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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 2017

FINANCIAL SUMMARY

- Revenue for the six months ended 30 June 2017 amounted to HK\$36.3 million (six months ended 30 June 2016: HK\$48.0 million), representing a decrease of 24.4% as compared with that of the corresponding period in 2016 (the “Last Corresponding Period”).
- Gross profit for the six months ended 30 June 2017 was HK\$3.7 million (six months ended 30 June 2016: HK\$15.4 million), representing a decrease of 75.6% as compared with that of the Last Corresponding Period.
- Net loss for the six months ended 30 June 2017 was HK\$6.4 million (six months ended 30 June 2016: net profit of HK\$4.5 million), representing a decrease of 243.1% as compared with that of the Last Corresponding Period.
- The Board has resolved not to declare the payment of any dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

The board (the “Board”) of directors (the “Directors”) of ELL Environmental Holdings Limited (the “Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2017 (the “Period”), together with the relevant comparative figures as follows:

** For identification purpose only*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE	3	36,294	48,009
Cost of sales		<u>(32,546)</u>	<u>(32,626)</u>
Gross profit		3,748	15,383
Other income and gains		3,455	5,480
Administrative expenses		(10,643)	(11,807)
Finance costs	5	<u>(767)</u>	<u>(1,060)</u>
(LOSS) PROFIT BEFORE TAX	6	(4,207)	7,996
Income tax expense	7	<u>(2,166)</u>	<u>(3,543)</u>
(LOSS) PROFIT FOR THE PERIOD		<u>(6,373)</u>	<u>4,453</u>
(Loss) profit for the period attributable to:			
Owners of the Company		(6,240)	4,237
Non-controlling interests		<u>(133)</u>	<u>216</u>
		<u>(6,373)</u>	<u>4,453</u>
		<i>HK cent</i>	<i>HK cent</i>
(LOSS) EARNINGS PER SHARE	9		
Basic and diluted		<u>(0.56)</u>	<u>0.45</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(Loss) profit for the period	(6,373)	4,453
OTHER COMPREHENSIVE INCOME (EXPENSE)		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on translation of foreign operations	7,434	(8,041)
Fair value change on available-for-sale investments	(17)	1,329
Investment revaluation reserve released upon disposal of available-for-sale investments	(417)	1,230
	<u> </u>	<u> </u>
TOTAL COMPREHENSIVE INCOME (EXPENSE) FOR THE PERIOD	<u> 627</u>	<u> (1,029)</u>
Total comprehensive (expense) income attributable to:		
Owners of the Company	(26)	(629)
Non-controlling interests	653	(400)
	<u> </u>	<u> </u>
	<u> 627</u>	<u> (1,029)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

		30 June 2017 (Unaudited) <i>HK\$'000</i>	31 December 2016 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		141,513	143,130
Receivables under service concession arrangements	<i>10</i>	291,530	288,638
Goodwill	<i>11</i>	81,650	85,699
Available-for-sale investments		10,167	23,383
		<hr/> 524,860 <hr/>	<hr/> 540,850 <hr/>
CURRENT ASSETS			
Inventories		850	882
Receivables under service concession arrangements	<i>10</i>	35,199	30,814
Trade receivables	<i>12</i>	8,315	2,840
Prepayments and other receivables		2,341	1,569
Income tax recoverable		188	405
Bank balances and cash		45,975	25,104
		<hr/> 92,868 <hr/>	<hr/> 61,614 <hr/>
Assets classified as held for sale	<i>15</i>	65,408	78,676
		<hr/> 158,276 <hr/>	<hr/> 140,290 <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 30 June 2017

		30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
	<i>Notes</i>		
CURRENT LIABILITIES			
Trade payables	13	13,493	19,955
Other payables and accruals		1,316	4,783
Amounts due to related parties		6,542	6,542
Bank borrowings — due within one year	14	30,948	32,426
Income tax payables		392	122
		<u>52,691</u>	<u>63,828</u>
Liabilities associated with assets classified as held for sale	15	10,943	9,848
		<u>63,634</u>	<u>73,676</u>
NET CURRENT ASSETS		<u>94,642</u>	<u>66,614</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>619,502</u>	<u>607,464</u>
CAPITAL AND RESERVES			
Share capital	16	111	111
Reserves		541,853	541,841
Equity attributable to owners of the Company		541,964	541,952
Non-controlling interests		28,303	27,650
TOTAL EQUITY		<u>570,267</u>	<u>569,602</u>
NON-CURRENT LIABILITIES			
Bank borrowings — due after one year	14	8,960	—
Deferred tax liabilities		32,618	31,251
Provision for major overhauls		7,657	6,611
		<u>49,235</u>	<u>37,862</u>
		<u>619,502</u>	<u>607,464</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited condensed interim financial information of the Group for the Period (the “Unaudited Condensed Interim Financial Information”) has been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and the Companies Ordinance, Chapter 622 of the Laws of Hong Kong.

The Unaudited Condensed Interim 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 2016.

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 auditor, but has been reviewed by the Company’s audit committee (the “Audit Committee”).

2. PRINCIPAL ACCOUNTING POLICIES

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards (the “HKFRSs”) issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the amendments to the HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue		
Construction services	—	18,705
Wastewater treatment facility operation services	17,415	19,435
Imputed interest income on receivables under service concession arrangements	7,612	9,869
Sales of electricity	11,267	—
	<u>36,294</u>	<u>48,009</u>

4. SEGMENT INFORMATION

The Group is engaged in the construction and operation of wastewater treatment facilities and the generation of electricity. 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") and the Republic of Indonesia ("Indonesia").

Segment revenues and results

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

Six months ended 30 June 2017

	Hong Kong	the PRC	Indonesia	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Results				
Segment revenue	—	25,027	11,267	36,294
Segment (loss) profit	(6,411)	8,765	(6,548)	(4,194)
Unallocated expenses				
Administrative expenses				(13)
Loss before tax				(4,207)

Six months ended 30 June 2016

	Hong Kong (Unaudited) <i>HK\$'000</i>	the PRC (Unaudited) <i>HK\$'000</i>	Indonesia (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Results				
Segment revenue	—	48,009	—	48,009
Segment (loss) profit	(8,985)	17,050	—	8,065
Unallocated expenses				
Administrative expenses				(69)
Profit before tax				7,996

There were no inter-segment sales for both periods.

All of the segment revenue reported above was generated from external customers.

Revenue from customers contributing over 10% of the Group's revenue for the six months ended 30 June 2017 and 2016 are as follows:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer A from the PRC segment	5,015	5,275
Customer B from the PRC segment	20,012	42,734

5. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings	559	858
Increase in discounted amounts of provision for major overhauls arising from the passage of time	208	202
	767	1,060

6. (LOSS) PROFIT BEFORE TAX

	Six months ended 30 June	
	2017	2016
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
(Loss) profit before tax has been arrived at after charging (crediting):		
Employee benefit expense (including Directors' remuneration):		
Salaries and other benefits	7,706	4,341
Pension scheme contributions (<i>note</i>)	768	522
Share-based payments	38	16
	<u>8,512</u>	<u>4,879</u>
Cost of construction services	—	14,379
Cost of wastewater treatment facilities operation services rendered	16,172	18,247
Cost of power plant operation	16,374	—
Cost of inventories recognised as expenses	9,897	6,209
Depreciation of property, plant and equipment	6,196	226
Minimum lease payments under operating leases	—	138
(Gain) loss on disposal of available-for-sale investments	(417)	1,230
Foreign exchange gain, net	(76)	(1,050)
Provision for major overhauls	683	790
	<u><u>683</u></u>	<u><u>790</u></u>

Note:

As at 30 June 2017, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (six months ended 30 June 2016: nil).

7. INCOME TAX EXPENSE

Pursuant to the laws and regulations of the Cayman Islands and the British Virgin Islands (the “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 Period (six months ended 30 June 2016: nil).

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 laws 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 Period (six months ended 30 June 2016: nil).

Haian Hengfa Wastewater Treatment Company Limited* (“Haian Hengfa”) and Rugao Hengfa Water Treatment Company Limited* (“Rugao Hengfa”), both subsidiaries of the Company located in the PRC, obtained preferential income tax treatment whereby their income taxes will be charged at taxable profit with a concession of 10% of the revenue for the six months ended 30 June 2016 and 2017.

Rugao Honghao Metal Surface Water Treatment Company Limited* (“Rugao Honghao”) obtained confirmation from the relevant tax authority in the PRC during the year ended 31 December 2015 for full exemption on corporate income tax for 2012 (the first profit generating year of Rugao Honghao), 2013 and 2014 and a three-year 50% reduction in corporate income tax rate from 2015 to 2017.

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current — PRC		
— Charge for the period	1,959	1,291
Deferred tax	207	2,252
	<hr/>	<hr/>
Total tax charge for the period	<u>2,166</u>	<u>3,543</u>

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

8. DIVIDEND

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Dividends for ordinary shareholders of the Company recognised as distribution during the period:		
2016 Final — nil (2016: 2015 Final — HK1 cent per ordinary share)	—	9,520

No interim dividend in respect of the six months ended 30 June 2017 has been proposed by the Board (six months ended 30 June 2016: nil).

9. (LOSS) EARNINGS PER SHARE

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

	30 June	30 June
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share, being (loss) profit for the period attributable to owners of the Company	<u>(6,240)</u>	<u>4,237</u>
	Number of shares	
	30 June	30 June
	2017	2016
	(Unaudited)	(Unaudited)
	'000	'000
Weighted average number of ordinary shares for the purpose of (loss) earnings per share	<u>1,111,000</u>	<u>952,000</u>

The computation of the diluted (loss) earnings per share for the six months ended 30 June 2017 and 2016 does not take into account the exercise of any of the Company's options by the holder because the exercise price of those options was higher than the average market price of the shares for the six months ended 30 June 2017 and 2016.

10. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Receivables under service concession arrangements	326,729	319,452
Portion classified as current assets	(35,199)	(30,814)
	<hr/>	<hr/>
Portion classified as non-current assets	291,530	288,638
	<hr/> <hr/>	<hr/> <hr/>

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

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Billed:		
Within 3 months	14,365	8,276
4 to 6 months	11,781	13,925
	<hr/>	<hr/>
Not yet billed	26,146	22,201
	300,583	297,251
	<hr/>	<hr/>
	326,729	319,452
	<hr/> <hr/>	<hr/> <hr/>

11. GOODWILL

	<i>HK\$'000</i>
COST	
As at 1 January 2016	—
Arising on acquisition of subsidiaries	85,699
	<hr/>
As at 31 December 2016 (audited)	85,699
Exchange realignment	(4,049)
	<hr/>
As at 30 June 2017 (unaudited)	81,650
	<hr/> <hr/>

The amount represents goodwill arising from the acquisition of Weal Union Limited (“Weal Union”) and its subsidiary (collectively, the “Weal Union Group”) during the year ended 31 December 2016. The recoverable amount of this cash generating unit has been determined based on a value-in-use calculation. Such calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 18.2%. The cash flows beyond the 5-year period are extrapolated at a growth rate of 5%. Cash flow projection during the 5-year budget period is based on the budgeted sales and expected gross margins and the inflation on cost of sales and expenses during the budget period. Expected cash inflows/outflows, which include budgeted sales, gross margin and inflation have been determined based on management’s expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of this cash generating unit.

12. TRADE RECEIVABLES

	30 June	31 December
	2017	2016
	(Unaudited)	(Audited)
	<i>HK\$’000</i>	<i>HK\$’000</i>
Trade receivables	8,315	2,840

Trade debtors mainly arise from sales of electricity and management services fee of wastewater facilities. 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 ageing analysis of trade receivables, presented based on the invoice date at the end of the reporting period:

	30 June	31 December
	2017	2016
	(Unaudited)	(Audited)
	<i>HK\$’000</i>	<i>HK\$’000</i>
0-30 days	7,278	344
31-60 days	1,037	2,496
	8,315	2,840

13. TRADE PAYABLES

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

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
0-60 days	2,502	7,040
61-90 days	—	1,207
Over 90 days	10,991	11,708
	<u>13,493</u>	<u>19,955</u>

14. BANK BORROWINGS

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
On demand or within one year	30,948	32,426
In the second year	2,240	—
In the third to fifth years inclusive	6,720	—
	<u>39,908</u>	<u>32,426</u>
Less: Amount due within one year shown under current liabilities	<u>(30,948)</u>	<u>(32,426)</u>
Amount due after one year	<u>8,960</u>	<u>—</u>
Current-secured	708	2,176
Current-unsecured	30,240	30,250
	<u>30,948</u>	<u>32,426</u>
Non-current-unsecured	8,960	—
	<u>39,908</u>	<u>32,426</u>

15. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

The Group entered into an agreement with an independent third party (the “Purchaser”) on 21 September 2016 and a supplemental agreement subsequently on 28 February 2017 (collectively, the “Agreements”) for the disposal of the entire equity interest in Rugao Honghao (the “Disposal”). The consideration of the Disposal is RMB55,000,000 (approximately HK\$61,133,000). The Agreements also stipulated that the Purchaser would be responsible for all operating costs and capital expenditure on an as-incurred basis with effect from 15 November 2016 (as revised under the supplemental agreement) and until the date of completion of the Disposal.

A dividend is expected to be distributed by Rugao Honghao to Greatcorp International Limited, an indirect wholly-owned subsidiary of the Company, prior to the completion of the Disposal (the “Expected Dividend”). The Disposal had not completed as at the end of the current reporting period. It was announced on 30 June 2017 that the Disposal was expected to complete on 30 September 2017. Upon completion of the Disposal, it is estimated that the proceeds of the Disposal would approximate the carrying amount of the net assets after the distribution of the Expected Dividend. No impairment loss has been recognised on the assets which were classified as assets held for sale during the period.

The major classes of assets and liabilities of Rugao Honghao, which belongs to the PRC segment, classified as held for sale are as follows:

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Property, plant and equipment	414	418
Receivables under service concession arrangements	64,640	70,947
Inventories	52	62
Prepayments and other receivables	292	3,268
Bank balances and cash	10	3,981
	<hr/>	<hr/>
Total assets classified as held for sale	65,408	78,676
	<hr/> <hr/>	<hr/> <hr/>
Trade payables, accruals and other payables	2,485	1,255
Provision for major overhauls	1,296	1,258
Deferred tax liabilities	7,162	7,335
	<hr/>	<hr/>
Total liabilities associated with assets classified as held for sale	10,943	9,848
	<hr/> <hr/>	<hr/> <hr/>

16. SHARE CAPITAL

	30 June 2017 (Unaudited) <i>HK\$'000</i>	31 December 2016 (Audited) <i>HK\$'000</i>
Authorised:		
3,800,000,000 ordinary shares of HK\$0.0001 each	380	380
Issued and fully paid:		
1,111,000,000 ordinary shares of HK\$0.0001 each	111	111

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the first half of 2017, the central government of the PRC continued to prioritise environmental protection and in particular, offered all kinds of support to the water treatment industry. According to data from the 10th China Environmental Industry Conference, the environmental protection industry will continue to expand, with action plans on national air, water and soil pollution prevention and treatment, and accordingly, more than RMB6 trillion is expected to be invested in environmental protection. However, as competition intensifies in the industry, new wastewater treatment projects are not as profitable as in the past. In view of this, the Company is seeking to identify new business directions to bring new impetus to the Group's growth.

In October 2016, the Group acquired the Weal Union Group in Indonesia, which is engaged in biomass power generation business in Jambi, Indonesia, supported by a palm kernel oil production facility with two generating units owned and constructed by PT Rimba Palma Sejahtera Lestari ("RPSL"), a subsidiary of Weal Union. In Indonesia, being the fourth most populous country in the world, the renewable energy industry is set to gain from the undersupply of electricity created by the country's accelerating urbanisation and the government's reiterated support of environmental protection. The management believes that the acquisition is in line with the Group's strategy to expand and diversify into other business areas of environmental protection and will help advance the Group's long-term development and shareholders' interests.

In the first half of 2017, our biomass power plant in Indonesia had yet to reach its expected utilisation rate due to the low market consumption of electricity in the region. A net loss of approximately HK\$6.5 million was recorded in our Indonesian subsidiary, RPSL, for the Period. In light of the current demand and consumption pattern of electricity in the nearby areas, it is possible that the low utilisation condition of the power plant and therefore the net loss to be incurred by RPSL will continue for the next few months. At present, the Group is investing in improvement works in the biomass power plant to enhance its efficiency in order to lower the cost of sales. Furthermore, the Group is also investing in biofuel pellets production business that enables self-consumption of the electricity produced by the biomass power plant, and hence increases its utilisation rate. The Group is also seeking for opportunities to utilise the biomass power plant units by supplying electricity to other regions. Besides, the Group is looking into other suitable environmental protection projects in Indonesia. The Group currently plans to fund such projects, if any, by internal resources or external borrowings, or a combination of both.

To further support the Group's business direction adjustment, and in view of the significant increase of the costs and capital expenditure of the wastewater treatment facility of Rugao Honghao (the "Rugao Honghao Facility"), the Group entered into an agreement with 南通嘉禾科技投資開發有限公司 (Nantong Jiahe Technology Investment Development Co., Ltd*) ("Nantong Jiahe"), an independent third party of the Company, on 21 September 2016, for the sale of all of the equity interest of Rugao Honghao at a cash consideration of RMB55.0 million to provide an additional source of capital to fund the Group's operations and future business development opportunities. The transaction is expected to be completed before 30 September 2017.

Upon completion of disposal of the Rugao Honghao Facility, the Company will continue to own two wastewater treatment facilities, namely Hai'an Hengfa and Rugao Hengfa, each of which has a daily capacity of approximately 40,000 tonnes. With the completion of the upgrade works of the facilities in 2016, the Company has begun negotiations with relevant government authorities for an upward adjustment of wastewater treatment tariffs, which will result in a boost to the Company's revenue and gross profit margin. Hai'an Hengfa is currently in discussions with the local government for various inspections and proposals. The tariff adjustment, which the Directors expect that will not only raise the tariff to a reasonable level but also make up the price difference in the past 10 to 15 years, is set to bring a remarkable growth in the revenue to the Company.

OUTLOOK

Operating in a market with increasing opportunities as well as challenges, the Company will seek to maintain its outstanding business performance and strong competitiveness by making good use of its rich experience and specialised knowledge built over the years in accordance with the Group's prudent and stable operation strategies. Under the precondition of risk and return meeting the management's expectations, the Company will seek to develop other wastewater treatment projects and explore opportunities to diversify into other business areas of environmental protection. The Company will remain adherent to its prudent and stable operation strategies.

** For identification purpose only*

FINANCIAL REVIEW

Revenue

Our total revenue decreased by 24.4% to HK\$36.3 million for the Period from HK\$48.0 million for the Last Corresponding Period, of which the revenue excluding the imputed interest income decreased to HK\$28.7 million for the Period from HK\$38.1 million for the Last Corresponding Period. Our revenue from our operations in the PRC segment decreased by approximately 47.9% to HK\$25.0 million for the Period from HK\$48.0 million for the Last Corresponding Period, while we generated revenue from our operations in Indonesia segment of HK\$11.3 million (no such revenue was recorded in the Last Corresponding Period). During the Period, the decrease in total revenue was primarily attributable to (i) the absence of construction revenue as a result of the completion of the upgrading works of the wastewater treatment facility of Rugao Hengfa (the “Rugao Hengfa Facility”), as compared with the recognition of revenue of HK\$18.7 million for the Last Corresponding Period; and (ii) the decrease in revenue from Rugao Honghao Facility by 51.2% to HK\$3.9 million for the Period from HK\$7.9 million for the Last Corresponding Period due to the change of payment of the service fee from the Build, Operate and Transfer (BOT) contract basis to reimbursement of costs basis, despite the recognition of revenue from the sales of electricity in Indonesia amounting to HK\$11.3 million for the Period, which was absent in the Last Corresponding Period.

Cost of sales

Our total cost of sales remained at HK\$32.5 million for the Period as compared with HK\$32.6 million for the Last Corresponding Period, primarily due to (i) the absence of construction costs in the Period, whereas such costs amounted to HK\$14.4 million from the upgrading works of the Rugao Hengfa Facility during the Last Corresponding Period; (ii) the offsetting effect from the costs incurred in the production of electricity in Indonesia amounting to HK\$15.9 million for the Period, which was absent in the Last Corresponding Period; and (iii) the increase in cost of sales of Rugao Honghao Facility by 17.1% to HK\$8.6 million for the Period from HK\$7.3 million for the Last Corresponding Period due to the increased pollutants concentration in the water treated.

Gross profit and gross profit margin

Our gross profit decreased by approximately 75.6% to approximately HK\$3.7 million for the Period from approximately HK\$15.4 million for the Last Corresponding Period, primarily due to (i) the gross loss incurred by the biomass power plant in Indonesia amounting to HK\$7.9 million for the Period as a result of the low market consumption for electricity which was absent in the Last Corresponding Period; and (ii) the absence of construction profit for the Period as a result of the completion of the recognition of construction costs of the upgrade works in the Rugao Hengfa Facility prior to 2017, which amounted to HK\$4.3 million from the upgrading works of the Rugao Hengfa Facility during the Last Corresponding Period.

The decrease in our gross profit margin to 10.2% for the Period from 34.0% for the Last Corresponding Period was mainly attributable to the aforementioned factors.

Other income and gains

Our other income and gains decreased by 37.0% to HK\$3.5 million for the Period from HK\$5.5 million for the Last Corresponding Period, primarily attributable to the decrease in interest income from available-for-sale investments to HK\$0.3 million for the Period from HK\$2.6 million for the Last Corresponding Period.

Administrative expenses

Our administrative expenses decreased by 9.9% to HK\$10.6 million for the Period from HK\$11.8 million for the Last Corresponding Period, primarily attributable to the absence of professional fees of HK\$1.2 million incurred in relation to the acquisition of all the issued shares of Weal Union as announced on 16 June 2016 for the Last Corresponding Period.

Finance costs

Our finance costs decreased by 27.6% to HK\$0.8 million for the Period from HK\$1.1 million for the Last Corresponding Period. The decrease in finance costs was primarily attributable to the decrease in interest portion of the repayments of the bank loans.

(Loss) profit before tax

We recorded a loss before tax of HK\$4.2 million for the Period as compared with a profit before tax of HK\$8.0 million for the Last Corresponding Period, primarily due to the factors mentioned above.

Income tax expense

Income tax expense of HK\$2.2 million was recognised for the Period as compared with HK\$3.5 million for the Last Corresponding Period. The effective tax rate was -51.5% for the Period as compared with 44.3% for the Last Corresponding Period.

(Loss) profit for the period attributable to owners of the Company

We recorded a loss attributable to owners of the Company of HK\$6.2 million for the Period, as compared with a profit attributable to owners of the Company of HK\$4.2 million for the Last Corresponding Period, primarily due to the factors mentioned above.

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 2017, the carrying amount of the Group's bank balances and cash was HK\$46.0 million, representing an increase of 83.1% as compared with that of HK\$25.1 million as at 31 December 2016.

As at 30 June 2017, the Group's bank balances and cash of HK\$34.6 million, HK\$8.6 million, HK\$2.1 million and HK\$0.7 million were denominated in Renminbi, Hong Kong Dollars, Indonesian Rupees and United States Dollars, respectively (31 December 2016: HK\$15.5 million, HK\$4.3 million, HK\$2.0 million and HK\$3.3 million were denominated in Renminbi, Hong Kong Dollars, Indonesian Rupees and United States Dollars, respectively).

Bank borrowings

As at 30 June 2017, the total amount of our utilised bank borrowings was HK\$40.0 million, of which approximately HK\$30.9 million was repayable within one year and approximately HK\$9.0 million was repayable after one year but within five years. Approximately HK\$28.0 million, HK\$11.2 million and HK\$0.7 million of the outstanding bank borrowings were denominated in Hong Kong Dollars, United States Dollars and Renminbi, respectively (31 December 2016: HK\$30.3 million and HK\$2.2 million were denominated in Hong Kong Dollars and Renminbi, respectively).

HK\$0.7 million of the outstanding bank borrowings bore a fixed interest rate of 6.77% per annum, while HK\$28.0 million bore a floating interest rate of 1.4% over the Hong Kong Interbank Offered Rate and HK\$11.2 million bore a floating interest rate of 1.4% over London Interbank Offered Rate. We had no unutilised banking facilities as at 30 June 2017.

Gearing ratio is calculated by dividing total debt by total equity, and total debt is the interest-bearing bank borrowings. Our gearing ratio was kept stable, being 0.1 as at 30 June 2017 and 0.1 as at 31 December 2016.

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 requirements for the Group's strategy or direction from time to time can be met.

Capital expenditures

Our capital expenditures consist primarily of expenditures to acquire machinery and equipment for our Indonesian biomass power plant.

For the Period, our capital expenditures amounted to HK\$1.6 million. These capital expenditures were funded by funds generated from our financing activities.

Foreign exchange risk

Individual member companies in Mainland China and Indonesia 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 and Indonesian Rupees, any appreciation or depreciation of Hong Kong Dollars against Renminbi and Indonesian Rupees will affect the Group's consolidated financial position and will be reflected in the exchange fluctuation reserve.

As at 30 June 2017, individual member companies in Hong Kong within our Group had translational currency exposure because our available-for-sale investments of HK\$10.2 million and cash and cash equivalents of HK\$0.7 million were denominated in United States Dollars. 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 2017, the Group had no contingent liabilities (31 December 2016: nil).

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2017, the Group had 232 employees (31 December 2016: 223 employees). Employee costs, including Directors' emoluments, amounted to approximately HK\$8.5 million for the Period (six months ended 30 June 2016: HK\$4.9 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 Group encourages self-development of its employees and 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.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

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 Period.

EVENTS AFTER THE REPORTING DATE

On 22 August 2017, Mr. Zhou Yinbing, a member of the senior management of the Group resigned. For details, please refer to the Company's announcement dated 22 August 2017. Save as disclosed in this announcement, the Group had no material event subsequent to the end of the Period and up to the date of this announcement.

INTERIM DIVIDEND

During its meeting held on 25 August 2017, the Board has resolved not to declare the payment of any interim dividend for the Period (six months ended 30 June 2016: nil).

CORPORATE GOVERNANCE

The Company strives to maintain a high standard of corporate governance, and 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 Period.

SECURITIES TRANSACTIONS BY DIRECTORS

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

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares listed on the Main Board of the Stock Exchange during the 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, risk management 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 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 unaudited interim results of the Group for the Period.

PUBLICATION OF INTERIM REPORT

The 2017 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>) and despatched to the shareholders of the Company not later than 30 September 2017.

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, and to my fellow Directors and our staff for their dedication and hard work during the Period.

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

Hong Kong, 25 August 2017

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.