facility and the improvement works of the Rugao Hengfa Facility during the six months ended 30 June 2014; (ii) the increase in cost of sales of the Rugao Honghao Facility of approximately HK\$4.2 million because of the increase in the volume of wastewater processed and hence the increase in electricity and raw materials costs.

Gross profit and gross profit margin

Our gross profit increased by approximately 2.0% to approximately HK\$26.6 million for the six months ended 30 June 2015 from approximately HK\$26.1 million for the six months ended 30 June 2014, primarily due to the relevant construction revenue and construction costs recognised during the six months ended 30 June 2015 of approximately HK\$46.0 million and HK\$37.1 million, respectively, in relation to the upgrade works of the Rugao Hengfa Facility. The decrease in our gross profit margin to approximately 33.4% for the six months ended 30 June 2015 from approximately 60.4% for the six months ended 30 June 2014 was mainly attributable to (i) the lower gross profit margin for the upgrade works of the Rugao Hengfa Facility compared to that of the operations of our wastewater treatment facilities; and (ii) the increase in cost of sales of Rugao Honghao Facility due to increase in the volume of wastewater processed.

Other income and gains

Our other income and gains increased by approximately 188.3% to approximately HK\$3.4 million for the six months ended 30 June 2015 from approximately HK\$0.2 million for the six months ended 30 June 2014, which was attributable to government grants received from local government in Jiangsu Province for the purpose of carrying out environmental works.

Administrative expenses

As a percentage of our revenue, our administrative expenses represented approximately 42.9% and 8.6% for the six months ended 30 June 2014 and 2015, respectively.

Our administrative expenses decreased by approximately 62.9% to approximately HK\$6.9 million for the six months ended 30 June 2015 from approximately HK\$18.5 million for the six months ended 30 June 2014, which was primarily attributable to the professional fees of HK\$14.8 million incurred in relation to the listing of the Company during the six months ended 30 June 2014.

Finance costs

Our finance costs increased by approximately 34.4% to approximately HK\$0.6 million for the six months ended 30 June 2015 from approximately HK\$0.4 million for the six months ended 30 June 2014. The increase in finance costs was primarily attributable to the drawdown of a bank loan in October 2014.

Profit before tax

Our profit before tax increased by 209.2% to HK\$22.6 million for the six months ended 30 June 2015 from HK\$7.3 million for the six months ended 30 June 2014, primarily due to the factors mentioned above.

Income tax

Income tax expense of approximately HK\$5.6 million was recognised for the six months ended 30 June 2015 as compared to approximately HK\$6.0 million for the six months ended 30 June 2014. The effective tax rate was 24.8% for the six months ended 30 June 2015 as compared to 8.26% for the six months ended 30 June 2014. A high effective tax rate in 2014 was due to the professional fees of HK\$14.8 million incurred which was not deductible for tax purpose.

Profit attributable to owners of the parent

Our profit attributable to owners of the parent increased by approximately 108.6 times to approximately HK\$16.4 million for the six months ended 30 June 2015 from approximately HK\$0.2 million for the six months ended 30 June 2014, primarily due to the factors mentioned above.

INTERIM DIVIDEND

During the meeting of the Board held on 21 August 2015, the Board declared an interim dividend of HK2 cents per ordinary share for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Our principal liquidity and capital requirements primarily relate to investments in our projects, construction and upgrading of our wastewater treatment facilities, purchases of equipment as well as costs and expenses related to the operation and maintenance of our facilities.

As at 30 June 2015, the carrying amount of the Group's cash and cash equivalents was approximately HK\$149.7 million (31 December 2014: HK\$99.1 million), representing an increase of 51.1% as compared to that as at 31 December 2014.

As at 30 June 2015, the Group's cash and cash equivalents of HK\$48.7 million, HK\$63.2 million and HK\$37.8 million were denominated in Hong Kong dollars, United States dollars and Renminbi, respectively (31 December 2014: HK\$55.3 million and HK\$43.8 million were denominated in Hong Kong dollars and Renminbi, respectively).

Loans and borrowings

As at 30 June 2015, our total amount of utilised bank loans was approximately HK\$7.1 million, of which, approximately HK\$3.0 million of the bank loans was repayable within one year and the remaining approximately HK\$4.1 million of the

bank loans was repayable after one year but within five years. Approximately HK\$7.1 million of the outstanding bank loans were denominated in Renminbi with a fixed interest rate at 6.77% per annum. We had no unutilised banking facilities as at 30 June 2015.

Gearing ratio is calculated by dividing total debt by total equity and total debt is the interest-bearing bank borrowings. Our gearing ratio was 0.01 time as at 30 June 2015.

The decrease in gearing ratio from 0.05 as at 31 December 2014 to 0.01 as at 30 June 2015 was mainly due to (i) the repayment of bank loan of approximately HK\$11.2 million; and (ii) the increase in share capital and share premium of approximately HK\$151.1 million resulting from the issuance of new shares during the six months ended 30 June 2015.

Treasury policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Period. 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 need in support of the Group's strategy direction from time to time can be met.

Capital expenditures

Our capital expenditures consist primarily of expenditures to construct wastewater treatment facilities, purchases of property, plant and equipment and other upgrades and improvement works for the wastewater treatment facilities.

For the six months ended 30 June 2015, our capital expenditures amounted to HK\$37.1 million. These capital expenditures were funded by funds generated from our financing activities.

Foreign exchange risk

Individual companies in Mainland China within our Group have limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. However, as these principal subsidiaries mainly carried assets and liabilities in Renminbi therefore any appreciation or depreciation of Hong Kong dollars against Renminbi will affect the Group's consolidated financial position and be reflected in the exchange fluctuation reserve.

As at 30 June 2015, individual companies in Hong Kong within our Group has translational currency exposure because available-for-sale investments of HK\$65.3 million and cash and cash equivalents of HK\$63.2 million were denominated in US\$ and cash and cash equivalents of HK\$0.7 million were denominated in Renminbi.

Renminbi is not freely convertible into foreign currencies and the conversion of Renminbi into foreign currencies is subject to rules and regulations of the foreign exchange control promulgated by the PRC government. The Group does not have a foreign currency hedging policy. However, the Directors monitor the Group's foreign exchange exposure closely and may, depending on the circumstances and trend of foreign currency, consider adopting significant foreign currency hedging policy in the future.

Contingent liabilities

As at 30 June 2015, the Group had no contingent liabilities.

Employee and remuneration policies

As at 30 June 2015, the Group had 78 employees (31 December 2014: 75). Employee costs, including directors' emoluments, amounted to HK\$4.3 million for the six months ended 30 June 2015 (six months ended 30 June 2014: HK\$3.2 million). The remuneration policy for our Directors and senior management members is based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the profit performance of our Group and the individual performance of our Directors and senior management members. The Company has also adopted a share option scheme as incentives to reward and motivate eligible participants.

Material acquisitions and disposals

For the six months ended 30 June 2015, the Group did not have any material acquisitions and disposals of assets.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

The net proceeds from the initial public offering of the Company's shares on the Stock Exchange on 26 September 2014 (after deducting underwriting fees and related expenses) amounted to approximately HK\$77.6 million. During the six months ended 30 June 2015, such net proceeds were applied in the manner consistent with that set out in the Prospectus.

CORPORATE GOVERNANCE

The Company strives to maintain a high standard of corporate governance and applied the principles and complied with all applicable code provisions as set out in the Corporate Governance Code set out in Appendix 14 to the Listing Rules (the “CG Code”) throughout the Period.

SECURITIES TRANSACTIONS BY DIRECTORS

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

PURCHASE, SALE AND REDEMPTION OF SHARES

On 22 April 2015, the Subscriber and Convoy Investment Services Limited and Yicko Securities Limited (the “Placing Agents”) entered into a top-up placing agreement, pursuant to which the Subscriber agreed to sell up to 160,000,000 Top-up Placing Shares and the Placing Agents agreed, as agents of the Subscriber, to place the Top-up Placing Shares at the placing price of HK\$0.98 each to not less than six places who were: (i) independent of and not and would not become connected persons of the Company; or (ii) not acting in concert together.

On the same day, the Subscriber and the Company entered into a top-up subscription agreement, pursuant to which the Subscriber conditionally agreed to subscribe for such number of the Top-up Placing Shares (i.e. Top-up Subscription Shares that would be successfully placed by the Placing Agents. Upon completion of the Top-up Subscription on 5 May 2015, an aggregate of 160,000,000 Top-up Subscription Shares were issued and allotted to the Subscriber at HK\$0.98 per Top-up Subscription Share.

For details, please refer to the Company’s announcements dated 22 April 2015 and 5 May 2015.

The gross and net proceeds from the Top-up Subscription were approximately HK\$156.8 million and approximately HK\$151.1 million, respectively. The said net proceeds would be used for (i) the potential acquisition of the Wuping Second Waste Water Treatment Facility (武平縣第二污水處理廠) and other potential investments subject to the execution of the relevant definitive agreements for such potential acquisition and investments; and (ii) further capital expenditure required for the

upgrade works of the wastewater treatment facility operated by Rugao Hengfa Water Treatment Company Limited, an indirect wholly-owned subsidiary of the Company established in the Jiangsu Province, the PRC, in addition to the projected capital expenditure disclosed in the Prospectus.

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

REVIEW BY AUDIT COMMITTEE

The Company has established 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 and internal controls. The Audit Committee comprises four members, namely Ms. Ng Chung Yan Linda (Chairlady), Mr. Ng Man Kung and Mr. Sze Yeuk Lung Benedict, all being independent non-executive Directors (the "INEDs") 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, the unaudited interim results of the Group for the Period.

PUBLICATION OF INTERIM REPORT

The 2015 interim report of the Company will be published on the respective websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.ellhk.com>). It will also be despatched to the shareholders of the Company and made available for review on the aforesaid websites.

APPRECIATION

I would like to take this opportunity to express my most sincere thanks and gratitude to our shareholders, and various parties for their continuing support, the Directors and our staff for their dedication and hard work.

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

Hong Kong, 21 August 2015

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