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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 FINAL RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL SUMMARY

- Revenue for FY2019 amounted to HK$77.5 million (2018: HK$79.1 million), representing a decrease of 2.0% as compared with FY2018.
- Gross profit for FY2019 was HK$33.9 million (2018: HK$10.7 million), representing an increase of 217.6% as compared with FY2018.
- Net profit for FY2019 was HK$9.6 million (2018: net loss of HK$144.7 million).
- A final dividend of HK0.5 cent per Share has been recommended by the Board for FY2019 (2018: nil).

The board of directors of ELL Environmental Holdings Limited (the "**Company**", the "**Directors**" and the "**Board**", respectively) is pleased to announce the audited annual consolidated results of the Company and its subsidiaries (collectively, the "**Group**" or "**ELL Environmental**") for the year ended 31 December 2019 ("**FY2019**" or the "**Year**").

The audited annual consolidated results of the Group for FY2019 together with the comparative figures of the year ended 31 December 2018 ("**FY2018**") are as follows:

* *For identification purpose only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Revenue	3	**77,473**	79,050
Cost of sales		**(43,552)**	(68,368)
Gross profit		**33,921**	10,682
Other income and net gains		**13,403**	2,692
Impairment loss recognised in respect of property, plant and equipment	12	**—**	(79,743)
Impairment loss recognised in respect of goodwill	12	**—**	(39,889)
Administrative expenses		**(28,213)**	(32,670)
Finance costs	5	**(2,073)**	(2,177)
Profit/(loss) before tax	6	**17,038**	(141,105)
Income tax expense	7	**(7,438)**	(3,562)
Profit/(loss) for the year		**9,600**	(144,667)
Profit/(loss) for the year attributable to:			
Owners of the Company		**970**	(139,718)
Non-controlling interests		**8,630**	(4,949)
		9,600	(144,667)
		HK cents	*HK cents*
Earnings/(loss) per share	9		
— Basic		**0.09**	(12.58)
— Diluted		**0.09**	(12.58)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019	2018
	HK$'000	*HK$'000*
Profit/(loss) for the year	**9,600**	(144,667)
Other comprehensive income/(expense)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(6,046)**	(2,568)
Fair value change on debt instruments at fair value through other comprehensive income	**—**	(128)
Investment revaluation reserve released upon disposal of debt instruments at fair value through other comprehensive income	**78**	404
Item that will not be reclassified to profit or loss:		
Actuarial loss of defined benefit retirement plan	**(194)**	(35)
Total comprehensive income/(expense) for the year	**3,438**	(146,994)
Total comprehensive income/(expense) for the year attributable to:		
Owners of the Company	**(4,581)**	(141,843)
Non-controlling interests	**8,019**	(5,151)
	3,438	(146,994)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**71,423**	54,493
Deposits paid for purchase of property, plant and equipment		**1,280**	2,661
Receivables under service concession arrangements	*10*	**282,308**	285,230
Goodwill	*11*	**—**	—
Debt instruments at fair value through other comprehensive income		**3,390**	8,193
Restricted bank deposits		**6,070**	5,882
		364,471	356,459
CURRENT ASSETS			
Inventories		**613**	728
Receivables under service concession arrangements	*10*	**18,182**	29,109
Trade receivables	*13*	**—**	8,018
Prepayments and other receivables		**10,612**	7,385
Income tax recoverable		**776**	930
Debt instruments at fair value through other comprehensive income		**15,128**	23,060
Restricted bank deposits		**6,070**	5,882
Bank balances and cash		**64,074**	44,317
		115,455	119,429
CURRENT LIABILITIES			
Trade payables	*14*	**3,003**	4,971
Other payables and accruals		**11,067**	7,682
Amounts due to related parties		**8,986**	3,424
Bank borrowings	*15*	**20,240**	32,517
Lease liabilities		**525**	—
Income tax payables		**5,408**	164
		49,229	48,758
NET CURRENT ASSETS		**66,226**	70,671
TOTAL ASSETS LESS CURRENT LIABILITIES		**430,697**	427,130

	NOTES	2019 HK$'000	2018 HK$'000
CAPITAL AND RESERVES			
Share capital	*16*	**111**	111
Reserves		**345,713**	350,392
Equity attributable to owners of the Company		**345,824**	350,503
Non-controlling interests		**31,892**	23,873
TOTAL EQUITY		**377,716**	374,376
NON-CURRENT LIABILITIES			
Bank borrowings	*15*	**4,480**	6,720
Lease liabilities		**1,019**	—
Deferred tax liabilities		**33,331**	34,186
Provision for major overhauls		**13,147**	11,040
Retirement benefit obligations		**1,004**	808
		52,981	52,754
		430,697	427,130

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the consolidated financial statements for the years presented.

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases ("**HKAS 17**") and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

(i) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

(ii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised right-of-use assets of HK$2,644,000 as at 1 January 2019, which comprised land rights previously under finance leases which were included in property, plant and equipment under HKAS 17. The Group recategorised the carrying amounts of the land rights which were still under lease as at 1 January 2019 as right-of-use assets.

3. REVENUE

	2019	2018
	HK$'000	*HK$'000*
Types of goods and services		
Construction services	**6,170**	11,151
Wastewater treatment facility operation services	**55,428**	21,531
Sales of electricity generated from biomass power plants	**1,130**	31,245
Revenue from goods and services	**62,728**	63,927
Imputed interest income on receivables under service concession arrangements	**14,745**	15,123
	77,473	79,050

4. SEGMENTAL 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:

For the year ended 31 December 2019

	Hong Kong *HK$'000*	**PRC** *HK$'000*	**Indonesia** *HK$'000*	**Total** *HK$'000*
Results				
Segment revenue	—	**76,343**	**1,130**	**77,473**
Segment (loss)/profit	**(16,343)**	**41,331**	**(7,913)**	**17,075**
Unallocated expenses				
Administrative expenses				**(37)**
Profit before tax				**17,038**

For the year ended 31 December 2018

	Hong Kong *HK$'000*	PRC *HK$'000*	Indonesia *HK$'000*	Total *HK$'000*
Results				
Segment revenue	—	47,805	31,245	79,050
Segment (loss)/profit	(17,776)	10,330	(93,751)	(101,197)
Unallocated expenses				
Administrative expenses				(19)
Impairment loss recognised in respect of goodwill				(39,889)
Loss before tax				(141,105)

There are no inter-segment sales for both years.

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

Segment assets and liabilities

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

As at 31 December 2019

	Hong Kong	**PRC**	**Indonesia**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Assets				
Segment and total consolidated assets	**28,694**	**359,123**	**92,109**	**479,926**
Liabilities				
Segment and total consolidated liabilities	**40,171**	**57,597**	**4,442**	**102,210**

For the year ended 31 December 2019

	Hong Kong	**PRC**	**Indonesia**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets *(note)*	**1,629**	**274**	**17,149**	**19,052**
Depreciation of property, plant and equipment	**91**	**459**	**3,390**	**3,940**
Bank interest income	**116**	**231**	**727**	**1,074**

As at 31 December 2018

	Hong Kong *HK$'000*	PRC *HK$'000*	Indonesia *HK$'000*	Total *HK$'000*
Assets				
Segment and total consolidated assets	51,295	338,082	86,511	475,888
Liabilities				
Segment and total consolidated liabilities	42,410	54,561	4,541	101,512

For the year ended 31 December 2018

	Hong Kong *HK$'000*	PRC *HK$'000*	Indonesia *HK$'000*	Total *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets *(note)*	—	1,156	11,334	12,490
Impairment loss recognised in respect of property, plant and equipment	—	—	79,743	79,743
Depreciation of property, plant and equipment	—	410	12,539	12,949
Bank interest income	57	34	888	979

The Group's non-current assets by geographical locations of the assets are detailed below:

	2019 ***HK$'000***	2018 *HK$'000*
Hong Kong	**1,538**	—
PRC	**284,424**	287,570
Indonesia	**69,049**	54,814
	355,011	342,384

Note: Non-current assets excluded debt instruments at fair value through other comprehensive income and restricted bank deposits.

Revenue from customers of the corresponding years contributing over 10% of the Group's revenue are as follows:

	2019 *HK$'000*	2018 *HK$'000*
Customer A from the PRC segment	**44,018**	10,205
Customer B from the PRC segment	**32,325**	37,600
Customer C from the Indonesia segment	**N/A**	31,245

5. FINANCE COSTS

	2019 *HK$'000*	2018 *HK$'000*
Interest on bank borrowings	**1,267**	1,164
Interest on loan from a related party	**142**	448
Interest on lease liabilities	**11**	—
Increase in discounted amounts of provision for major overhauls arising from the passage of time	**653**	565
	2,073	2,177

6. PROFIT/(LOSS) BEFORE TAX

	2019	2018
	HK$'000	*HK$'000*
Profit/(loss) before tax has been arrived at after charging/(crediting):		
Employee benefit expense (including Directors' remuneration):		
Salaries and other benefits	**16,309**	18,642
Discretionary bonus	**342**	120
Pension scheme contributions *(note)*	**1,937**	2,236
Share-based payments	**—**	21
	18,588	21,019
Cost of construction services	**4,870**	8,875
Cost of wastewater treatment facilities operation services rendered	**32,297**	26,433
Cost of power plant operation (including cost of inventories recognised as expenses of HK$577,000 (2018: HK$21,999,000))	**6,385**	33,060
Depreciation of property, plant and equipment	**3,940**	12,949
Auditors' remuneration	**1,048**	1,300
Research and development cost recognised as an expense (included in administrative expenses)	**38**	—
Foreign exchange (gain)/loss, net	**(1,721)**	3,816
Provision for major overhauls	**1,692**	2,058

Note: As at 31 December 2019, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2018: nil).

7. INCOME TAX EXPENSE

	2019	2018
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**25**	—
PRC Corporate Income Tax	**7,482**	2,464
	7,507	2,464
Under/(over) provision in prior years:		
Hong Kong	**(3)**	—
PRC Corporate Income Tax	**162**	38
	159	38
Deferred tax:	**(228)**	1,060
Total tax charge for the year	**7,438**	3,562

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.

For FY2019, the provision for Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profit for the year. No provision for Hong Kong Profits Tax had been made for FY2018 as the Group did not generate any assessable profits arising in Hong Kong.

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 FY2019 (2018: nil).

8. DIVIDEND

No interim dividend was proposed during both years.

The Board has recommended a final dividend of HK0.5 cent per share amounting to HK$5,536,500 for FY2019 (2018: nil), which will be subject to the approval of the shareholders of the Company (the "**Shareholders**") at its forthcoming annual general meeting (the "**AGM**").

9. EARNINGS/(LOSS) PER SHARE

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

	2019	2018
	HK$'000	*HK$'000*
Profit/(loss) for the purposes of basic and diluted earnings/(loss) per share, being profit/(loss) for the year attributable to owners of the Company	**970**	(139,718)

	Number of shares	
	2019	2018
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	**1,107,327**	1,110,975

For the years ended 31 December 2019 and 2018, the computation of diluted earnings/(loss) per share does not assume the exercise of the Company's outstanding share options since their exercise would result in a decrease in earnings/(loss) per share.

10. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

	2019	2018
	HK$'000	*HK$'000*
Receivables under service concession arrangements	**300,490**	314,339
Portion classified as current assets	**(18,182)**	(29,109)
Portion classified as non-current assets	**282,308**	285,230

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

	2019	2018
	HK$'000	*HK$'000*
Billed:		
Within 3 months	**8,931**	12,113
4 to 6 months	**1,521**	7,268
	10,452	19,381
Not yet billed	**290,038**	294,958
	300,490	314,339

11. GOODWILL

	HK$'000
COST	
As at 1 January 2018	85,998
Exchange adjustments	(4,591)
As at 31 December 2018, 1 January 2019 and **31 December 2019**	**81,407**
IMPAIRMENT	
As at 1 January 2018	43,756
Impairment loss recognsied for the year	39,889
Exchange adjustments	(2,238)
As at 31 December 2018, 1 January 2019 and **31 December 2019**	**81,407**
CARRYING VALUES	
As at 31 December 2019	**—**
As at 31 December 2018	—

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

The amount represents goodwill arising on the acquisition of Weal Union Limited and its subsidiary (the "**Weal Union Group**") on 21 October 2016. The recoverable amounts of the relevant assets had been determined on the basis of their value in use. These valuations were performed by independent qualified professional valuers from AVISTA Group, who are members of the Institute of Valuers and are not connected with the Group. The impairment loss was charged pro rata to the property, plant and equipment of the subsidiary related to the biomass power generation business.

12. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND GOODWILL

For the purposes of impairment testing, the property, plant and equipment used in the biomass power plant of the Group in Indonesia (the "**Biomass Plant**") and the goodwill arising on acquisition of Weal Union Group have been allocated to only one cash-generating unit, comprising one subsidiary in the investment holding and one subsidiary in the biomass power generation business.

During FY2018, the Group recognised an impairment loss of HK$79,743,000 in respect of property, plant and equipment used in the Biomass Plant and HK$39,889,000 in respect of goodwill arising on acquisition of Weal Union Group.

Taking into consideration that (i) the new offered electricity unit price by the counterparty for the forthcoming one year period has decreased by 25.3% compared to the latest contracted price; (ii) the electricity grid construction by the Indonesian government to connect the South Sumatra region where the Biomass Plant was located, and the North Sumatra region where the demand of electricity is higher, had been aborted; (iii) the 10-year forecast of electricity growth rate in Sumatra, Indonesia, where the Biomass Plant is located, as published by the Ministry of Energy and Mineral Resources in the first quarter of 2018 had dropped to 9.1% from 11.2% as published in the first quarter of 2017, it was expected that the future electricity unit price will drop and the growth of electricity demand will slow down; and (iv) the increase in gross profit from the expected sales of pellets in the future. Therefore, the expected utilisation growth rate of the Biomass Plant in near term was lowered. There was also no clarity as to when or whether the aforesaid infrastructure will resume and when the local economy will start to improve. Accordingly, the valuation of Weal Union Group, and hence the recoverable amount of the property, plant and equipment and goodwill, was impaired due to the lower growth rate and the delay in the realisation of the expected return.

13. TRADE RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	—	8,018

Trade receivables mainly arise from sales of electricity generated from biomass power plants. The Company's credit terms are negotiated at terms determined and agreed with its trade customers. The credit periods are ranging from 30 to 60 days.

The following is an aged analysis of trade receivables, presented based on the invoice dates:

	2019	2018
	HK$'000	*HK$'000*
0 - 30 days	—	5,088
31 - 60 days	—	2,930
	—	8,018

14. TRADE PAYABLES

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

	2019	2018
	HK$'000	*HK$'000*
0-60 days	**776**	2,790
61-90 days	**566**	504
Over 90 days	**1,661**	1,677
	3,003	4,971

Included in the Group's trade payables are construction retention payables of HK$74,000 (2018: HK$75,000).

15. BANK BORROWINGS

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
On demand or within one year	**20,240**	32,517
In the second year	**2,240**	2,240
In the third to fifth years inclusive	**2,240**	4,480
	24,720	39,237
Less: Amount due within one year shown under current liabilities	**(20,240)**	(32,517)
Amount due after one year	**4,480**	6,720
Current — secured *(note)*	**—**	2,277
Current — unsecured	**20,240**	30,240
Non-current — unsecured	**4,480**	6,720
	24,720	39,237

Note: The bank borrowing denominated in Renminbi ("**RMB**") is secured by receivables under service concession arrangements of HK$11,386,000, while the bank borrowings denominated in Hong Kong dollars ("**HK$**") and United States ("**US**") dollars ("**US$**") are guaranteed by a Director and the Company.

16. SHARE CAPITAL

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
Authorised:		
3,800,000,000 ordinary shares of HK$0.0001 (the "**Shares**") each	**380**	380
Issued and fully paid:		
1,107,300,000 (2018: 1,108,000,000) Shares	**111**	111

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

	Number of Shares	Amount
		HK$'000
As at 1 January 2018	1,111,000,000	111
Shares repurchased and cancelled	(3,000,000)	N/A*
As at 31 December 2018 and 1 January 2019	1,108,000,000	111
Shares repurchased and cancelled	(700,000)	N/A*
As at 31 December 2019	**1,107,300,000**	**111**

* Amount less than HK$1,000.

During the Year, the Company repurchased its own Shares on the Stock Exchange as follows:

Month of repurchase	Number of Shares	Price per Share Highest	Price per Share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$'000*
January 2019	700,000	0.140	0.140	98

The above Shares were cancelled on 10 May 2019.

None of the Company's subsidiaries purchased or sold any of the Company's listed securities during the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2019, uncertainties such as Sino-US trade war imposed downward risk on global economy. However, under the support of the Chinese government's fiscal policies and the modification of macroeconomic policies, China's economy prevented itself from suffering a sharp decline in its growth in the second half of 2019, with China's gross domestic product (GDP) for FY2019 reaching approximately RMB99,100 billion[1].

In the "Report on Achievements in Economic and Social Development in the 70 years since the Founding of the PRC" (新中國成立七十週年經濟社會發展成就系列報告) published by China's National Bureau of Statistics in 2019, it was mentioned that China had put much focus on environmental protection, and had effectively improved the long-standing issue of deteriorating water quality. The "11th Five-Year Plan" outline proposed to accelerate the construction of municipal wastewater treatment plants, and implement effective measures such as wastewater treatment charges, thus water pollution treatment work has achieved good results. In terms of investment in environmental infrastructure, the contribution in drainage investments was RMB172.8 billion[2] in 2017, representing a 6.1-time growth compared to that of 2001, and is expected that China's environmental protection industry will enjoy sustainable growth driven by national policies in the coming years.

Although the environmental protection industry was able to have continuous development under the support of the Chinese government by allocating substantial resources, the intensifying competition in the industry still brought forth various challenges to the Group. Currently, 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, as disclosed in the interim report of the Company for the six months ended 30 June 2019 (the "**2019 Interim Report**"), we have reached an agreement with the relevant authorities to increase water tariffs during FY2019 from RMB0.91 per tonne to RMB1.14 per tonne. For Rugao Hengfa, the Group is still in active negotiations with the authorities with the aim of adjusting 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.

1 http://www.stats.gov.cn/tjsj/zxfb/202001/t20200117_1723591.html

2 http://www.stats.gov.cn/tjsj/zxfb/201907/t20190718_1677012.html

ELL Environmental is an environmental protection industry services provider which offers a one-stop approach to the provision of wastewater treatment services using the "Build-Operate-Transfer" or "BOT" mode. Our services range from the design of wastewater treatment facilities, through the procurement of suitable equipment and materials to the supervision of construction as well as the ongoing operation and maintenance of the facilities throughout long-term concession periods. ELL Environmental has actively adhered to the national policies, flexibly responding to market changes and making use of development opportunities in both China and overseas, to stably operate the Group's wastewater treatment business. However, as competition in the industry has become increasingly intense, wastewater treatment projects may not be as profitable as in the past. In October 2016, the Group acquired Weal Union Limited and its subsidiary in Indonesia, PT Rimba Palma Sejahtera Lestari ("**RPSL**") (collectively as "**Weal Union Group**"). RPSL is engaged in the biomass power generation business in Jambi, Indonesia. Since the completion of the acquisition, the Group has actively invested in upgrade works of the power generation facilities in order to improve the efficiency of the 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 the Year and the intensifying competitions, the Group's biomass power generation plants in Indonesia (the "**Biomass power plants**") have yet to reach their expected utilisation rate for the sale of electricity. As disclosed in the 2019 Interim Report, the Group reduced the operation level of the Biomass power plants in the first half of FY2019. Due to the continuing unfavorable conditions in the market, the Group has yet to reach an agreement with the local customer on the sale price of electricity. As a result, the operations of the Biomass power plants had not resumed as expected by the end of FY2019. Meanwhile, the Group has continued to invest in biofuel pellet production business which allows the self-consumption of our electricity, and thus the ability to increase the utilisation of the power plants. Management is confident that the biofuel pellet business will provide growth momentum to the Group and will enable the Group to achieve diversified development and expansion of its environmental protection business in the long run.

Outlook

Despite the volatility in the market and business environment, the Group 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. Meanwhile, we shall also continue to solidify our strong foundation in China's wastewater treatment market and provide high-quality services to customers. Moreover, we shall leverage our extensive experience and expertise to develop environmental protection-related industrial chain projects and actively implement potential new environmental protection projects. On the other hand, we shall promote more comprehensive decision management and internal control, thus laying a solid foundation of achieving sustainable development for the Company in the coming few decades.

Financial Review

Revenue

Our total revenue decreased by HK$1.6 million or 2.0% to HK$77.5 million for FY2019 as compared to HK$79.1 million for FY2018, primarily due to (i) the decrease of construction revenue by HK$5.0 million or 44.7% from HK$11.2 million for FY2018 to HK$6.2 million for FY2019 in relation to the construction services of our upgrade works of the wastewater treatment facility of Rugao Hengfa and the wastewater treatment facility of Haian Hengfa (the "**Haian Hengfa Facility**") and (ii) the decrease in revenue from the sales of electricity generated from the Biomass power plants by HK$30.1 million or 96.4% from HK$31.2 million for FY2018 to HK$1.1 million for FY2019 as a result of, as disclosed in the 2019 Interim Report, the Group reducing the operation level of the Biomass power plants during the first half of FY2019 to reduce operating loss. Due to the continuing unfavorable conditions in the market, the Group has yet to reach an agreement with the local customer on the sale price of electricity. As a result, the operations of the Biomass power plants had not resumed as expected by the end of FY2019. Such decrease in revenue was partially offset by the increase in revenue from wastewater treatment facility operation services by HK$33.9 million or 157.4% from HK$21.5 million for FY2018 to HK$55.4 million for FY2019 as a result of the retrospective adjustment in water tariff in the Haian Hengfa Facility from RMB0.91 per tonne to RMB1.14 per tonne during FY2019 as disclosed in the 2019 Interim Report.

Cost of Sales

Our total cost of sales decreased by HK$24.8 million or 36.3% from HK$68.4 million for FY2018 to HK$43.6 million for FY2019, primarily due to the decrease in cost of sales from the operation of the Biomass power plants by HK$26.7 million or 80.7% from HK$33.1 million for FY2018 to HK$6.4 million for FY2019 as a result of the reduced level of operation as aforementioned.

Gross Profit and Gross Profit Margin

Our gross profit increased by HK$23.2 million or 217.6% from HK$10.7 million for FY2018 to HK$33.9 million for FY2019, primarily due to (i) the recognition of a gross profit from the wastewater treatment facility operation services of HK$23.1 million for FY2019 as compared to a gross loss of HK$4.9 million for FY2018 as a result of the increase in water tariffs of Haian Hengfa as aforementioned, and (ii) the offsetting effect from the increase in gross loss for the Biomass power plants by HK$3.4 million or 189.5% from HK$1.8 million for FY2018 to HK$5.3 million for FY2019 as a result of the decrease in revenue from the Biomass power plants as aforementioned.

Our gross profit margin increased from 13.5% for FY2018 to 43.8 % for FY2019, as a combined effect of the factors discussed above.

Impairment Loss

The Group engaged an independent professional valuer to perform 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 margin.

During FY2019, we did not recognise any impairment loss (2018: HK$79.7 million) to the property, plant and equipment in our Indonesian subsidiary RPSL (the "**PPE of RPSL**"). The valuation, and hence the impairment loss of the goodwill arising on acquisition of Weal Union Group (the "**Goodwill**") as well as the PPE of RPSL was determined by using the value-in-use approach in calculating the recoverable amount based on the discounted cash flow model (the "**DCF model**"). This approach implies the adoption of the assumption on the ongoing operation of the existing business in RPSL, with the parameters of the DCF model taken according to the latest information available to the management. The calculated net present value of the cash flows generated from the operation of RPSL as at 31 December 2019 was higher than the carrying amount of the PPE of RPSL. Details of the impairment of property, plant and equipment are disclosed in note 12 to the Financial Information as set out in this announcement above.

During FY2018, an impairment loss of HK$39.9 million to the Goodwill was recognised. The Goodwill was fully impaired as at 31 December 2018, and as such, no further impairment loss to the Goodwill had been recognised for FY2019. Details of the Goodwill are disclosed in note 11 to the Financial Information as set out in this announcement above.

Administrative Expenses

Our administrative expenses decreased by HK$4.5 million or 13.8% from HK$32.7 million for FY2018 to HK$28.2 million for FY2019. As a percentage of our revenue, our administrative expenses represented 41.3% and 36.4% for FY2018 and FY2019, respectively. The decrease of our administrative expenses was primarily attributable to the decrease in administrative expenses in our Indonesia subsidiaries by HK$6.4 million or 48.0% from HK$13.3 million for FY2018 to HK$6.9 million for FY2019 as a result of the reduced level of operation of the Biomass power plants.

Finance Costs

Our finance costs remained stable at HK$2.1 million for FY2019 as compared to HK$2.2 million for FY2018, which represented the interest expense from bank borrowings.

Profit/Loss Before Tax

We recorded a profit before tax of HK$17.0 million for FY2019 as compared to a loss before tax of HK$141.1 million for FY2018, primarily due to the factors mentioned above.

Income Tax Expense

Our income tax expense increased by HK$3.9 million or 108.8% from HK$3.6 million for FY2018 to HK$7.4 million for FY2019, primarily due to the provision for current tax expense in Haian Hengfa of HK$5.4 million for FY2019 (2018: nil) as a result of the recognition of a profit before tax for FY2019 as compared to a loss before tax for FY2018.

Profit/Loss Attributable to Owners of the Company

We recorded a profit attributable to owners of the Company of HK$1.0 million for FY2019 as compared to a loss attributable to owners of the Company of HK$139.7 million for FY2018, primarily due to the factors mentioned above.

Bank Borrowings

As at 31 December 2019, the Group had (i) an unsecured one-year bank loan with a carrying amount of HK$18.0 million, which was denominated in HK$ (2018: HK$28.0 million) with variable interest rates at Hong Kong Interbank Offered Rate (HIBOR) plus 1.4% per annum, repayable on demand, and (ii) an unsecured five-year bank loan with a carrying amount of HK$6.7 million, which was denominated in US$ (2018: HK$9.0 million) with variable interest rates at London Interbank Offered Rate (LIBOR) plus 1.4% per annum.

As at 31 December 2018, the Group had a secured 6-month bank loan with a carrying amount of HK$2.3 million, which was denominated in RMB with a fixed interest rate of 5.1% per annum, secured by HK$11.4 million of receivables under service concession arrangements (the "**RMB loan**"). The RMB loan was fully repaid during FY2019.

Liquidity and Financial Resources

Our principal liquidity and capital requirements primarily relate to investments in our projects, namely the construction works that relate to upgrades to our wastewater treatment facilities in the PRC and our biofuel pellet production facilities in Indonesia, as well as the purchase of plant and equipment, operating costs and expenses. As at 31 December 2019, the net assets of the Group were HK$377.7 million, representing an increase by HK$3.3 million or 0.9% as compared with those of HK$374.4 million as at 31 December 2018.

Gearing Ratio

The Group's gearing ratio is calculated by dividing total debt by total equity and total debt is the bank borrowings. The gearing ratio decreased from 0.10 as at 31 December 2018 to 0.07 as at 31 December 2019.

Charge on Assets

As at 31 December 2019, the Group had no charge on assets. As at 31 December 2018, the Group's receivables under service concession arrangements amounting to HK$11.4 million were used to secure a banking facility of HK$2.3 million.

Treasury Policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout FY2019. 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 major capital expenditures consist primarily of expenditures to upgrade and improve the Group's wastewater treatment facilities and the acquisition of plant and equipment for the biofuel pellet production business in Indonesia. During FY2019, we incurred HK$4.9 million (2018: HK$8.9 million) on the capital expenditures for the upgrade works of our wastewater treatment facilities, and HK$17.1 million on the capital expenditures for the upgrade works of our Biomass power plants and the construction of biofuel pellet production facilities (2018: HK$11.0 million).

Foreign Exchange Risks

Individual member companies in mainland China and Indonesia within the Group have limited foreign currency risk as most of the transactions are denominated and settled in RMB and Indonesian Rupiah ("**IR**"), respectively. The Group did not have significant foreign currency exposures from its operations. However, our consolidated financial statements are presented in HK$. Any appreciation or depreciation of HK$ against RMB and IR will affect our financial position and will be reflected in the exchange reserve. The Group does not have a foreign currency hedging policy. Management monitors the Group's foreign exchange fluctuation exposure closely. In light of the unpredictable fluctuations of RMB against HK$, the Group has managed to minimize the exposures in RMB by converting a majority of the cash and bank balances into US$ or HK$. Management considers the volatility of the exchange rate of HK$ against IR and the Group's currency exposures to IR to be acceptable.

Significant Investments, Material Acquisitions and Disposals

Save as disclosed in this announcement, the Group did not have any significant investments, material acquisitions or disposals of assets, subsidiaries, associates or joint ventures during FY2019.

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.

Contingent Liabilities

The Group had no contingent liabilities as at 31 December 2019 (2018: nil).

Employee and Remuneration Policies

As at 31 December 2019, the Group had 116 (2018: 227) employees (including the Directors). Employee costs (including Directors' emoluments) amounted to HK$18.6 million for FY2019 (2018: HK$21.0 million). Our remuneration policy for the Directors as well as our senior management members and general staff (the "**Staff**") is based on their experience, level of responsibility, length of service and general market conditions. Any discretionary bonus and other merit payments are linked to the financial results of the Group and the individual performance of the Directors and our Staff. The Group provides on-the-job training where appropriate.

The Company has 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.

Events after the Reporting Period

The Group had no material event subsequent to 31 December 2019 and up to the date of this announcement.

Final Dividend

A final dividend of HK0.5 cent per Share has been recommended by the Board for FY2019 (2018: nil) to be paid to the Shareholders whose names will appear on the register of members of the Company (the "**Register of Members**") on Monday, 22 June 2020. Subject to the passing of the relevant resolution at the forthcoming AGM, the final dividend is expected to be paid to the Shareholders on or around Friday, 31 July 2020 in cash in HK$.

CLOSURE OF REGISTER OF MEMBERS

In relation to AGM

For determining the Shareholders' entitlement to attend and vote at the AGM, the Register of Members will be closed from Tuesday, 9 June 2020 to Friday, 12 June 2020 (both dates inclusive), during which period no transfer of Shares will be effected. In order to qualify for attending the forthcoming AGM, non-registered Shareholders must lodge all duly completed transfer documents, accompanied by the relevant share certificates with the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on Monday, 8 June 2020.

In relation to the proposed Final Dividend

Conditional on the passing of the resolution approving the declaration of the Final Dividend by the Shareholders at the AGM, the Register of Members will be closed from Thursday, 18 June 2020 to Monday, 22 June 2020 (both dates inclusive), during which period no transfer of Shares will be effected. In order to qualify for the Final Dividend, non-registered Shareholders must lodge all duly completed transfer documents, accompanied by the relevant share certificates with the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 17 June 2020.

CORPORATE GOVERNANCE PRACTICES

The Company 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**") except for deviation from code provision A.5.1 of the CG Code, throughout FY2019 and up to the date of this announcement.

Mr. Sze Yeuk Lung Benedict ("**Mr. Sze**") resigned as an independent non-executive Director (the "**INED**"), and ceased to be a member of each of the Board's audit committee (the "**Audit Committee**"), nomination committee (the "**Nomination Committee**") and remuneration committee (the "**Remuneration Committee**"), all with effect from 17 July 2019. Following Mr. Sze's resignation, the Company fails to meet the requirement of establishing a Nomination Committee comprising a majority of INEDs under code provision A.5.1 of the CG Code.

With effect from 15 October 2019, Ms. Leung Bo Yee Nancy ("**Ms. Leung**") has been appointed as an INED and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. Following Ms. Leung's appointment, the Company meets the requirement of establishing a Nomination Committee comprising a majority of INEDs under code provision A.5.1 of the CG Code.

SCOPE OF WORK OF THE COMPANY'S EXTERNAL AUDITORS

The figures in respect of the Group's consolidated statement of financial position as at 31 December 2019, consolidated statement of profit or loss and other comprehensive income for FY2019 and the notes thereto as set out in this announcement above have been agreed by the Company's external auditors to the amounts set out in the Group's audited consolidated financial statements for FY2019. The work performed by the Company's external auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently, no assurance has been expressed by the Company's external auditors on this announcement.

AUDIT COMMITTEE'S REVIEW

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, all being the INEDs. The Audit Committee has reviewed with the Company's management the accounting principles and practices adopted by the Group and the annual consolidated results of the Group for FY2019.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its own code of conduct governing securities transactions by the Directors. Following specific enquiries made by the Company on the Directors, all of them have confirmed that they had complied with the required standard set out in the Model Code throughout FY2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During FY2019, the Company repurchased 700,000 Shares on the Stock Exchange for an aggregate consideration of HK$98,000 excluding transaction costs. All the repurchased Shares had been cancelled on 10 May 2019. The nominal value of the total issued capital of the Company was reduced by HK$70.

Particulars of the repurchases during FY2019 are as follows:

Period of repurchase	**Number of Shares repurchased**	**Price per Share**		**Aggregate consideration (excluding transaction costs)**
		Highest	**Lowest**	
		(HK$)	*(HK$)*	*(HK$)*
January 2019	700,000	0.140	0.140	98,000

Save as disclosed above, the Company did not redeem any of 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 FY2019.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.ellhk.com). The Company's annual report for FY2019 will be dispatched to the Shareholders and will be available on the respective websites of the Stock Exchange and the Company in due course in the manner as required by the Listing Rules.

APPRECIATION

I would like to take this opportunity to express my most sincere thanks and gratitude to our Shareholders and various parties for their continuous support as well as my fellow Directors and our staff for their dedication and diligence.

By order of the Board
ELL Environmental Holdings Limited
Chau On Ta Yuen
Chairman

Hong Kong, 27 March 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.