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 2018

FINANCIAL SUMMARY

- Revenue for the six months ended 30 June 2018 amounted to HK$41.6 million (six months ended 30 June 2017: HK$36.3 million), representing an increase of 14.6% as compared with that of the corresponding period in 2017 (the "Last Corresponding Period").
- Gross profit for the six months ended 30 June 2018 was HK$6.7 million (six months ended 30 June 2017: HK$3.7 million), representing an increase of 79.2% as compared with that of the Last Corresponding Period.
- Net loss for the six months ended 30 June 2018 was HK$47.5 million (six months ended 30 June 2017: net loss of HK$6.4 million), representing an increase of 645.0% 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 2018 (six months ended 30 June 2017: 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 2018 (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 2018

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	*3*	**41,597**	36,294
Cost of sales		**(34,881)**	(32,546)
Gross profit		**6,716**	3,748
Other income and gains		**3,347**	3,455
Impairment loss on goodwill		**(38,536)**	—
Administrative expenses		**(16,190)**	(10,643)
Finance costs	*5*	**(821)**	(767)
LOSS BEFORE TAX	*6*	**(45,484)**	(4,207)
Income tax expense	*7*	**(1,995)**	(2,166)
LOSS FOR THE PERIOD		**(47,479)**	(6,373)
Loss for the period attributable to:			
Owners of the Company		**(46,865)**	(6,240)
Non-controlling interests		**(614)**	(133)
		(47,479)	(6,373)
		HK cents	*HK cent*
LOSS PER SHARE	*9*		
Basic and diluted		**(4.22)**	(0.56)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Loss for the period	**(47,479)**	(6,373)
OTHER COMPREHENSIVE INCOME (EXPENSE)		
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on translation of foreign operations	**1,542**	7,434
Fair value change on available-for-sale investments	**—**	(17)
Investment revaluation reserve released upon disposal of available-for-sale investments	**—**	(417)
	1,542	7,000
Items that will not be reclassified to profit or loss:		
Fair value change on financial assets at fair value through other comprehensive income	**180**	—
TOTAL COMPREHENSIVE (EXPENSE) INCOME FOR THE PERIOD	**(45,757)**	627
Total comprehensive (expense) income for the period attributable to:		
Owners of the Company	**(45,686)**	(26)
Non-controlling interests	**(71)**	653
	(45,757)	627

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**122,743**	134,326
Deposits for purchase of property, plant and equipment		**9**	3,408
Receivables under service concession arrangements	*10*	**302,973**	290,159
Goodwill	*11*	**1,768**	42,242
Available-for-sale investments		**—**	10,311
Financial assets at fair value through other comprehensive income		**2,579**	—
Restricted bank deposits		**—**	12,427
		430,072	492,873
CURRENT ASSETS			
Inventories		**551**	554
Receivables under service concession arrangements	*10*	**27,585**	28,970
Trade receivables	*13*	**5,013**	6,284
Prepayments and other receivables		**80,574**	64,394
Income tax recoverable		**456**	338
Bank balances and cash		**36,586**	35,515
		150,765	136,055

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 30 June 2018

	Notes	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
CURRENT LIABILITIES			
Trade payables	*14*	**8,118**	9,313
Other payables and accruals		**5,554**	5,614
Amounts due to related parties		**6,474**	6,474
Bank borrowings — due within one year	*15*	**30,240**	30,240
Income tax payables		**1,766**	4,108
		52,152	55,749
NET CURRENT ASSETS		**98,613**	80,306
TOTAL ASSETS LESS CURRENT LIABILITIES		**528,685**	573,179
CAPITAL AND RESERVES			
Share capital	*16*	**111**	111
Reserves		**447,005**	492,687
Equity attributable to owners of the Company		**447,116**	492,798
Non-controlling interests		**28,954**	29,024
TOTAL EQUITY		**476,070**	521,822
NON-CURRENT LIABILITIES			
Bank borrowings — due after one year	*15*	**6,720**	8,960
Deferred tax liabilities		**34,972**	33,591
Provision for major overhauls		**10,767**	8,635
Retirement benefit obligations		**156**	171
		52,615	51,357
		528,685	573,179

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 (the "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 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 2017.

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	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Construction services	**12,352**	—
Wastewater treatment facility operation services	**10,874**	17,415
Imputed interest income on receivables under service concession arrangements	**6,499**	7,612
Sales of electricity	**11,872**	11,267
	41,597	36,294

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 revenue and results

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

Six months ended 30 June 2018

	Hong Kong	**the PRC**	**Indonesia**	**Total**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Results				
Segment revenue	—	29,725	11,872	41,597
Segment (loss) profit	(6,724)	9,565	(9,777)	(6,936)
Unallocated expenses				
Administrative expenses				(12)
Impairment loss on goodwill				(38,536)
Loss before tax				(45,484)

Six months ended 30 June 2017

	Hong Kong	the PRC	Indonesia	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
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)

There were no inter-segment sales for both periods.

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

Revenues from customers contributing over 10% of the Group's revenue for the six months ended 30 June 2018 and 2017 are as follows:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Customer A from the PRC segment	**5,025**	5,015
Customer B from the PRC segment	**24,700**	20,012
Customer C from the Indonesia segment	**11,872**	11,267

5. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank borrowings	**585**	559
Increase in discounted amounts of provision for major overhauls arising from the passage of time	**236**	208
	821	767

6. LOSS BEFORE TAX

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Loss before tax has been arrived at after charging (crediting):		
Employee benefit expense (including Directors' remuneration):		
Salaries and other benefits	**9,019**	7,706
Pension scheme contributions *(note)*	**967**	768
Share-based payments	**—**	38
	9,986	8,512
Cost of construction services	**9,831**	—
Cost of wastewater treatment facilities operation services rendered	**10,033**	16,172
Cost of power plant operation	**15,017**	16,374
Cost of inventories recognised as expenses	**9,287**	9,897
Depreciation of property, plant and equipment	**6,145**	6,196
Gain on disposal of available-for-sale investments	**—**	(417)
Foreign exchange loss (gain), net	**4,388**	(76)
Provision for major overhauls	**1,694**	683

Note:

As at 30 June 2018, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (six months ended 30 June 2017: 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 2017: nil).

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 2017: nil).

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 laws and regulations of the PRC.

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current — PRC		
— Charge for the period	**1,556**	1,959
Deferred tax	**439**	207
Total tax charge for the period	**1,995**	2,166

8. DIVIDEND

No interim dividend in respect of the six months ended 30 June 2018 has been proposed by the Board (six months ended 30 June 2017: nil).

9. LOSS PER SHARE

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

	30 June 2018 (Unaudited)	30 June 2017 (Unaudited)
	HK$'000	*HK$'000*
Loss for the purposes of basic and diluted loss per share, being loss for the period attributable to owners of the Company	**(46,865)**	(6,240)

	Number of shares	
	30 June 2018 (Unaudited)	30 June 2017 (Unaudited)
	'000	*'000*
Number of ordinary shares for the purpose of loss per share	**1,111,000**	1,111,000

The computation of the diluted loss per share for the six months ended 30 June 2018 and 2017 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 of the Company for the six months ended 30 June 2018 and 2017.

10. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

	30 June 2018 (Unaudited) *HK$'000*	31 December 2017 (Audited) *HK$'000*
Receivables under service concession arrangements	**330,558**	319,129
Portion classified as current assets	**(27,585)**	(28,970)
Portion classified as non-current assets	**302,973**	290,159

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 2018 (Unaudited) *HK$'000*	31 December 2017 (Audited) *HK$'000*
Billed:		
Within 3 months	**13,983**	12,243
4 to 6 months	**3,720**	7,341
	17,703	19,584
Not yet billed	**312,855**	299,545
	330,558	319,129

11. GOODWILL

	HK$'000
COST	
At 31 December 2016 and 1 January 2017	85,699
Exchange adjustments	299
At 31 December 2017	85,998
Exchange adjustments	(4,128)
At 30 June 2018	**81,870**
IMPAIRMENT	
At 31 December 2016 and 1 January 2017	—
Impairment loss recognised	43,863
Exchange adjustments	(107)
At 31 December 2017	43,756
Impairment loss recognised	38,536
Exchange adjustments	(2,190)
At 30 June 2018	**80,102**
CARRYING VALUES	
At 30 June 2018	**1,768**
At 31 December 2017	42,242

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

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

12. IMPAIRMENT TESTING ON GOODWILL

For the purposes of impairment testing, goodwill with indefinite useful live set out in note 11 has been allocated to only one CGU, comprising one subsidiary in the investment holding and one subsidiary in the biomass power generation business. The carrying amount of goodwill (net of accumulated impairment losses) as at 30 June 2018 allocated to this unit is set out in note 11.

During the Period, the Group recognised an impairment loss of HK$38,536,000 (2017: HK$43,863,000) in relation to goodwill arising on acquisition of Weal Union Group. The biomass power plant of the Group in Indonesia ("Biomass Plant") had yet to reach their expected utilisation rate. Taking into consideration that (i) the electricity grid construction by the government to connect the South Sumatra region, where the Biomass Plant was located, and the North Sumatra region, where the demand of electricity is higher, had been aborted, and (ii) the 10-year forecast of electricity growth rate in Sumatra, Indonesia, where the Biomass Plant is located, as published by the Ministry of Energy and Mineral Resources in the first quarter of 2018 had dropped to 9.1% from 11.2% as published in the first quarter of 2017, it is expected that the growth of electricity demand will slow down. Therefore, the expected utilisation growth rate of the Biomass Plant in near term is lowered. There is also no clarity as to when or whether the aforesaid infrastructure will resume and when the local economy will start to improve. Accordingly, the valuation of Weal Union Group, and hence the recoverable amount of the goodwill, is impaired due to the lower growth rate and delay in the realisation of the expected return.

The recoverable amount of Weal Union Group has been determined on the basis of value in use calculations which use cash flow projections based on financial budgets approved by the management. According to HKAS 36, the recoverable amount is defined as the higher of an asset's or CGU's fair value less costs of disposal and its value in use. When there is no basis for making a reliable estimate of the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions, value-in-use approach is a possible way to estimate the recoverable amount. Given that there is no or limited recent transaction with similar business as Weal Union Group observed, the management believes that it is more appropriate to adopt value-in-use of Weal Union Group for the impairment test. In view of the above, when preparing the cash flow projects for the impairment assessment of goodwill as at 30 June 2018, certain assumptions in the cash flow projections (such as utilisation rate and unit price) during the budget period are adjusted. Expected cash inflows/outflows have been adjusted based on (i) an annual sales growth rate of 26.8% (2017: 37.5%), a gross margin of 42.7% (2017: 43.6%), and earnings before interest, tax, depreciation and amortization margin of 35.1% (2017: 36.9%), each for a 5-year forecast period, (ii) a discount rate of 18.4% (2017: 18.2%), and (iii) a long term growth rate of 5% (2017: 5%) for extrapolating the cash flows beyond the 5-year forecast period. The adjustments were made based on the performance of the Biomass Plant for the Period and the management's expectations for the market development. The long-term growth rate was estimated based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

13. TRADE RECEIVABLES

	30 June 2018 (Unaudited) *HK$'000*	31 December 2017 (Audited) *HK$'000*
Trade receivables	**5,013**	6,284

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 2018 (Unaudited) *HK$'000*	31 December 2017 (Audited) *HK$'000*
0-30 days	**2,768**	3,901
31-60 days	**28**	2,383
Over 60 days	**2,217**	—
	5,013	6,284

14. 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 2018 (Unaudited) *HK$'000*	31 December 2017 (Audited) *HK$'000*
0-60 days	**3,442**	2,705
61-90 days	**2,298**	1,321
Over 90 days	**2,378**	5,287
	8,118	9,313

15. BANK BORROWINGS

	30 June 2018 (Unaudited) *HK$'000*	31 December 2017 (Audited) *HK$'000*
On demand or within one year	**30,240**	30,240
In the second year	**2,240**	2,240
In the third to fifth years inclusive	**4,480**	6,720
	36,960	39,200
Less: Amount due within one year shown under current liabilities	**(30,240)**	(30,240)
Amount due after one year	**6,720**	8,960
Current-secured	**—**	—
Current-unsecured	**30,240**	30,240
	30,240	30,240
Non-current-unsecured	**6,720**	8,960
	36,960	39,200

16. SHARE CAPITAL

	30 June 2018 (Unaudited) *HK$'000*	31 December 2017 (Audited) *HK$'000*
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

In the first half of 2018, the Chinese economy maintained a stable pace of growth with steady improvement. During the period, China posted a 6.8% GDP growth, holding steady with the first half of 2017 and meeting the prediction in the *World Economic Outlook*. On the industry side, China's environmental protection industry has received a strong policy support. The revised *Water Pollution Prevention and Control Law of the People's Republic of China*, effective on 1 January 2018, has further increased the demand in the Chinese market for the Group's core business and brought new market opportunities. In addition, the report to the 19th National Congress of the Communist Party of China highlighted the commitment to taking tough steps to prevent and control pollution before 2020 and achieving a fundamental improvement in the ecological environment by 2035. Therefore, the following years are expected to see a continuous growth in China's environmental protection industry. However, uncertainties including China's monetary policy and the global trade war might pose challenges to the Chinese economy. At the same time, intensifying competition in the domestic environmental protection industry will make it increasingly difficult for enterprises to maintain their stable growth or profitability. Thus, in view of the level of risk and instability in the market, the Group adopted a practical and prudent approach to business expansion in the first half of 2018.

In addressing the significantly increasing wastewater facility costs and capital expenditure for the Group's business, management is actively seeking to adjust its business direction. On 21 September 2016, the Group entered into an agreement with Nantong Jiahe Technology Investment Development Co., Ltd. (the "Purchaser"), an independent third party, to dispose of all the Group's equity interest in Rugao Honghao at a cash consideration of RMB55.0 million. The Group has received regulatory approval for the remittance of consideration payment in connection with the disposal, and received RMB20.0 million of the consideration, with the remaining consideration expected to be remitted within this year. As stated in previous announcements of the Company, the processing time is longer than expected due to elevated regulatory controls over cross-border remittance in the PRC and heightened due diligence processes implemented by the banks. The Group will continue to work with the Purchaser and the banks closely to formally complete the payment collection process as soon as practicable. The Group will continue to own two wastewater treatment facilities, namely Haian Hengfa and Rugao Hengfa. The disposal will also provide an additional source of funding for the Group's operations and future business development. At the same time, the Group is also discussing and cooperating with local governments to raise the water tariff for the wastewater treatment plants we operate. It is expected that Rugao Hengfa and local governments would reach an agreement on tariff rises by the end of this year, which will increase the Group's revenue and gross margin.

On the other hand, in the fourth quarter of 2016, the Group acquired Weal Union Limited ("Weal Union") and its subsidiary in Indonesia, PT Rimba Palma Sejahtera Lestari ("RPSL") 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 RPSL.

Since the completion of the acquisition, the Group has been committed to investing in improvement works in the power generation facility to increase generating efficiency and reduce sales costs. However, the projected revenue was less than satisfactory in the first half of 2018, with RPSL, the Indonesian subsidiary, recording approximately HK$7.9 million of net losses, the main reason being lower-than-expected utilization of our biomass power plant. As several urban development projects planned by the Indonesian government had been aborted, the local market and economic growth, and hence power consumption and demand, had slowed down, which in turn reduced the power supply shortage in the vicinity of our biomass power plant. In addition, the electricity grid construction to connect the South Sumatra region of Indonesia where our biomass power plant is located and the North Sumatra region where the demand of electricity is higher, along with other infrastructure projects, was aborted, which also contributed to the continued low utilization level of the power plant. To increase the overall return, the Group will continuously monitor the power plant performance and local developments and communicate with customers and business partners on increasing the utilization of our biomass power plant.

OUTLOOK

Facing a market environment with opportunities as well as challenges, the Group will forge ahead in adherence with its prudent and risk-oriented strategy by maintaining stable operations, strengthening internal controls and carrying forward successful operation concepts in order to consolidate its business foundation and maintain a strong business performance and competitiveness. Meanwhile, the Group will keep a close watch on market developments, seek new business opportunities and make a risk assessment of its expansion plan in a rigorous and disciplined way to embrace a brand-new stage of development in steady steps and achieve stable and sustainable development.

FINANCIAL REVIEW

Revenue

Our total revenue increased by HK$5.3 million or 14.6% to HK$41.6 million for the Period from HK$36.3 million for the Last Corresponding Period, of which the revenue excluding the imputed interest income increased by HK$6.4 million or 22.4% to HK$35.1 million for the Period from HK$28.7 million for the Last Corresponding Period. Such increase was primarily attributable to (i) the recognition of construction revenue which amounted to HK$12.4 million arising from the upgrade works of the wastewater treatment facility operated by Rugao Hengfa (the "Rugao Hengfa Facility") in relation to the sludge dewatering system during the Period, which was absent in the Last Corresponding Period, and (ii) the offsetting effect from the absence of revenue from Rugao Honghao, a subsidiary that was disposed of in the previous year, which amounted to HK$5.1 million. Our revenue from the operations in the PRC segment increased by HK$4.7 million or 18.8% to HK$29.7 million for the Period from HK$25.0 million for the Last Corresponding Period, while our revenue from our operations in the Indonesia segment increased by HK$0.6 million or 5.3% to HK$11.9 million for the Period from HK$11.3 million for the Last Corresponding Period.

Cost of sales

Our total cost of sales increased by HK$2.3 million or 7.2% to HK$34.9 million for the Period from HK$32.5 million for the Last Corresponding Period, primarily due to (i) the incurrence of construction costs during the Period for the aforementioned upgrade works of Rugao Hengfa Facility, which amounted to HK$9.8 million, and the absence of such costs during the Last Corresponding Period, (ii) the offsetting effects from the absence of cost of sales in Rugao Honghao for the Period after its disposal which amounted to HK$2.8 million for the Last Corresponding Period, and (iii) the decrease in cost of sales from our operations in RPSL, our subsidiary in Indonesia, by HK$3.6 million or 22.6% to HK$12.3 million for the Period from HK$15.9 million for the Last Corresponding Period.

Gross profit and gross profit margin

Our gross profit increased by HK$3.0 million or 79.2% to HK$6.7 million for the Period from HK$3.7 million for the Last Corresponding Period, primarily due to the aforementioned factors. Our gross profit margin increased to 16.1% for the Period from 10.2% for the Last Corresponding Period.

Other income and gains

Our other income and gains decreased by HK$0.2 million or 5.7% to HK$3.3 million for the Period as compared to HK$3.5 million for the Last Corresponding Period. Such gains comprised mainly the refund of tax and sewage expenses paid for the Period.

Impairment loss

An impairment loss of HK$38.5 million was recognised for the Period in relation to the goodwill arising on the acquisition of Weal Union, a wholly-owned subsidiary of the Company that holds 95% of the issued share capital of RPSL. RPSL is an indirect subsidiary of the Company incorporated in Indonesia, which operates a biomass power plant. The valuation of Weal Union, and hence the recoverable amount, which of the goodwill, was impaired during the Period. The impairment was a result of a lower than expected growth rate of the market and economy in the vicinity of our biomass power plant and hence a lower than expected utilisation of our biomass power plant since the completion of the acquisition of Weal Union by the Group in October 2016, which continued during the Period. Based on our understanding on the latest local development, the electricity grid construction by the government to connect the South Sumatra region, where our biomass power plant was located, and the North Sumatra region, where the demand of electricity is higher, had been aborted. As a result, the growth of electricity demand is expected to slow down and hence the expected utilisation growth rate of our biomass power plant in near term is lowered.

An impairment loss on the goodwill of HK$43.9 million was recognised for the year ended 31 December 2017. The accumulated impairment loss on the goodwill as at 30 June 2018 was HK$82.4 million, representing 96.1% of the total amount of the goodwill initially recognised upon the acquisition of Weal Union.

Administrative expenses

Our administrative expenses increased by HK$5.5 million or 52.1% to HK$16.2 million for the Period from HK$10.6 million for the Last Corresponding Period. Such increase was primarily attributable to (i) the increase in unrealised exchange loss by HK$2.9 million or 223.1% to HK$4.2 million for the Period from HK$1.3 million for the Last Corresponding Period arising mainly from the currency translation differences on the inter-company loans between the subsidiaries of the Company, and (ii) the increase in administrative expenses in relation to the development of potential business in Indonesia of HK$2.2 million.

Finance costs

Our finance costs remained at HK$0.8 million for the Period which was approximately the same as that for the Last Corresponding Period. The finance costs mainly comprised the interest expenses from the Group's bank borrowings.

Loss before tax

Loss before tax increased by HK$41.3 million or 9.8 times to HK$45.5 million for the Period from HK$4.2 million for the Last Corresponding Period, primarily due to the factors mentioned above.

Income tax expense

Our income tax expense recognised remained stable at HK$2.0 million for the Period as compared with HK$2.2 million for the Last Corresponding Period. Such income tax was recognised primarily in relation to our PRC wastewater operations, which remained profitable during the Period. The effective tax rate was -4.8% for the Period as compared with -51.5% for the Last Corresponding Period as a result of the aforesaid increase in loss before tax on a consolidated basis.

Loss for the period attributable to owners of the Company

Loss attributable to owners of the Company increased by HK$40.7 million or 6.5 times to HK$46.9 million for the Period from HK$6.2 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 wastewater treatment and electricity generating facilities. As at 30 June 2018, the carrying amount of the Group's bank balances and cash was HK$36.6 million, representing an increase of 3.0% as compared with that of HK$35.5 million as at 31 December 2017.

As at 30 June 2018, the Group's bank balances and cash of HK$20.5 million, HK$1.0 million, HK$9.4 million and HK$5.7 million were denominated in Renminbi, Hong Kong Dollars, Indonesian Rupiah and United States Dollars, respectively (31 December 2017: HK$17.8 million, HK$12.8 million, HK$0.6 million and HK$4.3 million were denominated in Renminbi, Hong Kong Dollars, Indonesian Rupiah and United States Dollars, respectively).

Bank borrowings

As at 30 June 2018, the total amount of our utilised bank borrowings was HK$36.9 million, of which approximately HK$30.2 million was repayable within one year and approximately HK$6.7 million was repayable after one year but within five years. Approximately HK$28.0 million and HK$8.9 million of the outstanding bank borrowings were denominated in Hong Kong Dollars and United States Dollars, respectively (31 December 2017: HK$28.0 million and HK$11.2 million were denominated in Hong Kong Dollars and United States Dollars, respectively).

HK$28.0 million bore a floating interest rate of 1.4% over the Hong Kong Interbank Offered Rate and HK$8.9 million bore a floating interest rate of 1.4% over London Interbank Offered Rate. We had no unutilised banking facilities as at 30 June 2018 (31 December 2017: nil).

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 2018 and 0.1 as at 31 December 2017.

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 for construction and acquisition of machinery and equipment for our plant of Rugao Hengfa.

For the Period, our capital expenditures amounted to HK$9.5 million, which 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 Rupiah, any appreciation or depreciation of Hong Kong Dollars against Renminbi and Indonesian Rupiah will affect the Group's consolidated financial position and will be reflected in the exchange fluctuation reserve.

As at 30 June 2018, individual member companies in Hong Kong within our Group had translational currency exposure because our financial assets at fair value through other comprehensive income of HK$2.6 million and cash and cash equivalents of HK$5.7 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 the 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 a significant foreign currency hedging policy in the future.

Contingent liabilities

As at 30 June 2018, the Group had no contingent liabilities. As at 31 December 2017, the Group had a court case in Rugao Hengfa which was subject to a potential fine ranging from RMB100,000 to RMB5,000,000. The court case was subsequently settled and hence no contingent liabilities were brought forward in relation to this court case as at 30 June 2018. For details, please refer to note 43 to the consolidated financial statements in the 2017 annual report as well as the voluntary announcement made by the Company on 9 May 2018. Save as disclosed above, the Group had no contingent liabilities as at 31 December 2017.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2018, the Group had 219 employees (31 December 2017: 227 employees). Employee costs, including Directors' emoluments, amounted to approximately HK$10.0 million for the Period (six months ended 30 June 2017: HK$8.5 million). The remuneration policy for our Directors and senior management members is based on their experience and level of responsibility and the 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 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

The Group has 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 24 August 2018, the Board has resolved not to declare the payment of any interim dividend for the Period (six months ended 30 June 2017: 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

The Company did not redeem its shares listed on the Main Board of the Stock Exchange, nor did the Company or any of its subsidiaries purchase or sell any of such shares during the 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 (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 and the unaudited interim results of the Group for the Period.

PUBLICATION OF INTERIM REPORT

The 2018 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 2018.

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, 24 August 2018

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