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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 2022

FINANCIAL SUMMARY

- Revenue for the six months ended 30 June 2022 amounted to HK\$88.1 million (six months ended 30 June 2021: HK\$33.0 million), representing an increase of 166.9% as compared with that of the corresponding period in 2021 (the “**Last Corresponding Period**”).
- Gross profit for the six months ended 30 June 2022 was HK\$21.4 million (six months ended 30 June 2021: HK\$17.3 million), representing an increase of 23.8% as compared with that of the Last Corresponding Period.
- Net loss for the six months ended 30 June 2022 was HK\$1.0 million (six months ended 30 June 2021: net loss of HK\$1.9 million), representing a decrease of 49.0% 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 2022 (six months ended 30 June 2021: HK0.5 cent per share).

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 2022 (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 2022

		Six months ended 30 June	
		2022	2021
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	88,110	33,011
Cost of sales		<u>(66,722)</u>	<u>(15,741)</u>
Gross profit		21,388	17,270
Other income and net gains/(losses)		1,811	(1,581)
Administrative expenses		(14,412)	(12,366)
Finance costs	5	<u>(3,817)</u>	<u>(1,663)</u>
Profit before tax	6	4,970	1,660
Income tax expense	7	<u>(5,963)</u>	<u>(3,607)</u>
Loss for the period		<u>(993)</u>	<u>(1,947)</u>
(Loss)/profit for the period attributable to:			
Owners of the Company		(1,611)	(3,269)
Non-controlling interests		<u>618</u>	<u>1,322</u>
		<u>(993)</u>	<u>(1,947)</u>
		<i>HK cent</i>	<i>HK cent</i>
Loss per share	9		
— Basic		<u>(0.15)</u>	<u>(0.30)</u>
— Diluted		<u>(0.15)</u>	<u>(0.30)</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Loss for the period	(993)	(1,947)
Other comprehensive (expense)/income		
<i>Item that will not be reclassified to profit or loss:</i>		
Actuarial loss of defined benefit retirement plan	—	(1)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	(21,323)	5,575
Net fair value loss on debt instruments at fair value through other comprehensive income	(1,698)	(97)
Release on redemption of debt instruments at fair value through other comprehensive income	—	5
	<u> </u>	<u> </u>
Other comprehensive (expense)/income for the period	(23,021)	5,482
	<u> </u>	<u> </u>
Total comprehensive (expense)/income for the period	<u>(24,014)</u>	<u>3,535</u>
Total comprehensive (expense)/income for the period attributable to:		
Owners of the Company	(23,059)	1,745
Non-controlling interests	(955)	1,790
	<u> </u>	<u> </u>
	<u>(24,014)</u>	<u>3,535</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

		30 June 2022	31 December 2021
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		65,866	71,490
Receivables under service concession arrangements	10	244,134	313,194
Goodwill	11	—	—
Debt instruments at fair value through other comprehensive income	12	314	2,012
Other financial assets at amortised cost		13	14
Prepayments and other receivables		—	341
Restricted bank deposits		—	2,960
		310,327	390,011
CURRENT ASSETS			
Inventories		807	1,973
Trade receivables	13	1,821	73
Receivables under service concession arrangements	10	24,162	25,559
Prepayments and other receivables		42,815	30,867
Other financial assets at amortised cost		4	5
Restricted bank deposits		5,679	2,960
Time deposits		—	12,269
Bank balances and cash		21,352	65,054
		96,640	138,760
Assets classified as held for sale	14	137,279	—
		233,919	138,760

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

As at 30 June 2022

	<i>Notes</i>	30 June 2022 <i>HK\$'000</i> (Unaudited)	31 December 2021 <i>HK\$'000</i> (Audited)
CURRENT LIABILITIES			
Trade payables	15	1,579	3,301
Other payables and accruals		5,468	5,984
Amounts due to related parties		75,312	35,207
Borrowings	16	41,867	35,107
Lease liabilities		191	472
Income tax payable		1,427	4,972
		<u>125,844</u>	<u>85,043</u>
Liabilities associated with assets classified as held for sale	14	<u>22,998</u>	—
		<u>148,842</u>	<u>85,043</u>
NET CURRENT ASSETS		<u>85,077</u>	<u>53,717</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>395,404</u>	<u>443,728</u>
CAPITAL AND RESERVES			
Share capital		111	111
Reserves		329,695	352,754
Equity attributable to owners of the Company		<u>329,806</u>	<u>352,865</u>
Non-controlling interests		29,245	30,200
TOTAL EQUITY		<u>359,051</u>	<u>383,065</u>
NON-CURRENT LIABILITIES			
Amounts due to related parties		—	4,000
Deferred tax liabilities		22,574	36,620
Provision for major overhauls		12,786	18,978
Retirement benefit obligations		993	1,065
		<u>36,353</u>	<u>60,663</u>
		<u>395,404</u>	<u>443,728</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited condensed interim financial information of the Group for the period (the “**Unaudited Condensed Interim Financial Information**”) has been prepared in accordance with Hong Kong Accounting Standard (the “**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) 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 2021.

This Unaudited Condensed Interim Financial Information is presented in 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.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements of the Group 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.

Other than additional 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 of the Group for the six months ended 30 June 2022 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2021.

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 Group’s annual period beginning on or after 1 January 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

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	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Types of goods and services		
Wastewater treatment facilities operation services	26,796	24,513
Wastewater treatment facilities construction services	—	953
Biomass power plant construction services	46,210	—
Sales of biofuel	6,475	—
	<hr/>	<hr/>
Revenue from goods and services	79,481	25,466
Imputed interest income on receivables under service concession arrangements	8,629	7,545
	<hr/>	<hr/>
	88,110	33,011
	<hr/> <hr/>	<hr/> <hr/>

4. SEGMENT INFORMATION

The Group is engaged in the construction and operation of wastewater treatment facilities, construction of biomass power plant and sales of biofuel 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") 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 2022 (unaudited)

	Hong Kong	PRC	Indonesia	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Results				
Segment revenue	—	34,108	54,002	88,110
	<hr/>	<hr/>	<hr/>	<hr/>
Segment (loss)/profit	(8,972)	13,802	140	4,970
	<hr/>	<hr/>	<hr/>	<hr/>
Unallocated expenses				
Administrative expenses				—
				<hr/>
Profit before tax				4,970
				<hr/> <hr/>

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>	1,684
Unallocated expenses				
Administrative expenses				<u>(24)</u>
Profit before tax				<u>1,660</u>

There were no inter-segment sales for both periods.

All of the segment revenue reported above is from external customers.

Revenue from customers contributing over 10% of the Group's revenue for the six months ended 30 June 2022 and 2021 are as follows:

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Customer A from the PRC segment	10,414	13,430
Customer B from the PRC segment	23,694	19,046
Customer C from the Indonesia segment	47,527	N/A*

* The corresponding revenue did not contribute over 10% of the total revenue of the Group.

5. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on borrowings	1,115	465
Interest on loans from related parties	2,149	595
Interest on lease liabilities	6	17
Increase in discounted amounts of provision for major overhauls arising from the passage of time	547	586
	<u>3,817</u>	<u>1,663</u>

6. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Staff cost (including directors' remuneration):		
Salaries, allowances and benefits in kind	6,836	5,987
Discretionary bonus	125	—
Pension scheme contributions (<i>note</i>)	892	767
Less: Amount capitalised in inventories	(196)	—
Less: Amount recognised in cost of sales	(786)	—
	<u>6,871</u>	<u>6,754</u>
Depreciation of property, plant and equipment	3,072	2,329
Less: Amount capitalised in inventories	(137)	—
Less: Amount recognised in cost of sales	(611)	—
	<u>2,324</u>	<u>2,329</u>
Cost of construction services	40,597	857
Cost of wastewater treatment facilities operation services rendered	17,479	14,884
Cost of biofuel operation	8,646	—
Provision for major overhauls	966	1,105
	<u>966</u>	<u>1,105</u>

Note: As at 30 June 2022, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (six months ended 30 June 2021: Nil).

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Current tax: PRC	<u>3,890</u>	<u>3,617</u>
Under provision in prior periods: PRC	<u>204</u>	<u>30</u>
Deferred tax:	<u>1,869</u>	<u>(40)</u>
	<u>5,963</u>	<u>3,607</u>

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“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 2021: 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 rules and regulations of the PRC.

No provision for Indonesian income tax had been made as the Group did not generate any assessable profits arising in Indonesia during the period (six months ended 30 June 2021: Nil).

8. DIVIDEND

No dividends were paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period (for six months ended 30 June 2021: an interim dividend of HK0.5 cent per ordinary share).

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	
	2022	2021
	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>(1,611)</u>	<u>(3,269)</u>
	Number of shares	
	Six months ended 30 June	
	2022	2021
	'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, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options because the exercise price of those options was higher than the average market price for shares for the period.

No diluted loss per share for the six months ended 30 June 2022 were presented as there were no potential ordinary share in issue for the six months ended 30 June 2022.

10. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

	30 June	31 December
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Receivables under service concession arrangements	268,296	338,753
Portion classified as current assets	<u>(24,162)</u>	<u>(25,559)</u>
Portion classified as non-current assets	<u>244,134</u>	<u>313,194</u>

The following is an aged analysis of receivables under service concession arrangements, presented based on the invoice date:

	30 June 2022	31 December 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Billed within 3 months	14,529	12,248
Unbilled	253,767	326,505
	268,296	338,753

11. GOODWILL

	<i>HK\$'000</i>
COST	
At 1 January 2021, 31 December 2021, 1 January 2022 and 30 June 2022	81,407
ACCUMULATED IMPAIRMENT	
At 1 January 2021, 31 December 2021, 1 January 2022 and 30 June 2022	81,407
CARRYING VALUE	
At 30 June 2022 (unaudited)	—
At 31 December 2021 (audited)	—

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 ("CGU") in the biomass power generation business. The goodwill was fully impaired during the year ended 31 December 2018, as the carrying amount of the CGU was determined to be higher than its recoverable amount.

12. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

			30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Listed investments, fair value				
— Debt securities listed in Hong Kong			314	2,012
			30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
	Fixed interest rate	Maturity date		
Listed bond	6.13%	21 February 2024	314	2,012

13. TRADE RECEIVABLES

			30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Trade receivables			1,821	73
Less: Allowance for credit losses			—	—
			1,821	73

The following is an aged analysis of trade receivables (net of allowance for credit losses) presented based on the invoice date:

			30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
0–60 days			1,821	73

The Group had a policy of allowing a credit period of 30 days.

14. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

During the current interim period, the directors of the Company decided to dispose of the entire 70% share capital of Haian Hengfa Wastewater Treatment Company Limited (“**Haian Hengfa**”), an indirect partially-owned subsidiary of the Company, which operates wastewater treatment facilities in the PRC.

Subsequent to the end of the current interim period, Everbest Water Treatment Development Company Limited, an indirect wholly-owned subsidiary of the Company entered into sale and purchase agreement (the “**Agreement**”) with CGN Environmental Protection Industry Co., Ltd., an independent third party to dispose of the entire 70% share capital of Haian Hengfa. The assets and liabilities attributable to Haian Hengfa, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the condensed consolidated statement of financial position. Haian Hengfa is included in the Group’s PRC segment.

Details of the Agreement are set out in the Group’s circular of “Very Substantial Disposal” dated 29 August 2022 and published on the websites of the Stock Exchange and the Company.

The net proceeds of disposal exceed the net carrying amount of the relevant assets and liabilities and accordingly, no impairment loss has been recognised.

The assets and liabilities associated with disposal group classified as held for sale are analysed as follows:

	30 June 2022 HK\$’000 (Unaudited)
Property, plant and equipment	511
Receivables under service concession arrangements	106,235
Inventories	25
Prepayments and other receivables	64
Time deposits	11,713
Bank balances and cash	18,731
	<hr/>
Total assets classified as held for sale	137,279
	<hr/> <hr/>
Trade payables	1,614
Other payables and accruals	73
Income tax payable	309
Deferred tax liabilities	14,204
Provision for major overhauls	6,798
	<hr/>
Total liabilities associated with assets classified as held for sale	22,998
	<hr/> <hr/>

15. TRADE PAYABLES

The following is an aged analysis of the trade payables presented based on the invoice date:

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
0-60 days	1,171	667
61-90 days	1	3
Over 90 days	407	2,631
	<u>1,579</u>	<u>3,301</u>

16. BORROWINGS

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Unsecured bank borrowings	18,000	20,240
Unsecured other borrowings	23,867	14,867
	<u>41,867</u>	<u>35,107</u>

During the current interim period, the Group repaid bank borrowings amounting to HK\$2,240,000 (six months ended 30 June 2021: HK\$2,240,000), and obtained new other borrowings amounting to HK\$9,000,000 (six months ended 30 June 2021: HK\$14,867,000) which carried interest at 8% per annum. The new other borrowings of HK\$9,000,000 are unsecured and repayable within one year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The pandemic in China was effectively contained in the first quarter of 2022, and economic activities restarted throughout the country with the gradual increase in vaccination rates and the rapid implementation of control measures by local governments. However, the emergence of Omicron, a new variant of the COVID-19, again affected economic and production activities. Fortunately, with the concerted efforts of various departments across the country, the pandemic was effectively contained, and the national economy began to rebound in June 2022. China's gross domestic product in the first half of 2022 was RMB56.3 trillion¹, an increase of 2.5% over the same period last year, while the quarterly growth rate dropped from 4.8% in the first quarter to 0.4% in the second quarter¹.

In recent years, China has attached more importance to various environmental protection issues, which, coupled with guidelines of the "14th Five-year Plan" for the implementation of environmental management, it has boosted demand and support for the domestic environmental protection industry. According to data from the National Bureau of Statistics, investments in the water conservancy, environment and public facilities management sector increased by 10.7% in the first half of 2022 compared to the same period last year². In early 2022, the National Development and Reform Commission, the Ministry of Ecology and Environment, the Ministry of Housing and Urban-Rural Development and the National Health Commission of the People's Republic of China (the "PRC") jointly issued the Guidance on Accelerating the Construction of Environmental Infrastructure (《關於加快推進城鎮環境基礎設施建設的指導意見》)³, which set out specific targets for the construction of urban-rural environmental infrastructure by 2025, including the addition of 20 million m³/day of sewage treatment capacity, the addition and renovation of 80,000-kilometer of sewage collection networks, the construction, renovation and expansion of not less than 15 million m³/day, of recycled water production capacity, the achievement of a sewage treatment rate of over 95% in counties, and a sewage resource utilisation rate of over 25% in water-scarce cities at the prefecture level and above. Under the guidance of the policy, the demand for water pollution treatment business in China is expected to grow, driving the overall industry development.

1. http://www.stats.gov.cn/tjsj/zxfb/202207/t20220715_1886607.html
2. http://www.stats.gov.cn/tjsj/zxfb/202207/t20220715_1886420.html
3. <http://www.askci.com/news/chanye/20220210/0929321744900.shtml>

The Group owns a wastewater treatment facility in Jiangsu Province, the PRC, which is operated by Rugao Hengfa Water Treatment Company Limited (“**Rugao Hengfa**”). In July 2021, the Group reached an agreement with the local management committee, and the water price was increased from RMB2.67 per tonne to RMB3.43 per tonne, which has contributed to a more robust result for the Group. In response to the increase in water price, we expect to see further increases in revenue and gross profit.

The Group has also been actively preparing for the development of suitable environmental projects overseas and is currently developing two key projects. The power plant project in Bangka, Indonesia (the “**Bangka Plant**”), is still under construction but has reached a consensus regarding the electricity selling plan with the local government. As disclosed in our announcement dated 21 July 2022, the Bangka Plant is expected to supply power to the national grid at a fixed price for 25 years since 2023, according to the power supply agreement with PT Perusahaan Listrik Negara (Persero). If the Bangka Plant turns out to be a success, we expect that the relevant operation model can be replicated to other outlying islands in Indonesia. 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. The Group’s biofuel pellet operation in Indonesia commenced its wood pellet production business in 2021 and has been generating revenue since 2021. The management is confident that the biofuel pellet business will provide growth momentum for the Group and enable the Group to achieve its goal of diversified environmental businesses in the long run.

As regards Haian Hengfa Wastewater Treatment Company Limited (“**Haian Hengfa**”), another wastewater treatment facility of the Group, as announced in our announcement dated 21 July 2022, the Group has entered into a sale and purchase agreement (the “**Agreement**”) with CGN Environmental Protection Industry Co., Ltd. (中廣核環保產業有限公司) (the “**Buyer**”) to sell all the shares held by the Group in Haian Hengfa for a consideration of approximately RMB68.2 million (the “**Disposal**”). The shares to be sold by the Group represent 70% of the issued share capital of Haian Hengfa. Subject to the terms and conditions in the Agreement, upon completion, the Group will cease to hold any interest in Haian Hengfa, and Haian Hengfa will cease to be a subsidiary of the Group. The proceeds from the Disposal are expected to be used for the potential development of the Group’s other wastewater treatment facility, Rugao Hengfa, and the construction of the Bangka Plant in Indonesia, while improving the overall cash flow of the Group. As at the date of this announcement, the Disposal has not been completed.

OUTLOOK

Despite the slowdown in China's economic growth due to the repeated pandemics and the external economic environment being affected by supply chain issues, the Company will continue to be calm and steady in dealing with the changing market conditions and continue to observe and manage the risks of different development projects. At the same time, ELL Environmental will continue to actively monitor market trends and seek development opportunities in China and overseas in accordance with national and regional policies. The Group is committed to contributing to global sustainable development through the development of diversified environmental businesses in different regions. With the resources released through the reposition of our business, we will maintain our strong foundation in the wastewater treatment business in China and continue to provide a high standard of service to our customers to create clean water domestically; and at the same time, by leveraging our experience and expertise accumulated over the years, we seek to develop and actively implement projects with potential in the environmental protection-related industry chain globally, making continuous attempts and breakthroughs to grasp and create more opportunities, so as to promote the growth of the Group's business, remain loyal to our customers and to the quality of service provided to them, and adhere to a sound and prudent business strategy.

FINANCIAL REVIEW

Revenue

Our total revenue increased by HK\$55.1 million or 166.9% to HK\$88.1 million for the Period from HK\$33.0 million for the Last Corresponding Period. Such increase was primarily attributable to (i) the construction revenue arising from the construction works of the Bangka Plant during the Period of which there was no such revenue for the Last Corresponding Period, and (ii) the sales of biofuel in Indonesia during the Period of which there was no such sales for the Last Corresponding Period.

Cost of Sales

Our total cost of sales increased by HK\$51.0 million or 323.9% to HK\$66.7 million for the Period from HK\$15.7 million for the Last Corresponding Period, primarily due to (i) the construction costs arising from the Bangka Plant during the Period of which there was no such cost for the Last Corresponding Period, and (ii) the cost of biofuel in Indonesia during the Period of which there was no such cost for the Last Corresponding Period.

Gross Profit and Gross Profit Margin

Our gross profit increased by HK\$4.1 million or 23.8% to HK\$21.4 million for the Period from HK\$17.3 million for the Last Corresponding Period, primarily due to the aforementioned factors. Our gross profit margin decreased from 52.3% for the Last Corresponding Period to 24.3% for the Period.

Other Income and Net Gains/Losses

We recorded other income and net gains of HK\$1.8 million for the Period as compared to net losses of HK\$1.6 million for the Last Corresponding Period, primarily due to the increase in the refund of value-added tax and decrease in net foreign exchange loss as compared to the Last Corresponding Period.

Administrative Expenses

Our administrative expenses increased by HK\$2.0 million or 16.5% to HK\$14.4 million for the Period from HK\$12.4 million for the Last Corresponding Period, primarily due to an increase in legal and professional fee.

Finance Costs

Our finance costs increased by HK\$2.1 million or 129.5% to HK\$3.8 million for the Period from HK\$1.7 million for the Last Corresponding Period, primarily due to the increase in loan borrowing for the financing of the Bangka Plant during the Period.

Profit Before Tax

Our profit before tax increased by HK\$3.3 million or 199.4% to HK\$5.0 million for the Period from HK\$1.7 million for the Last Corresponding Period, primarily due to the factors mentioned above.

Income Tax Expense

Our income tax expense increased by HK\$2.4 million or 65.3% to HK\$6.0 million for the Period from HK\$3.6 million for the Last Corresponding Period, primarily due to the increase in deferred tax expenses recognised for construction of biomass power plant by our Indonesia subsidiary.

Loss for the Period Attributable to Owners of the Company

Loss attributable to owners of the Company decreased by HK\$1.7 million or 50.7% to HK\$1.6 million for the Period from HK\$3.3 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 2022, the carrying amount of the Group's bank balances and cash was HK\$21.4 million, representing a decrease of 67.1% as compared with that of HK\$65.1 million as at 31 December 2021. As at 30 June 2022, the Group's bank balances and cash of HK\$4.9 million, HK\$1.5 million, HK\$14.6 million and HK\$0.4 million were denominated in Renminbi ("RMB"), Hong Kong Dollars ("HK\$"), Indonesian Rupiah ("IDR") and United States Dollars ("US\$"), respectively (31 December 2021: HK\$35.8 million, HK\$4.9 million, HK\$7.7 million and HK\$16.7 million were denominated in RMB, HK\$, IDR and US\$, respectively).

Bank and Other Borrowings

As at 30 June 2022, the total amount of our utilised bank borrowings was HK\$18.0 million, which was repayable within one year and denominated in HK\$ (31 December 2021: HK\$18.0 million and HK\$2.2 million were denominated in HK\$ and US\$, respectively).

The HK\$18.0 million outstanding bank borrowings bore a floating interest rate of 1.4% over the Hong Kong Interbank Offered Rate per annum (31 December 2021: HK\$18.0 million). We had HK\$7.3 million unutilised banking facilities as at 30 June 2022 and 31 December 2021.

As at 30 June 2022, the Company had outstanding borrowings from two independent third parties of the Group amounted to HK\$23.9 million, which bore a fixed interest rate of 8% per annum. The loans were repayable within one year.

As at 30 June 2022, the Company had outstanding amounts due to related parties of the Group amounted to HK\$75.3 million, of which HK\$52.1 million bore a fixed interest rate of 8% per annum and HK\$23.2 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 19.4% as at 31 December 2021 to 32.6% as at 30 June 2022.

Charge on Assets

As at 30 June 2022, the Group did not have any charge on assets (31 December 2021: 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 Bangka Plant and the biofuel pellet business in Indonesia. During the Period, our capital expenditures amounted to HK\$41.4 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 2022, the Group had no contingent liabilities (31 December 2021: nil).

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2022, the Group had 177 employees (31 December 2021: 122 employees). Employee costs, including Directors' emoluments, amounted to approximately HK\$6.9 million for the Period (six months ended 30 June 2021: HK\$6.8 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

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

On 21 July 2022, the Group has entered into a sale and purchase agreement with the Buyer to sell all the shares held by the Group in Hai'an Hengfa. Please refer to the announcement of the Company dated on 21 July 2022 for further details. Save as disclosed above, the Group has no other material event subsequent to the end of the Period and up to the date of this announcement.

INTERIM DIVIDEND

During its meeting held on 30 August 2022, the Board resolved not to declare the payment of any interim dividend for the Period (six months ended 30 June 2021: HK0.5 cent per ordinary share).

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 2022 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 in due course.

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, 30 August 2022

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 a non-executive Director, and Ms. Ng Chung Yan Linda, Mr. Ng Man Kung and Ms. Leung Bo Yee Nancy as independent non-executive Directors.