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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)

SUPPLEMENTARY INFORMATION ON THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Reference is made to the annual report of ELL Environmental Holdings Limited (“**Company**”, together with its subsidiaries, referred to as the “**Group**”) for the year ended 31 December 2017 (“**Annual Report**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Annual Report.

The board of directors of the Company (the “**Directors**” and the “**Board**”, respectively) wishes to provide the shareholders of the Company and potential investors with additional information on the Annual Report as follows:

OPERATIONS OF WEAL UNION GROUP

As disclosed in the Annual Report, the Group acquired in 2016 Weal Union Limited (“**Weal Union**”) and its subsidiary incorporated in Indonesia (together with Weal Union, “**Weal Union Group**”), which is engaged in the biomass power generation business in Jambi, Indonesia. By 31 December 2017 and over the nearly one year since the completion of the acquisition of Weal Union Group, the biomass power plants in Indonesia had yet to reach their expected utilisation rate. As detailed in the Annual Report, the lower than expected utilisation rate was a result of, among other things, the low electricity consumption by the local end-users in the vicinity of the power plants and the delay of certain government projects which resulted in lower growth rate of market and economy, and hence energy consumption in the vicinity of Weal Union Group’s operations.

** For identification purpose only*

IMPAIRMENT LOSS

The recoverable amount of the goodwill in relation to the acquisition of Weal Union is impaired due to the lower growth rate and delay in the realisation of the expected return as aforementioned. As disclosed in the Annual Report, we recognised an impairment loss of HK\$43.9 million for the year end 31 December 2017 (the “Year”) in relation to goodwill arising on acquisition of Weal Union. The recoverable amount of Weal Union Group and the particulars regarding impairment testing on goodwill are disclosed in notes 17 and 18 to the consolidated financial statements as set out in the Annual Report.

VALUATION

As disclosed in the Annual Report, the Group engaged an independent professional valuer to perform such impairment testing using the value-in-use approach, which requires the use of key assumptions, including the discount rate, terminal growth rate, budgeted sales, gross margin and earnings before interest, tax, depreciation and amortization (“EBITDA”) margin.

Assumptions

The key assumptions for the impairment testing of Weal Union Group are illustrated as follows:

	For the year ended	
	31 December	
	2017	2016
Annual sales growth rate	37.5%	38.1%
Gross margin (as % of revenue)	43.6%	49.4%
EBITDA margin (as % of revenue)	36.9%	44.1%
Adopted discount rate	18.2%	18.2%
Long-term growth rate	5.0%	5.0%

In the table above:

- Annual sales growth rate refers to the average annual growth rate over a five-year forecast period, estimated based on past performance and management’s expectations of market development.
- Gross margin and EBITDA margin refer to the average margin of gross profit and earnings before interest, tax, depreciation and amortization, respectively, as a percentage of revenue over a five-year forecast period, estimated based on the management’s expectations for the market development.

- The discount rates used reflect specific risks relating to the relevant operating segment, which include country risk and certain company specific risk in execution of the business strategy.
- Long-term growth rate is estimated based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

The value-in-use approach

According to HKAS 36, the recoverable amount is defined as the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use. When there is no basis for making a reliable estimate of the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions, value-in-use approach is a possible way to estimate the recoverable amount. Given that there is no or limited recent transaction with similar business as Weal Union Group observed, the management believes that it is more appropriate to adopt value in use of Weal Union Group for the impairment test.

The Group will continue to monitor the performance of the power plants and the local developments in the vicinity and liaise with the customer and business partners on improving the utilisation of the biomass power plants. The Company will inform its shareholders and potential investors timely should there be any update to the operational environment of Weal Union Group.

The above additional information does not affect other information contained in the Annual Report and the content of the Annual Report remains unchanged.

By order of the Board
ELL Environmental Holdings Limited
Chan Kwan
Executive Director and Chief Executive Officer

Hong Kong, 15 August 2018

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