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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 2021

FINANCIAL SUMMARY

- Revenue for the six months ended 30 June 2021 amounted to HK\$33.0 million (six months ended 30 June 2020: HK\$26.4 million), representing an increase of 25.2% as compared with that of the corresponding period in 2020 (the “**Last Corresponding Period**”).
- Gross profit for the six months ended 30 June 2021 was HK\$17.3 million (six months ended 30 June 2020: HK\$13.7 million), representing an increase of 25.8% as compared with that of the Last Corresponding Period.
- Net loss for the six months ended 30 June 2021 was HK\$1.9 million (six months ended 30 June 2020: net loss of HK\$3.2 million), representing a decrease of 39.4% as compared with that of the Last Corresponding Period.
- An interim dividend of HK0.5 cent per ordinary share is declared by the Board for the six months ended 30 June 2021 (six months ended 30 June 2020: 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 2021 (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 2021

	Notes	Six months ended 30 June	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue	3	33,011	26,369
Cost of sales		<u>(15,741)</u>	<u>(12,643)</u>
Gross profit		17,270	13,726
Other income and net (losses)/gains		(1,581)	262
Administrative expenses		(12,366)	(12,683)
Finance costs	5	<u>(1,663)</u>	<u>(1,020)</u>
Profit before tax	6	1,660	285
Income tax expense	7	<u>(3,607)</u>	<u>(3,496)</u>
Loss for the period		<u>(1,947)</u>	<u>(3,211)</u>
(Loss)/profit for the period attributable to:			
Owners of the Company		(3,269)	(4,832)
Non-controlling interests		<u>1,322</u>	<u>1,621</u>
		<u>(1,947)</u>	<u>(3,211)</u>
		<i>HK cent</i>	<i>HK cent</i>
Loss per share	9		
— Basic		<u>(0.30)</u>	<u>(0.44)</u>
— Diluted		<u>(0.30)</u>	<u>(0.44)</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Loss for the period	(1,947)	(3,211)
Other comprehensive income/(expense):		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on translation of foreign operations	5,575	(4,961)
Fair value changes on debt instruments at fair value through other comprehensive income	(97)	(247)
Investment revaluation reserve released upon disposal of debt instruments at fair value through other comprehensive income	5	(33)
<i>Item that will not be reclassified to profit or loss:</i>		
Actuarial loss of defined benefit retirement plan	(1)	—
Total comprehensive income/(expense) for the period	<u>3,535</u>	<u>(8,452)</u>
Total comprehensive income/(expense) for the period attributable to:		
Owners of the Company	1,745	(9,409)
Non-controlling interests	1,790	957
	<u>3,535</u>	<u>(8,452)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	<i>Notes</i>	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment		72,505	73,470
Deposits paid for purchase of property, plant and equipment		—	897
Receivables under service concession arrangements	10	291,898	292,899
Goodwill	11	—	—
Debt instruments at fair value through other comprehensive income	12	3,287	3,380
Other financial assets at amortised cost		1,959	2,038
Restricted bank deposits		5,781	6,015
		<u>375,430</u>	<u>378,699</u>
Current assets			
Inventories		1,109	964
Receivables under service concession arrangements	10	28,502	21,883
Prepayments and other receivables		20,295	10,175
Income tax recoverable		753	771
Debt instruments at fair value through other comprehensive income	12	—	1,592
Other financial assets at amortised cost		268	6,215
Restricted bank deposits		—	6,015
Bank balances and cash		84,606	51,067
		<u>135,533</u>	<u>98,682</u>
Current liabilities			
Trade payables	13	2,006	2,764
Other payables and accruals		5,413	6,491
Amounts due to related parties		31,307	13,406
Borrowings	14	35,107	20,240
Lease liabilities		558	547
Income tax payables		1,549	2,213
		<u>75,940</u>	<u>45,661</u>
Net current assets		<u>59,593</u>	53,021
Total assets less current liabilities		<u><u>435,023</u></u>	<u><u>431,720</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

As at 30 June 2021

	30 June 2021	31 December 2020
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Capital and reserves		
Share capital	111	111
Reserves	346,770	345,025
	<hr/>	<hr/>
Equity attributable to owners of the Company	346,881	345,136
Non-controlling interests	31,818	30,028
	<hr/>	<hr/>
TOTAL EQUITY	378,699	375,164
	<hr/>	<hr/>
Non-current liabilities		
Borrowings	<i>14</i> —	2,240
Lease liabilities	191	472
Deferred tax liabilities	36,204	35,774
Provision for major overhauls	18,570	16,656
Retirement benefit obligations	1,359	1,414
	<hr/>	<hr/>
	56,324	56,556
	<hr/>	<hr/>
	435,023	431,720
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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**”) as well as 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 2020 (the “**Year 2020**”).

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 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 2020.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. REVENUE

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Types of goods and services		
Construction services	953	1,454
Wastewater treatment facility operation services	24,513	17,715
Revenue from goods and services	25,466	19,169
Imputed interest income on receivables under service concession arrangements	7,545	7,200
	33,011	26,369

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 2021 (unaudited)

	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Indonesia <i>HK\$'000</i>	Total <i>HK\$'000</i>
Results				
Segment revenue	<u>—</u>	<u>32,476</u>	<u>535</u>	<u>33,011</u>
Segment (loss)/profit	<u>(4,538)</u>	<u>14,340</u>	<u>(8,118)</u>	<u>1,684</u>
Unallocated expenses				
Administrative expenses				<u>(24)</u>
Profit before tax				<u>1,660</u>

Six months ended 30 June 2020 (unaudited)

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

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 2021 and 2020 are as follows:

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Customer A from the PRC segment	13,430	12,015
Customer B from the PRC segment	19,046	14,354

5. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest on bank borrowings	172	378
Interest on loan from related parties	595	243
Interest on other loan	293	—
Interest on lease liabilities	17	27
Increase in discounted amounts of provision for major overhauls arising from the passage of time	586	372
	1,663	1,020

6. PROFIT BEFORE TAX

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Profit before tax has been arrived at after charging:		
Employee benefit expense (including Directors' remuneration):		
Salaries and other benefits	5,987	5,729
Pension scheme contributions (<i>note</i>)	767	481
	<u>6,754</u>	<u>6,210</u>
Cost of construction services	857	1,120
Cost of wastewater treatment facilities operation services rendered	10,004	7,921
Cost of inventories	4,880	3,602
Depreciation of property, plant and equipment	2,329	2,233
Foreign exchange loss, net	2,648	3,656
Provision for major overhauls	1,105	610
	<u>1,105</u>	<u>610</u>

Note: As at 30 June 2021, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (six months ended 30 June 2020: nil).

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Current tax:		
PRC Enterprise Income Tax	3,617	2,221
Under provision in prior years:		
PRC Enterprise Income Tax	30	724
Deferred tax	(40)	551
Total tax charge for the period	<u>3,607</u>	<u>3,496</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 2020: 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 2020: nil).

The provision for the PRC income tax is based on the respective enterprise 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

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK0.5 cent per share in respect of the Period amounting to HK\$5,536,500 in aggregate (six months ended 30 June 2020: nil) will be paid to owners of the Company whose names appear in the register of members of the Company on 15 September 2021.

A special dividend of HK0.5 cent per ordinary share amounting to HK\$5,536,500 in aggregate in respect of the year ended 31 December 2020 was paid in the current interim period amounted to HK\$797,500 (six months ended 30 June 2020: nil).

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:

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the purposes of basic and diluted loss per share, being loss for the period attributable to owners of the Company	<u>(3,269)</u>	<u>(4,832)</u>
	Number of shares	
	Six months ended 30 June	
	2021	2020
	'000	'000
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>1,107,300</u>	<u>1,107,300</u>

For the six months ended 30 June 2021 and 2020, 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

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Receivables under service concession arrangements	320,400	314,782
Portion classified as current assets	<u>(28,502)</u>	<u>(21,883)</u>
Portion classified as non-current assets	<u>291,898</u>	<u>292,899</u>

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 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Billed:		
Within 3 months	15,709	9,558
Not yet billed	<u>304,691</u>	<u>305,224</u>
	<u>320,400</u>	<u>314,782</u>

11. GOODWILL

	<i>HK\$'000</i>
Cost	
As at 1 January 2020, 31 December 2020, 1 January 2021 and 30 June 2021	<u>81,407</u>
Impairment	
As at 1 January 2020, 31 December 2020, 1 January 2021 and 30 June 2021	<u>81,407</u>
Carrying values	
As at 30 June 2021 (unaudited)	<u><u>—</u></u>
As at 31 December 2020 (audited)	<u><u>—</u></u>

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

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

12. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Listed debt securities classified as debt instruments at fair value through other comprehensive income	<u>3,287</u>	<u>4,972</u>
Analysed as:		
Non-current	<u>3,287</u>	3,380
Current	<u>—</u>	<u>1,592</u>
	<u>3,287</u>	<u>4,972</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 expense amounted to approximately HK\$97,000 (six months ended 30 June 2020: a loss of approximately HK\$247,000), and a gain of HK\$5,000 (six months ended 30 June 2020: a loss of HK\$33,000) was released to profit or loss during the Period upon disposal.

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 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
0–60 days	250	649
61–90 days	—	3
Over 90 days	<u>1,756</u>	<u>2,112</u>
	<u>2,006</u>	<u>2,764</u>

Included in the Group's trade payables are construction retention payables of HK\$79,000 (31 December 2020: HK\$78,000).

14. BORROWINGS

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Bank borrowings		
On demand or within one year	20,240	20,240
In the second year	—	2,240
	20,240	22,480
Other loan (Note)		
Within one year	14,867	—
	35,107	22,480
Analysed for reporting purposes:		
Current — unsecured	35,107	20,240
Non-current — unsecured	—	2,240
	35,107	22,480

Note: The other loan is unsecured, interest-bearing of 8% per annum and repayable within one year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Appearing at the beginning of 2020, the COVID-19 pandemic has spread swiftly throughout the world and devastated global economic activities, and China's economic and production activities fell into one of the greatest crises in recent years. Fortunately, through implementing stringent travel restrictions and community quarantine measures, the Chinese government successfully controlled the pandemic, allowing the economy to quickly recover. As of the end of the first half of 2021, China's gross domestic product was RMB53.2 trillion¹, representing an increase of 12.7% when compared with the corresponding period of last year.

China has been paying more attention to environmental protection issues in recent years, leading to an increased demand and support for the environmental protection industry. In particular, China has been having a serious water pollution issue, which has been effectively improved in recent years due to the Chinese government's proactive response. At the beginning of 2021, ten departments, including China's National Development and Reform Commission, jointly published the Guidance on Promoting Wastewater Resource Utilisation (《關於推進污水資源化利用的指導意見》), which stated that China will systematically develop the resource utilisation of sewage, displaying the Chinese government's determination in resolving the issue of water pollution. 2021 is the first year of the "14th Five-Year", and the Chinese government stressed that ecological conservation will be further advanced and formulated plans for eliminating black and odorous water bodies in cities. Compared with the "13th Five-Year Plan", the "14th Five-Year" has further raised the goals on sewage treatment capability, sewage treatment rate, utilisation rate of reclaimed water and innocuous treatment rate of sludge. In the Plan for Urban Sewage Treatment and Resources Utilisation Development (《城鎮污水處理及資源化利用發展規劃》) jointly issued by the National Development and Reform Commission and the Ministry of Housing and Urban-Rural Development, a number of major goals have been set up. The major goals which shall be achieved by 2025 include: the sewage treatment rate in county will reach 95% or above; the rate of utilisation of reclaimed water at the prefecture-level or above cities of counties faced with water shortage will reach 25% or above; direct discharge of domestic sewage and regions without collection and treatment facilities in urban areas will be basically eliminated; and the centralised collection rate of urban domestic sewage on national level should strive to reach more than 70%; the major goal by the year of 2035 is to achieve a basically complete urban domestic sewage collection pipe network. In the report on national surface water and ambient air quality for January to May of this year, among the 3,641 national surface water assessment sections, the proportion of sections with excellent water quality (Grade I-III) reached 81.8%², representing an increase of 1.0% over the same

1. http://www.stats.gov.cn/tjsj/zxfb/202107/t20210716_1819540.html

2. http://www.mee.gov.cn/ywdt/xwfb/202106/t20210621_841044.shtml

period last year, which shows that China has invested a large amount of resources in driving and leading the development of water pollution treatment industry, and achieved progressive and significant results. It is expected that more resources will be invested to significantly improve water quality in a display of the strong determination and capability in managing water pollution.

In general, the Group has consistently adopted a prudent and risk-oriented approach to business development in the past. The Group owns two wastewater treatment facilities in Jiangsu Province, China, respectively operated by Haian Hengfa Wastewater Treatment Company Limited (“**Haian Hengfa**”) and Rugao Hengfa Water Treatment Company Limited (“**Rugao Hengfa**”). For Haian 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, resulting in a considerable growth in revenue and profits for the Group from 2020 onwards. For Rugao Hengfa, the Group has reached an agreement with Rugao Economic and Technological Development Zone Administrative Committee, increasing water tariffs in the wastewater treatment facility from RMB2.67 per tonne to RMB3.43 per tonne with effect from April 2021. It is expected that the Group’s revenue and gross profit will further increase, and the Group will dedicate itself to expand the water facilities’ scale and enhance the daily capacity to improve the financial position of the Group.

The Group has also been actively preparing for the development of suitable environmental protection projects in overseas. Two key projects are currently being developed, among which the new power plant in Bangka, Indonesia with a capacity of 10 megawatts has entered the final preparatory stage. The Group also purchased a boiler and a turbine generator at the end of 2020 and the beginning of 2021, and it is believed that the modified construction plan will result in a reduction of landscaping cost, thus reducing the total cost of construction, which would be more cost effective and suitable for the needs of the Bangka project. The Group is now selecting contracting companies for the project and expects to finalise in the second half of the year. Once confirmed, the Plant can be put into service. Moreover, we will also continue our 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 greater value for the Group and bring better cash flows and investment return.

As for the biofuel pellet business in Indonesia, the Group has been actively expanding such business and continuing to explore opportunities to cooperate with other power plants, thereby promoting the development of biofuel pellet business. After multiple stages of preparation and negotiation with various buyers, the final preparatory stage has been reached, and operation is expected to be officially commenced in the second half of 2021. 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 the challenging business environment in recent years and the ever-changing external economic environment, the Company will deal with various challenges rationally and calmly, and will evaluate the risks and opportunities of different development projects. ELL Environmental will also actively coordinate itself with national policies, remain flexible in coping with market changes, and seize any development opportunities in both China and overseas. Sustainable development is one of the global trends, and the Group will strive to make a contribution to environmental protection. We shall continue to solidify our strong foundation in China's wastewater treatment market and provide high-quality services to customers, creating a pristine water quality domestically. Meanwhile, leveraging on our extensive experience and expertise accumulated throughout the years, we will strive to develop and actively implement potential environmental protection-related industrial chain projects, and will keep trying and looking for breakthroughs to capture and create more business opportunities in order to promote the growth of the Group's business. We will stand by our customers and provide quality service to them, and uphold a sound and prudent business strategy.

FINANCIAL REVIEW

Revenue

Our total revenue increased by HK\$6.6 million or 25.2% to HK\$33.0 million for the Period from HK\$26.4 million for the corresponding period in 2020 (the “**Last Corresponding Period**”), of which the revenue excluding the imputed interest income increased by HK\$6.3 million or 32.8% to HK\$25.5 million for the Period from HK\$19.2 million for the Last Corresponding Period. Such increase was primarily attributable to (i) the increase in revenue of the wastewater treatment facility operated by Rugao Hengfa (the “**Rugao Hengfa Facility**”) by HK\$4.7 million due to the increase in the water tariff from RMB2.67 to RMB3.43 per tonne effective from April 2021, (ii) the increase in construction revenue arising from the construction works of the biomass power plant in Bangka, Indonesia (the “**Bangka Project**”) during the Period by HK\$0.5 million as compared to the Last Corresponding Period, (iii) the effect of foreign exchange translation of our PRC subsidiaries due to the appreciation of Renminbi (“**RMB**”) against HK\$ during the Period, and offset by (iv) the decrease in construction revenue arising from the upgrade works of the wastewater treatment facility operated by Haian Hengfa during the Period by HK\$1.0 million as compared to the Last Corresponding Period.

Cost of Sales

Our total cost of sales increased by HK\$3.1 million or 24.5% to HK\$15.7 million for the Period from HK\$12.6 million for the Last Corresponding Period, primarily due to (i) the increase in construction costs arising from the Bangka Project during the Period by HK\$0.5 million as compared to the Last Corresponding Period, and (ii) the increase in operating costs for the Rugao Hengfa Facility by HK\$2.1 million as compared to the Last Corresponding Period due to the increase in cost of material and staff, and the effect of foreign exchange translation difference arising from the appreciation of RMB against HK\$.

Gross Profit and Gross Profit Margin

Our gross profit increased by HK\$3.5 million or 25.8% to HK\$17.3 million for the Period from HK\$13.7 million for the Last Corresponding Period, primarily due to the aforementioned factors. Our gross profit margin increased slightly to 52.3% for the Period from 52.1% for the Last Corresponding Period.

Other Income and Net Losses/Gains

We recorded other income and net losses of HK\$1.6 million for the Period as compared to net gains of HK\$0.3 million for the Last Corresponding Period, primarily due to the decrease in the refund of value-added tax by HK\$2.0 million as compared to the Last Corresponding Period. The net losses mainly comprised foreign exchange losses from our foreign operations.

Administrative Expenses

Our administrative expenses decreased slightly by HK\$0.3 million or 2.5% to HK\$12.4 million for the Period from HK\$12.7 million for the Last Corresponding Period, primarily due to a decrease in general administrative expenses of our PRC subsidiaries.

Finance Costs

Our finance costs increased by HK\$0.6 million or 63.0% to HK\$1.7 million for the Period from HK\$1.0 million for the Last Corresponding Period, primarily due to the increase in loan borrowing for the financing of the Bangka Project during the Period.

Profit Before Tax

Our profit before tax increased by HK\$1.4 million or 482.5% to HK\$1.7 million for the Period from HK\$0.3 million for the Last Corresponding Period, primarily due to the factors mentioned above.

Income Tax Expense

Our income tax expense increased by HK\$0.1 million or 3.2% to HK\$3.6 million for the Period from HK\$3.5 million for the Last Corresponding Period, primarily due to the increase in profit before tax for our PRC subsidiaries by HK\$1.8 million or 14.6% to HK\$14.3 million for the Period from HK\$12.5 million for the Last Corresponding Period. The PRC subsidiaries' effective tax rate was 25.2% for the Period as compared to 27.9% 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\$1.6 million or 32.3% to HK\$3.3 million for the Period from HK\$4.8 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 2021, the carrying amount of the Group's bank balances and cash was HK\$84.6 million, representing an increase of 65.7% as compared with that of HK\$51.1 million as at 31 December 2020. As at 30 June 2021, the Group's bank balances and cash of HK\$34.9 million, HK\$2.7 million, HK\$3.5 million and HK\$43.5 million were denominated in RMB, HK\$, Indonesian Rupiah (“**IDR**”) and United States Dollars (“**US\$**”), respectively (31 December 2020: HK\$35.1 million, HK\$6.0 million, HK\$0.8 million and HK\$9.2 million were denominated in RMB, HK\$, IDR and US\$, respectively).

Borrowings

As at 30 June 2021, the total amount of our utilised bank borrowings was HK\$20.2 million, which was repayable within one year. Approximately HK\$18.0 million and HK\$2.2 million of the outstanding bank borrowings were denominated in HK\$ and US\$, respectively (31 December 2020: HK\$18.0 million and HK\$4.5 million were denominated in HK\$ and US\$, respectively).

Out of the HK\$20.2 million outstanding bank borrowings, HK\$18.0 million bore a floating interest rate of 1.4% over the Hong Kong Interbank Offered Rate per annum (31 December 2020: HK\$18.0 million), and HK\$2.2 million bore a floating interest rate of 1.4% over London Interbank Offered Rate per annum (31 December 2020: HK\$4.5 million). We had no unutilised banking facilities as at 30 June 2021 and 31 December 2020.

As at 30 June 2021, the Company had an outstanding borrowing from an independent third party of the Group amounted to HK\$14.9 million, which bore a fixed interest rate of 8% per annum. The loan was repayable within one year.

As at 30 June 2021, the Company had outstanding amounts due to related parties of the Group amounted to HK\$31.3 million, of which HK\$8.0 million bore a fixed interest rate of 8% per annum and HK\$23.3 million bore a fixed interest rate of 6% per annum. The amounts due to related parties were repayable within one year.

To the best knowledge of the Directors and management of the Group, all the interest rates of the above borrowings were determined at arm's length.

Gearing Ratio

Gearing ratio is calculated by dividing total debt by total equity and then multiplied by 100%, and total debt includes the interest-bearing bank borrowings, amounts due to related parties and other borrowings. Our gearing ratio increased from 9.6% as at 31 December 2020 to 17.5% as at 30 June 2021.

Charge on Assets

As at 30 June 2021, the Group did not have any charge on assets (31 December 2020: 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 its strategy or direction from time to time can be met.

Capital Expenditures

Our capital expenditures consist primarily of expenditures for the construction and acquisition of machinery and equipment for our plants of Rugao Hengfa and Hai'an Hengfa, our Bangka Project and the biofuel pellet business in Indonesia. During the Period, our capital expenditures amounted to HK\$3.9 million, which were funded by funds generated from our financing activities.

Foreign Exchange Risk

Individual member companies in 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 foreign exchange exposure by converting its cash and cash equivalents in other currencies generated from the operation of its foreign operating subsidiaries to HK\$.

Contingent Liabilities

As at 30 June 2021, the Group had no contingent liabilities (31 December 2020: nil).

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2021, the Group had 110 employees (31 December 2020: 114 employees). Employee costs, including Directors' emoluments, amounted to approximately HK\$6.8 million for the Period (six months ended 30 June 2020: HK\$6.2 million). The remuneration policy for our Directors, senior management members and general staff 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, senior management members and general staff. The Group encourages the 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 2021, debt instruments at fair value through other comprehensive income classified as non-current assets and current assets in the amount of HK\$3.3 million and HK\$nil, respectively (31 December 2020: HK\$3.4 million and HK\$1.6 million, respectively) mainly comprised debt instruments held by the Group. It is expected that the Group will hold the remaining debt instruments, which will be repaid at par, until maturity.

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 and the announcements made by the Company on 31 December 2020 and 8 January 2021 regarding the purchase of a steam turbine generator, on 21 January 2021 regarding the purchase of a boiler, and that on 12 August 2021 regarding the construction of temporary buildings as offices and working spaces, 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 not undertaken any material event subsequent to the end of the Period and up to the date of this announcement.

INTERIM DIVIDEND

During its meeting held on 26 August 2021, the Board has resolved to declare the payment of an interim dividend of HK0.5 cent per ordinary share for the six months ended 30 June 2021 (six months ended 30 June 2020: nil). The interim dividend will be payable on or around Wednesday, 29 September 2021 to the shareholders of the Company (the “**Shareholders**”) whose names will appear on the register of members of the Company (the “**Register of Members**”) on Wednesday, 15 September 2021.

The Register of Members will be closed from Monday, 13 September 2021 to Wednesday, 15 September 2021 (both days inclusive), during which period no transfer of the shares will be registered. To qualify for the interim dividend, non-registered Shareholders must lodge all duly completed transfer forms accompanied by the relevant share certificate with the Company’s Hong Kong branch share registrar, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong for registration no later than 4:30 p.m. on Friday, 10 September 2021.

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 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 2021 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 not later than 30 September 2021.

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, 26 August 2021

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