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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 2020**

#### **FINANCIAL SUMMARY**

- Revenue for the six months ended 30 June 2020 amounted to HK\$26.4 million (six months ended 30 June 2019: HK\$24.4 million), representing an increase of 8.2% as compared with that of the corresponding period in 2019 (the “Last Corresponding Period”).
- Gross profit for the six months ended 30 June 2020 was HK\$13.7 million (six months ended 30 June 2019: HK\$2.4 million), representing an increase of 470.8% as compared with that of the Last Corresponding Period.
- Net loss for the six months ended 30 June 2020 was HK\$3.2 million (six months ended 30 June 2019: net loss of HK\$11.0 million), representing a decrease of 70.9% 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 2020 (six months ended 30 June 2019: nil).

The board (the “Board”) of directors (the “Directors”) of ELL Environmental Holdings Limited (the “Company” or “ELL Environmental”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2020 (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 2020

	Notes	Six months ended 30 June	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
<b>Revenue</b>	3	<b>26,369</b>	24,362
Cost of sales		<b>(12,643)</b>	(21,996)
<b>Gross profit</b>		<b>13,726</b>	2,366
Other income and net gains		<b>262</b>	3,038
Administrative expenses		<b>(12,683)</b>	(13,610)
Finance costs	5	<b>(1,020)</b>	(838)
<b>Profit/(loss) before tax</b>	6	<b>285</b>	(9,044)
Income tax expense	7	<b>(3,496)</b>	(1,986)
<b>Loss for the period</b>		<b>(3,211)</b>	(11,030)
<b>(Loss)/profit for the period attributable to:</b>			
Owners of the Company		<b>(4,832)</b>	(10,930)
Non-controlling interests		<b>1,621</b>	(100)
		<b>(3,211)</b>	(11,030)
		<i>HK cent</i>	<i>HK cent</i>
<b>Loss per share</b>	9		
— Basic		<b>(0.44)</b>	(1.00)
— Diluted		<b>(0.44)</b>	(1.00)

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**

*For the six months ended 30 June 2020*

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
<b>Loss for the period</b>	<b>(3,211)</b>	(11,030)
<b>Other comprehensive (expense)/income:</b>		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on translation of foreign operations	<b>(4,961)</b>	(130)
Fair value changes on debt instruments at fair value through other comprehensive income	<b>(247)</b>	93
Investment revaluation reserve released upon disposal of debt instruments at fair value through other comprehensive income	<b>(33)</b>	76
	<hr/>	<hr/>
<b>Total comprehensive expense for the period</b>	<b>(8,452)</b>	(10,991)
	<hr/> <hr/>	<hr/> <hr/>
<b>Total comprehensive (expense)/income for the period attributable to:</b>		
Owners of the Company	<b>(9,409)</b>	(10,870)
Non-controlling interests	<b>957</b>	(121)
	<hr/>	<hr/>
	<b>(8,452)</b>	(10,991)
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## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		<b>30 June 2020</b>	31 December 2019
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Non-current assets</b>			
Property, plant and equipment		<b>69,324</b>	71,423
Deposits paid for purchase of property, plant and equipment		<b>4,451</b>	1,280
Receivables under service concession arrangements	<i>10</i>	<b>273,489</b>	282,308
Goodwill	<i>11</i>	—	—
Debt instruments at fair value through other comprehensive income	<i>15</i>	<b>5,650</b>	3,390
Restricted bank deposits		<b>7,993</b>	6,070
		<b>360,907</b>	364,471
<b>Current assets</b>			
Inventories		<b>574</b>	613
Receivables under service concession arrangements	<i>10</i>	<b>21,222</b>	18,182
Prepayments and other receivables		<b>11,423</b>	10,612
Income tax recoverable		<b>908</b>	776
Debt instruments at fair value through other comprehensive income	<i>15</i>	<b>9,460</b>	15,128
Restricted bank deposits		<b>5,813</b>	6,070
Bank balances and cash		<b>39,894</b>	64,074
		<b>89,294</b>	115,455
<b>Current liabilities</b>			
Trade payables	<i>12</i>	<b>2,327</b>	3,003
Other payables and accruals		<b>10,607</b>	11,067
Amounts due to related parties		<b>8,386</b>	8,986
Bank borrowings	<i>13</i>	<b>20,240</b>	20,240
Lease liabilities		<b>536</b>	525
Income tax payables		<b>193</b>	5,408
		<b>42,289</b>	49,229
<b>Net current assets</b>		<b>47,005</b>	66,226
<b>Total assets less current liabilities</b>		<b>407,912</b>	430,697

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)***As at 30 June 2020*

		<b>30 June 2020</b>	31 December 2019
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Capital and reserves</b>			
Share capital	<i>14</i>	<b>111</b>	111
Reserves		<b>330,768</b>	345,713
		<hr/>	<hr/>
Equity attributable to owners of the Company		<b>330,879</b>	345,824
Non-controlling interests		<b>25,663</b>	31,892
		<hr/>	<hr/>
<b>TOTAL EQUITY</b>		<b>356,542</b>	377,716
		<hr/>	<hr/>
<b>Non-current liabilities</b>			
Bank borrowings	<i>13</i>	<b>2,240</b>	4,480
Lease liabilities		<b>748</b>	1,019
Deferred tax liabilities		<b>33,292</b>	33,331
Provision for major overhauls		<b>14,129</b>	13,147
Retirement benefit obligations		<b>961</b>	1,004
		<hr/>	<hr/>
		<b>51,370</b>	52,981
		<hr/>	<hr/>
		<b>407,912</b>	430,697
		<hr/> <hr/>	<hr/> <hr/>

## **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 Hong Kong Companies Ordinance.

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 2019 (the “Year 2019”).

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**

The condensed consolidated financial statements of the Group (the “Consolidated Financial Statements”) have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values at the end of each reporting period, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (the “HKFRSs”), the accounting policies and methods of computation used in the condensed Consolidated Financial Statements for the Period are the same as those presented in the annual Consolidated Financial Statements for the Year 2019.

## Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to the HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2020 for the preparation of the condensed Consolidated Financial Statements:

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

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to the HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and on the disclosures set out in these condensed Consolidated Financial Statements.

### 3. REVENUE

	Six months ended 30 June	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
<b>Types of goods and services</b>		
Construction services	1,454	4,468
Wastewater treatment facility operation services	17,715	11,488
Sales of electricity generated from biomass power plants	—	1,223
	<hr/>	<hr/>
Revenue from goods and services	19,169	17,179
Imputed interest income on receivables under service concession arrangements	7,200	7,183
	<hr/>	<hr/>
	<b>26,369</b>	<b>24,362</b>
	<hr/> <hr/>	<hr/> <hr/>

#### 4. SEGMENT INFORMATION

The Group is engaged in the construction and operation of wastewater treatment facilities and biomass power generation business. Information reported to the Group's chief operating decision maker (i.e. the executive Directors) for the purposes of resource allocation and assessment of performance is focused on geographical locations of its manpower and customers, including Hong Kong, the People's Republic of China (the "PRC" or "China") and the Republic of Indonesia ("Indonesia").

##### Segment revenue and results

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

##### Six months ended 30 June 2020 (unaudited)

	<b>Hong Kong</b> <i>HK\$'000</i>	<b>PRC</b> <i>HK\$'000</i>	<b>Indonesia</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>Results</b>				
Segment revenue	—	26,369	—	26,369
Segment profit/(loss)	(4,637)	12,517	(7,568)	312
<b>Unallocated expenses</b>				
Administrative expenses				(27)
Profit before tax				285

##### Six months ended 30 June 2019 (unaudited)

	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Indonesia <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Results</b>				
Segment revenue	—	23,139	1,223	24,362
Segment (loss)/profit	(5,932)	2,407	(5,505)	(9,030)
<b>Unallocated expenses</b>				
Administrative expenses				(14)
Loss before tax				(9,044)



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 2020 and 2019 are as follows:

	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Customer A from the PRC segment	<b>12,015</b>	5,266
Customer B from the PRC segment	<b>14,354</b>	17,873
	<b><u>                    </u></b>	<b><u>                    </u></b>

## **5. FINANCE COSTS**

	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Interest on bank borrowings	<b>378</b>	505
Interest on loan from a related party	<b>243</b>	—
Interest on lease liabilities	<b>27</b>	—
Increase in discounted amounts of provision for major overhauls arising from the passage of time	<b>372</b>	333
	<b><u>                    </u></b>	<b><u>                    </u></b>
	<b><u>                    </u></b>	<b><u>                    </u></b>
	<b>1,020</b>	838
	<b><u>                    </u></b>	<b><u>                    </u></b>

## 6. PROFIT/(LOSS) BEFORE TAX

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Profit/(loss) before tax has been arrived at after charging/(crediting):		
Employee benefit expense (including Directors' remuneration):		
Salaries and other benefits	5,729	8,029
Pension scheme contributions ( <i>note</i> )	481	851
Share-based payments	—	4
	<u>6,210</u>	<u>8,884</u>
Cost of construction services	1,120	3,556
Cost of wastewater treatment facilities operation services rendered	7,921	12,843
Cost of power plant operation	—	983
Cost of inventories	3,602	4,614
Depreciation of property, plant and equipment	2,233	2,089
Foreign exchange loss/(gain), net	3,656	(269)
Provision for major overhauls	610	861
	<u>6,210</u>	<u>8,884</u>

*Note:* As at 30 June 2020, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (six months ended 30 June 2019: nil).

## 7. INCOME TAX EXPENSE

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Current tax:		
PRC Corporate Income Tax	2,221	1,558
Under provision in prior years:		
PRC Corporate Income Tax	724	—
Deferred tax	551	428
	<u>551</u>	<u>428</u>
Total tax charge for the period	<u>3,496</u>	<u>1,986</u>

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 2019: nil).

Withholding tax is calculated at 5% of the dividend income received from a subsidiary in 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 2019: 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.

## 8. DIVIDEND

No interim dividend in respect of the Period has been proposed by the Board (six months ended 30 June 2019: nil).

The Board has recommended a final dividend of HK0.5 cent per share amounting to HK\$5,536,500 for the Year 2019 (31 December 2018: nil), and was subsequently approved at the Company’s annual general meeting held on 12 June 2020.

## 9. LOSS PER SHARE

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

	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Loss for the purposes of basic and diluted loss per share, being loss for the period attributable to owners of the Company	<b>(4,832)</b>	<b>(10,930)</b>

	<b>Number of shares</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>'000</b>	'000
	<b>(Unaudited)</b>	(Unaudited)
Weighted average number of ordinary shares for the purpose of calculating loss per share	<b>1,107,300</b>	1,107,374

For the six months ended 30 June 2020 and 2019, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options since their exercise would result in a decrease in loss per share.

#### 10. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

	<b>30 June</b>	31 December
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Receivables under service concession arrangements	<b>294,711</b>	300,490
Portion classified as current assets	<b>(21,222)</b>	(18,182)
Portion classified as non-current assets	<b>273,489</b>	282,308

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:

	<b>30 June</b>	31 December
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Billed:		
Within 3 months	<b>10,113</b>	8,931
4 to 6 months	<b>—</b>	1,521
Not yet billed	<b>284,598</b>	290,038
	<b>294,711</b>	300,490

## 11. GOODWILL

*HK\$'000*

### Cost

As at 1 January 2019, 31 December 2019, 1 January 2020 and **30 June 2020** 81,407

### Impairment

As at 1 January 2019, 31 December 2019, 1 January 2020 and **30 June 2020** 81,407

### Carrying values

As at **30 June 2020 (unaudited)** —

As at 31 December 2019 (audited) —

The amount represents goodwill arising on the acquisition of Weal Union Limited (“Weal Union”) and its subsidiary in Indonesia, PT Rimba Palma Sejahtera Lestari (“RPSL”, and together with Weal Union, the “Weal Union Group”) on 21 October 2016. As at 30 June 2020, the goodwill arising on acquisition of the Weal Union Group had been fully impaired. Details are disclosed in the Consolidated Financial Statements for the year ended 31 December 2018.

## 12. 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:

	<b>30 June 2020 <i>HK\$'000</i> (Unaudited)</b>	31 December 2019 <i>HK\$'000</i> (Audited)
0-60 days	346	776
61-90 days	18	566
Over 90 days	1,963	1,661
	<u>2,327</u>	<u>3,003</u>

Included in the Group’s trade payables are construction retention payables of HK\$72,000 (31 December 2019: HK\$74,000).

### 13. BANK BORROWINGS

	<b>30 June 2020 HK\$'000 (Unaudited)</b>	31 December 2019 HK\$'000 (Audited)
On demand or within one year	20,240	20,240
In the second year	2,240	2,240
In the third to fifth years inclusive	—	2,240
	<u>22,480</u>	<u>24,720</u>
Less: Amount due within one year shown under current liabilities	<u>(20,240)</u>	<u>(20,240)</u>
Amount due after one year	<u>2,240</u>	<u>4,480</u>
Current — unsecured	20,240	20,240
Non-current — unsecured	2,240	4,480
	<u>22,480</u>	<u>24,720</u>

### 14. SHARE CAPITAL

	<b>30 June 2020 HK\$'000 (Unaudited)</b>	31 December 2019 HK\$'000 (Audited)
Authorised: 3,800,000,000 ordinary shares of HK\$0.0001 each	<u>380</u>	<u>380</u>
Issued and fully paid: 1,107,300,000 (31 December 2019: 1,107,300,000) ordinary shares of HK\$0.0001 each	<u>111</u>	<u>111</u>

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

	Number of shares	Amount <i>HK\$'000</i>
As at 1 January 2019	1,108,000,000	111
Shares repurchased and cancelled	<u>(700,000)</u>	<u>N/A*</u>
As at 31 December 2019, 1 January 2020 and <b>30 June 2020</b>	<b><u>1,107,300,000</u></b>	<b><u>111</u></b>

\* Amount less than HK\$1,000.

#### 15. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
<b>Non-current</b>		
Listed debt securities classified as debt instruments at fair value through other comprehensive income	<b><u>15,110</u></b>	<u>18,518</u>
<b>Analysed as:</b>		
Non-current	<b>5,650</b>	3,390
Current	<b><u>9,460</u></b>	<u>15,128</u>
	<b><u>15,110</u></b>	<u>18,518</u>

During the Period, the fair value loss in respect of the Group's listed debt securities classified as debt instruments at fair value through other comprehensive income recognised in other comprehensive income amounted to approximately HK\$247,000 (six months ended 30 June 2019: a gain of approximately HK\$93,000), and a gain of HK\$33,000 (six months ended 30 June 2019: a loss of HK\$76,000) was released to profit or loss during the Period upon disposal.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

In the first half of 2020, the outbreak of the novel coronavirus disease 2019 (the “COVID-19”) severely disrupted the global economy. The Chinese economy inevitably suffered unprecedented negative impacts. China’s gross domestic product for the first quarter of 2020 was RMB20,650.4 billion<sup>1</sup>, representing a decrease of 6.8% when compared with the corresponding period of last year.

Fortunately, the COVID-19 pandemic has not posed major threats to the overall environmental protection industry in China. In the “Report on Achievements in Economic and Social Development in the 70 years since the Founding of the PRC” published by China’s National Bureau of Statistics in 2019, it was mentioned that China had put much focus on environmental protection, hoping that the long-standing issue of deteriorating water quality can be effectively improved. During the period of the “13th Five-Year Plan”, the investment scale of water environmental treatment has reached RMB734.4 billion<sup>2</sup>. The “Action Plan for Prevention and Control of Water Pollution” has put forward various goals for 2020, which includes the overall target for the ratio of quality water in seven key basins (such as Yangtze River, Yellow River, Pearl River and Songhua River) reaching over 70%; the overall ratio for water quality of centralized drinking water sources in the cities at prefecture level or above reaching or exceeding Class III (i.e. applicable to secondary protected area of centralized drinking water sources, general marine protected area and swimming area) reaching over 93%; and the black and odorous water bodies in built-up areas to be contained at 10% or below. All the above showed that China has put unprecedented emphasis on optimizing water quality.

In general, the Group has adopted a prudent approach and risk-oriented approach to business development in the past. The Group owns two wastewater treatment facilities in Jiangsu Province, China, respectively operated by Haiian Hengfa Wastewater Treatment Company Limited (“Haiian Hengfa”) and Rugao Hengfa Water Treatment Company Limited (“Rugao Hengfa”). For Haiian Hengfa, our management has reached an agreement with the relevant authorities to raise water tariffs from RMB0.91 per tonne to RMB1.14 per tonne since July 2019, resulting in considerable growth in both revenue and profits for the first half of 2020. For Rugao Hengfa, the Group is still in active negotiations with the relevant authorities with the aim of adjusting upwards the water tariffs to an optimal level. Looking forward, the Group expects that upon gradual adjustment of tariffs, its revenue and gross profit will be further increased, resulting in a better and sound financial position.

<sup>1</sup> [http://www.stats.gov.cn/tjsj/zxfb/202004/t20200417\\_1739602.html](http://www.stats.gov.cn/tjsj/zxfb/202004/t20200417_1739602.html)

<sup>2</sup> [http://pg.jrj.com.cn/acc/Res/CN\\_RES/INDUS/2020/3/25/2b8c88c7-979c-43d4-aab1-482aee522bc6.pdf](http://pg.jrj.com.cn/acc/Res/CN_RES/INDUS/2020/3/25/2b8c88c7-979c-43d4-aab1-482aee522bc6.pdf)



In October 2016, the Group acquired Weal Union and its subsidiary in Indonesia, RPSL. RPSL is engaged in the biomass power generation business in Jambi, Indonesia. RPSL's power plant has two generating units, which mainly powers its palm kernel oil production facility. The management considered that such acquisition is to attain the goal of expanding other environmental protection businesses as well as achieving long-term development and realizing shareholders' interests. Since the completion of the acquisition, the Group has actively invested in projects such as the reconstruction of the power generation facilities to improve the efficiency of power plants and lower the cost of sales. However, due to factors such as the relatively low market consumption of electricity in the region during recent years and the intensifying competition, the Group's biomass power plant in Indonesia has yet to reach their expected utilization rate. To effectively control losses and considering the uncertainty that such power plant's operation can bring revenue growth for the Group, the operations of the biomass power plant had remained suspended. We are also exploring other suitable environmental-protection-related projects, including the plan to set up a new power plant in another province in Indonesia as well as the study on the feasibility of developing other new energy investment projects in other regions of Indonesia, while actively promoting the "Build-Operate-Transfer" or "BOT" investment projects in order to generate more stable cash flows and investment return to the Group.

As for the biofuel pellet business in Indonesia, the Group is actively expanding such business and continuing to explore opportunities to cooperate with other power plants, thereby promoting the development of biofuel pellet business. The management is confident that the biofuel pellet business will provide the growth momentum to the Group and will enable the Group to achieve diversified development of its environmental protection business in the long run.

## **OUTLOOK**

Despite facing the challenges brought by the weakening external economic environment and the intensifying competition in the industry, the Company will continue adhering to the principles of stability and prudence and cautiously develop its business with risk-oriented approach, thus allowing sustainable business development under appropriate risk control and responding to ever-changing challenges. ELL Environmental will actively coordinate itself with national policies, remain flexible in coping with market changes, and seize any development opportunities in both China and overseas, with the aim of stabilizing the Group's business. Meanwhile, we shall also continue to solidify our strong foundation in China's wastewater treatment market and provide high-quality services to customers. Through leveraging on our extensive experience and expertise accumulated throughout the years, we will strive to develop environmental protection-related industrial chain projects and actively implement potential new environmental protection projects, thus generating long-term returns for the Group.

## **FINANCIAL REVIEW**

### **Revenue**

Our total revenue increased by HK\$2.0 million or 8.2% to HK\$26.4 million for the Period from HK\$24.4 million for the Last Corresponding Period, of which the revenue excluding the imputed interest income increased by HK\$2.0 million or 11.6% to HK\$19.2 million for the Period from HK\$17.2 million for the Last Corresponding Period. Such increase was primarily attributable to the increase in revenue of the wastewater treatment facility operated by Haian Hengfa (the “Haian Hengfa Facility”) by RMB6.8 million due to the increase in the water tariff from RMB0.91 to RMB1.14 per tonne since July 2019 and the reduction in value added tax during the Period, offset by (i) the decrease of construction revenue arising from the upgrade works of the wastewater treatment facility operated by Rugao Hengfa (the “Rugao Hengfa Facility”) and Haian Hengfa Facility during the Period by HK\$3.0 million as compared to the Last Corresponding Period, and (ii) the decrease in sales of electricity generated from biomass power plants by HK\$1.2 million during the Period. Our revenue from the operations in the PRC segment increased by HK\$3.2 million or 14.0% to HK\$26.4 million for the Period from HK\$23.1 million for the Last Corresponding Period. No revenue was recognised from our operations in the Indonesia segment for the Period as compared to HK\$1.2 million for the Last Corresponding Period.

### **Cost of Sales**

Our total cost of sales decreased by HK\$9.4 million or 42.5% to HK\$12.6 million for the Period from HK\$22.0 million for the Last Corresponding Period, primarily due to (i) the decrease in construction costs for the aforementioned upgrade works of the Rugao Hengfa Facility by HK\$2.4 million, (ii) the absence of expenses incurred in our Rugao Hengfa Facility of HK\$2.4 million for the Last Corresponding Period in relation to capital expenditures that did not qualify as BOT construction costs, (iii) the decrease in cost of sales in RPSL by HK\$1.6 million as a result of the reduction in operation level in our power plants in Indonesia, (iv) a variance amounted to HK\$1.4 million resulted from the absence of the sludge processing fee expense of HK\$0.7 million recognised during the Last Corresponding Period, and the subsequent refunding of such fee recognised as a credit to the cost of sales during the Period, and (v) the decrease in operating expenses in our wastewater treatment facilities by HK\$1.6 million.

### **Gross Profit and Gross Profit Margin**

Our gross profit increased by HK\$11.4 million or 480.1% to HK\$13.7 million for the Period from HK\$2.4 million for the Last Corresponding Period, primarily due to the aforementioned factors. Our gross profit margin increased to 52.1% for the Period from 9.7% for the Last Corresponding Period.

## **Other Income and Net Gains**

Our other income and net gains decreased by HK\$2.8 million or 91.4% to HK\$0.3 million for the Period from HK\$3.0 million for the Last Corresponding Period. Such gains mainly comprised the refund of tax paid for the Period.

## **Administrative Expenses**

Our administrative expenses decreased by HK\$0.9 million or 6.8% to HK\$12.7 million for the Period from HK\$13.6 million for the Last Corresponding Period, primary due to a decrease in administrative expenses of our Indonesia subsidiaries as a result of the reduction in business operation as compared with the Last Corresponding Period.

## **Finance Costs**

Our finance costs increased by HK\$0.2 million or 21.7% to HK\$1.0 million for the Period from HK\$0.8 million for the Last Corresponding Period. The finance costs mainly comprised the interest expenses from the Group's bank borrowings.

## **Profit Before Tax**

A profit before tax of HK\$0.3 million was recognised for the Period as compared to a loss before tax of HK\$9.0 million for the Last Corresponding Period, primarily due to the factors mentioned above.

## **Income Tax Expense**

Our income tax expense increased by HK\$1.5 million or 76.0% to HK\$3.5 million for the Period from HK\$2.0 million for the Last Corresponding Period, primarily due to the increase in profit before tax for our PRC subsidiaries by HK\$10.1 million or 420.0% to HK\$12.5 million for the Period from HK\$2.4 million for the Last Corresponding Period. The PRC subsidiaries' effective tax rate was 27.9% for the Period as compared to 82.5% for the Last Corresponding Period. The Group's expenses incurred by the Company and its non-profit making subsidiaries were not tax deductible as there were no taxable profits.

## **Loss for the Period Attributable to Owners of the Company**

Loss attributable to owners of the Company decreased by HK\$6.1 million or 55.8% to HK\$4.8 million for the Period from HK\$10.9 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 2020, the carrying amount of the Group's bank balances and cash was HK\$39.9 million, representing a decrease of 37.7% as compared with that of HK\$64.1 million as at 31 December 2019.

As at 30 June 2020, the Group's bank balances and cash of HK\$28.7 million, HK\$7.9 million, HK\$1.2 million and HK\$2.1 million were denominated in Renminbi ("RMB"), HK\$, Indonesian Rupiah ("IDR") and United States Dollars ("US\$"), respectively (31 December 2019: HK\$49.8 million, HK\$6.9 million, HK\$6.2 million and HK\$1.2 million were denominated in RMB, HK\$, IDR and US\$, respectively).

### **Bank Borrowings**

As at 30 June 2020, the total amount of our utilized bank borrowings was HK\$22.5 million, of which approximately HK\$20.3 million was repayable within one year and approximately HK\$2.2 million was repayable after one year but within five years. Approximately HK\$18.0 million and HK\$4.5 million of the outstanding bank borrowings were denominated in HK\$ and US\$, respectively (31 December 2019: HK\$18.0 million and HK\$6.7 million were denominated in HK\$ and US\$, respectively).

HK\$18.0 million bore a floating interest rate of 1.4% over the Hong Kong Interbank Offered Rate per annum. HK\$4.5 million bore a floating interest rate of 1.4% over London Interbank Offered Rate per annum. We had no unutilized banking facilities as at 30 June 2020 and 31 December 2019.

### **Gearing Ratio**

Gearing ratio is calculated by dividing total debt by total equity and then multiplied by 100%, and total debt is the interest-bearing bank borrowings. Our gearing ratio was kept stable, being 10% both as at 30 June 2020 and 31 December 2019.

### **Charge on Assets**

As at 30 June 2020, the Group did not have any charge on assets (31 December 2019: nil).

## **Treasury Policies**

The Group has adopted a prudent financial management approach towards its treasury policies and thus, maintained a healthy liquidity position throughout 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 plants of Rugao Hengfa and Hai'an Hengfa and for the biofuel pellet business in Indonesia. For the Period, our capital expenditures amounted to HK\$3.0 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 carry assets and liabilities in RMB and IDR, any appreciation or depreciation of HK\$ against RMB and IDR will affect the Group's consolidated financial position which is presented in HK\$, and will be reflected in the exchange fluctuation reserve.

The Group does not have a foreign currency hedging policy. The Group minimises the foreign exchange exposure by converting the cash and cash equivalents in other currencies generated from the operation of its foreign operating subsidiaries to HK\$.

## **Contingent Liabilities**

As at 30 June 2020, the Group had no contingent liabilities (31 December 2019: nil).

## **EMPLOYEE AND REMUNERATION POLICIES**

As at 30 June 2020, the Group had 113 employees (31 December 2019: 116 employees). Employee costs, including Directors' emoluments, amounted to approximately HK\$6.2 million for the Period (six months ended 30 June 2019: HK\$8.9 million). The remuneration policy for our Directors, senior management members and general staff 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, senior management members and general staff. 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**

As at 30 June 2020, debt instruments at fair value through other comprehensive income classified as current assets in the amount of approximately HK\$9.5 million mainly comprised of debt instruments held by the Group (31 December 2019: HK\$15.1 million). The decrease in amount was primarily as a result of the disposal of or the maturity of certain listed bonds during the Period. The fair value change on debt instruments at fair value through other comprehensive income decreased from a gain of approximately HK\$0.1 million to a loss of approximately HK\$0.2 million. For details, please refer to note 15 to the condensed interim financial information in this announcement. It is expected that the Group will hold the remaining debt instruments till maturity, which will be repaid at par.

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.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

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

## **EVENTS AFTER THE REPORTING PERIOD**

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 21 August 2020, the Board has resolved not to declare the payment of any interim dividend for the Period (six months ended 30 June 2019: 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 and up to the date of this announcement.

## **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 OR 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 three members, namely Ms. Ng Chung Yan Linda (who is also the chairlady of the Audit Committee), Mr. Ng Man Kung and Ms. Leung Bo Yee Nancy, all being independent non-executive Directors (the “INEDs”). 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 2020 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 2020.

## 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, 21 August 2020

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