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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 2016

FINANCIAL SUMMARY

- Revenue for the six months ended 30 June 2016 amounted to HK\$48.0 million (2015: HK\$79.7 million), representing a decrease of 39.7% as compared with that of the corresponding period of last year (the “**Last Corresponding Period**”).
- Gross profit for the six months ended 30 June 2016 was HK\$15.4 million (2015: HK\$26.6 million), representing a decrease of 42.1% as compared with that of the Last Corresponding Period.
- Net profit for the six months ended 30 June 2016 was HK\$4.5 million (2015: HK\$17.0 million), representing a decrease of 73.8% 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 2016 (2015: an interim dividend of HK2 cents per ordinary share).

The board (the “Board”) of directors (the “Directors”) of ELL Environmental Holdings Limited (“ELL Environmental” or the “Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2016 (the “Period”), together with the relevant comparative figures as follows:

** For identification purpose only*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE	3	48,009	79,670
Cost of sales		(32,626)	(53,083)
Gross profit		15,383	26,587
Other income and gains	3	5,480	3,431
Administrative expenses		(11,807)	(6,864)
Finance costs	4	(1,060)	(555)
PROFIT BEFORE TAX	5	7,996	22,599
Income tax expense	6	(3,543)	(5,598)
PROFIT FOR THE PERIOD		4,453	17,001
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of financial statements of entities not using Hong Kong dollar ("HK\$") as functional currency		(8,041)	(508)
Available-for-sale investments:			
— Changes in fair values		1,329	249
— Reclassification adjustment for losses on disposal included in profit or loss		1,230	—
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		(5,482)	(259)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		(1,029)	16,742

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(continued)

For the six months ended 30 June 2016

	<i>Note</i>	Six months ended 30 June	
		2016	2015
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Profit attributable to:			
Owners of the parent		4,237	16,441
Non-controlling interest		216	560
		<u>4,453</u>	<u>17,001</u>
Total comprehensive income attributable to:			
Owners of the parent		(629)	16,167
Non-controlling interest		(400)	575
		<u>(1,029)</u>	<u>16,742</u>
EARNINGS PER SHARE ATTRIBUTABLE			
TO ORDINARY EQUITY HOLDERS			
OF THE PARENT	8		
Basic and diluted		<u>HK0.45 cents</u>	<u>HK1.93 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2016

		30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		2,072	2,310
Receivables under service concession arrangements	9	355,477	349,807
Available-for-sale investment		22,000	127,921
Total non-current assets		379,549	480,038
CURRENT ASSETS			
Inventories		288	246
Receivables under service concession arrangements	9	44,199	40,410
Prepayments and other receivables	10	16,288	1,289
Income tax recoverable		547	693
Available-for-sale investments		101,995	—
Cash and cash equivalents		60,058	87,763
Total current assets		223,375	130,401
CURRENT LIABILITIES			
Trade payables	11	15,293	12,186
Other payables and accruals		2,721	3,543
Derivative financial instrument		1,070	794
Interest-bearing bank borrowings	12	32,235	32,864
Income tax payables		1,094	627
Total current liabilities		52,413	50,014
NET CURRENT ASSETS		170,962	80,387
TOTAL ASSETS LESS CURRENT LIABILITIES		550,511	560,425

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)*30 June 2016*

		30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowing	<i>12</i>	724	2,336
Deferred tax liabilities		37,914	36,514
Provision for major overhauls		7,271	6,440
Total non-current liabilities		45,909	45,290
Net assets		504,602	515,135
EQUITY			
Equity attributable to owners of the parent			
Issued capital	<i>13</i>	95	95
Reserves		477,314	487,447
		477,409	487,542
Non-controlling interest		27,193	27,593
Total equity		504,602	515,135

Notes to the Condensed Interim Financial Information

1. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

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

The unaudited condensed interim consolidated 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 2015.

This unaudited condensed interim financial information is presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand (“HK\$’000”) except when otherwise indicated. This unaudited condensed interim financial information has not been audited or reviewed by the Company's external auditors, but has been reviewed by the Company's audit committee (the “Audit Committee”).

The accounting policies and basis of preparation adopted in the preparation of the unaudited interim condensed consolidated financial information is consistent with those adopted in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong, except for the adoption of the following new amendments to HKFRSs for the first time for the current period's unaudited interim condensed consolidated financial information:

Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27	<i>Equity Method in Separate Financial Statements</i>
<i>Annual improvements 2012 -2014 Cycle</i>	Amendments to a number of HKFRSs

The adoption of these revised HKFRSs has had no significant financial effect on the unaudited interim condensed consolidated financial information. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective in the current accounting period.

2. SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment which is the construction and operation of wastewater treatment facilities. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

Geographical information

All of the Group's revenue during the six months ended 30 June 2015 and 2016 are derived from customers located in Mainland China, and all of the Group's non-current assets (excluding receivables under service concession arrangements and available-for-sale investments) are located in Mainland China as at 31 December 2015 and 30 June 2016.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue is set out below:

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Customer A	5,275	N/A*
Customer B	42,734	72,968

* The corresponding revenue of this customer is not disclosed as it individually did not contribute over 10% of the Group's total revenue for the prior period.

3. REVENUE, OTHER INCOME AND GAINS

Revenue represents: (1) an appropriate proportion of contract revenue of construction contracts under service concession arrangements; (2) revenue from the operation of wastewater treatment facilities under service concession arrangements, net of value-added tax and government surcharges; and (3) the imputed interest income on receivables under service concession arrangements.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Construction services	18,705	45,964
Wastewater treatment facilities operation services	19,435	26,405
Imputed interest income on receivables under service concession arrangements	9,869	7,301
	<u>48,009</u>	<u>79,670</u>
	48,009	79,670
	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Other income and gains		
Bank interest income	43	275
Interest income from available-for-sale investments	2,589	327
Government grants [#]	—	1,720
Foreign exchange gains, net	1,050	1,011
Refund of value-added tax	1,440	—
Realised gain on a cross currency swap contract	298	—
Others	60	98
	<u>5,480</u>	<u>3,431</u>
	5,480	3,431

[#] Government grants have been received from local government in Jiangsu Province for the purpose of carrying out environmental works in the six months ended 30 June 2015. There was no unfulfilled conditions or contingencies relating to the grant as at 30 June 2015.

4. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans	858	390
Increase in discounted amounts of provision for major overhauls arising from the passage of time	202	165
	<u>1,060</u>	<u>555</u>

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of construction services	14,379	37,067
Cost of wastewater treatment facilities operation services rendered	18,247	16,016
Loss on disposal of available-for-sale investments	<u>1,230</u>	<u>—</u>

6. INCOME TAX

Pursuant to the respective rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in each of the above jurisdictions.

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 2015: Nil).

The provision for the People's Republic of China (the "PRC") income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in Mainland China as determined in accordance with the relevant income tax rules and regulations of the PRC.

Haian Hengfa Wastewater Treatment Company Limited ("Haian Hengfa") and Rugao Hengfa Water Treatment Company Limited* ("Rugao Hengfa") obtained preferential income tax treatment whereby their income taxes are taxed at the taxable profit based on 90% of the revenue generated for the current and the prior periods.

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax charge for the period		
— Mainland China	1,291	2,341
Deferred tax	2,252	3,257
Total tax charge for the period	3,543	5,598

* *The English name of this entity represents management's best effort at translating its Chinese name as it did not register any official English name.*

7. DIVIDEND

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Final dividend for 2015 — HK1 cent (2014: Nil) per ordinary share	9,520	—

No interim dividend in respect of the six months ended 30 June 2016 has been proposed by the Board (30 June 2015: an interim dividend of the HK2 cents per ordinary share).

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount for the six months ended 30 June 2016 is based on the profit for the period attributable to ordinary equity holders of the parent of HK\$4,237,000 (six months ended 30 June 2015: HK\$16,441,000), and the weighted average number of ordinary shares of 952,000,000 (six months ended 30 June 2015: 850,387,000) in issue during the period.

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2016 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings per share amount presented. No adjustment had been made to the basic earnings per share amount presented for the six months ended 30 June 2015 as the Company had no potentially dilutive ordinary share in issue during that period.

9. SERVICE CONCESSION ARRANGEMENTS

Receivables under service concession arrangements represented receivables from the construction and operation services under “Build-Operate-Transfer” contracts (service concession agreements). Receivables under service concession arrangements are usually due for settlement within 10 days after each month end.

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Receivables under service concession arrangements	399,676	390,217
Portion classified as current assets	(44,199)	(40,410)
Non-current portion	355,477	349,807

An ageing analysis of receivables under service concession arrangements, based on invoice date, is as below:

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Billed:		
Within 3 months	18,650	16,426
4 to 6 months	15,840	14,694
	34,490	31,120
Not yet billed	365,186	359,097
	399,676	390,217

10. PREPAYMENTS AND OTHER RECEIVABLES

		30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
	<i>Note</i>		
Deposit and other receivables	(a)	15,776	104
Prepayments		512	1,185
		16,288	1,289

- (a) The deposit and other receivables included a refundable deposit of HK\$15,600,000 in relation to a potential acquisition.

11. TRADE PAYABLES

An ageing analysis of the trade payables, based on invoice date, is as follows:

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Within 1 month	63	9,490
1 to 3 months	9,935	482
Over 3 months	5,295	2,214
	15,293	12,186

The trade payables are non-interest-bearing and are normally settled on terms of 30 days.

12. INTEREST-BEARING BANK BORROWINGS

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Current		
Interest-bearing bank loan – secured	3,067	3,034
Interest-bearing bank loan – unsecured	29,168	29,830
	<u>32,235</u>	<u>32,864</u>
Non-current		
Interest-bearing bank loan – secured	724	2,336
	<u>32,959</u>	<u>35,200</u>
Analysed into:		
Bank loans repayable:		
Within one year or on demand	32,235	32,864
In the second year	724	2,336
	<u>32,959</u>	<u>35,200</u>

As at 30 June 2016, the Group had a three-year bank loan of HK\$3,791,000 (31 December 2015: HK\$5,370,000) which was denominated in Renminbi (“RMB”) with a fixed interest rate at 6.77% per annum. This bank loan was secured by the Group’s land use right and properties used in the operation of the Group’s wastewater treatment business with a total construction cost of HK\$6,047,000 which had been charged to the cost of sales in profit or loss in the prior years in accordance with HK(IFRIC)-Int 12 *Service Concession Arrangements*. The related receivables under service concession arrangement amounted to HK\$100,974,000 as at 30 June 2016 (31 December 2015: HK\$102,981,000).

In addition, as at 30 June 2016, the Group had a one-year bank loan with a carrying amount of HK\$29,168,000 (31 December 2015: HK\$29,830,000), which was denominated in RMB with a fixed interest rate at 4.5% per annum. The loan is unsecured and contains a repayable on demand clause. To mitigate the foreign currency exposure of the loan arising from the fluctuation of the exchange rate of HK\$ against RMB, the Group has entered into a one-year cross currency swap contract at the same time with its nominal amount and payment terms equal to and offsetting the principal and interest payments of the loan. The net cash flow of the loan and the cross currency swap contract resembles a HK\$ denominated loan of HK\$30,250,000 with a fixed interest rate at 2.6% per annum.

13. SHARE CAPITAL

Shares

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Authorised:		
3,800,000,000 ordinary shares of HK\$0.0001 each	380	380
Issued and fully paid:		
952,000,000 ordinary shares of HK\$0.0001 each	95	95

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

ELL Environmental is an environmental industry services provider with three wastewater treatment facilities in Jiangsu Province, the PRC. We offer a one-stop approach to the provision of wastewater treatment services using the “Build-Operate-Transfer” or “BOT” model. We cover the whole spectrum of activities from the design of wastewater treatment facilities, through the procurement of suitable equipment and materials, to the supervision of their construction as well as the on-going operation and maintenance of the facilities throughout long-term concession periods. The three wastewater treatment facilities, including one in Haian County, namely the Haian Hengfa Facility, and two in Rugao Economic and Technological Development Zone (the “Rugao ETDZ”), namely the Rugao Hengfa Facility and the Rugao Honghao Facility, have daily wastewater treatment capacities of 40,000 tonnes, 40,000 tonnes and 3,500 tonnes, respectively.

China’s economy underwent a stable growth in the first half of 2016. During the Period, China’s GDP grew 6.7%, which was within the government’s expected range of 6.5% to 7%. Meanwhile, the PRC government has demonstrated a continuous support to the development of the environmental protection industry by introducing the Ten Rules for Water Pollution Control and other environmental policies in great efforts. The market investment in the Public-Private Partnership (“PPP”) projects is still in a growing stage. Nonetheless, the challenges from intensified competition in the industry and instabilities in the global economy and financial market have also raised the bar for companies to maintain a steady growth or sustain its profitability. Fluctuations in the exchange rate of RMB have a direct impact to the investment return of foreign investors.

Despite the challenges, the Group has been able to uphold its position and maintain its financial strength as a result of its persistence of being cautious and risk-focused in expansions. The Group has a solid base of businesses in China, which will continuously be the strong support for future growth. Currently, the Group is negotiating with the local government to adjust the water tariff for the Haian Hengfa Facility. The upgrading works of the Rugao Hengfa Facility was substantially completed in December 2015, and the water tariff has already been adjusted accordingly. Upon satisfactory completion of the inspection and the receipt of a permit for sewage discharge for the upgrading works, the water tariff is expected to be further adjusted.

Meanwhile, the Group has been actively seeking for expansion opportunities in the environmental industry overseas. On 16 June 2016, the Group entered into a share purchase agreement with Fusion Joy Holdings Inc. and Carlton Asia Limited, pursuant to which the Group has conditionally agreed to acquire from the latter two parties all the issued shares of Weal Union Limited (“**Weal Union**”) at an aggregate consideration of approximately US\$22.258 million. Weal Union is investing in kernel oil production and biomass power generation business in Jambi province of Indonesia. Being a renewable green energy, the biomass power generation business is regarded as an industry of environmental protection, and is in line with the Group’s vision and goal.

As the Indonesian government has shown its strong determination in tackling the pollution problems nationally as supported by its intention of providing substantial subsidies to renewable energy power producers, it is expected that the renewable energy pricing scheme will become more favourable to the producers under the development of the regulations. The management is highly optimistic about the profitability and potential growth of the biomass power generation business carried on by Weal Union through its subsidiary. At the same time, we shall also keep a close eye on other suitable opportunities in Indonesia or other locations for future expansion and diversification of businesses.

For more details, please refer to the Company’s announcement dated 16 June 2016.

FINANCIAL REVIEW

Revenue

Our total revenue decreased by approximately 39.7% to approximately HK\$48.0 million for the Period from approximately HK\$79.7 million for the Last Corresponding Period, of which the revenue excluding the imputed interest income decreased to approximately HK\$38.1 million for the Period from approximately HK\$72.4 million for the Last Corresponding Period. During the Period, the decrease in revenue was primarily attributable to a decrease of the construction revenue as a result of the upgrading works of the Rugao Hengfa Facility to approximately HK\$18.7 million for the Period from approximately HK\$46.0 million for the Last Corresponding Period and the recognition of output value-added tax (“VAT”) of approximately HK\$5.9 million for the Period while the Group was not subject to VAT for the Last Corresponding Period.

Cost of sales

Our total cost of sales decreased by approximately 38.5% to approximately HK\$32.6 million for the Period from approximately HK\$53.1 million for the Last Corresponding Period, primarily due to a decrease in the construction costs which amounted to approximately HK\$14.4 million as a result of the upgrading works of the Rugao Hengfa Facility during the Period, as compared to approximately HK\$37.1 million during the Last Corresponding Period.

Gross profit and gross profit margin

Our gross profit decreased by approximately 42.1% to approximately HK\$15.4 million for the Period from approximately HK\$26.6 million for the Last Corresponding Period, primarily due to the decrease in construction profit by approximately 51.4% to approximately HK\$4.3 million for the period from approximately HK\$8.9 million for the Last Corresponding Period, in relation to the upgrading works of the Rugao Hengfa Facility. The decrease in our gross profit margin to approximately 32.0% for the Period from approximately 33.4% for the Last Corresponding Period was mainly attributable to the increase in cost of sales of the Rugao Honghao Facility due to an increase in the volume of wastewater processed.

Other income and gains

Our other income and gains increased by approximately 59.7% to approximately HK\$5.5 million for the six months ended 30 June 2016 from approximately HK\$3.4 million for the six months ended 30 June 2015, which was primarily attributable to the interest income from available-for-sale investments.

Administrative expenses

Our administrative expenses increased by approximately 72.0% to approximately HK\$11.8 million for the Period from approximately HK\$6.9 million for the Last Corresponding Period. The increase was primarily attributable to (i) the professional fees of HK\$1.2 million incurred in relation to the potential acquisition of the issued shares of Weal Union as announced on 16 June 2016; (ii) the increase in other office and administration services during the Period of approximately HK\$1.8 million; and (iii) the loss on disposal of available-for-sale investments of approximately HK\$1.2 million.

Finance costs

Our finance costs increased by approximately 91.0% to approximately HK\$1.1 million for the Period from approximately HK\$0.6 million for the Last Corresponding Period. The increase in finance costs was primarily attributable to the drawdown of a bank loan in September 2015.

Profit before tax

Our profit before tax decreased by 64.6% to HK\$8.0 million for the Period from HK\$22.6 million for the Last Corresponding Period, primarily due to the factors mentioned above.

Income tax

Income tax expense of approximately HK\$3.5 million was recognised for the Period as compared to approximately HK\$5.6 million for the Last Corresponding Period. The effective tax rate was 44.3% for the Period as compared to 24.8% for the Last Corresponding Period.

Profit attributable to owners of the parent

Our profit attributable to owners of the parent decreased by approximately 74.2% to approximately HK\$4.2 million for the Period from approximately HK\$16.4 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 facilities.

As at 30 June 2016, the carrying amount of the Group's cash and cash equivalents was approximately HK\$60.1 million, representing a decrease of 31.6% as compared to that of HK\$87.8 million as at 31 December 2015.

As at 30 June 2016, the Group's cash and cash equivalents of HK\$13.1 million, HK\$26.0 million and HK\$21.0 million were denominated in Hong Kong dollars, United States dollars and RMB, respectively (31 December 2015: HK\$59.2 million, HK\$2.2 million and HK\$26.4 million were denominated in Hong Kong dollars, United States dollars and RMB, respectively).

Loans and borrowings

As at 30 June 2016, the total amount of our utilised bank loans was approximately HK\$33.0 million, of which approximately HK\$32.2 million was repayable within one year and approximately HK\$0.7 million was repayable after one year but within five years. All outstanding bank loans were denominated in RMB, of which HK\$3.8 million and HK\$29.2 million bore a fixed interest rate at 6.77% and 4.5%, respectively, per annum. We had no unutilised banking facilities as at 30 June 2016.

Gearing ratio is calculated by dividing total debt by total equity, and total debt is the interest-bearing bank borrowings. Our gearing ratio was kept stable, being 0.1 as at 30 June 2016 and 0.1 as at 31 December 2015.

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 need in support of the Group's strategy direction from time to time can be met.

Capital expenditures

Our capital expenditures consist primarily of expenditures to construct wastewater treatment facilities, purchase property, plant and equipment and carry out other upgrading and improvement works of the wastewater treatment facilities.

For the Period, our capital expenditures amounted to HK\$14.4 million. These capital expenditures were funded by funds generated from our financing activities.

Foreign exchange risk

Individual companies in Mainland China 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 carried assets and liabilities in RMB, any appreciation or depreciation of Hong Kong dollars against RMB will affect the Group's consolidated financial position and will be reflected in the exchange fluctuation reserve.

As at 30 June 2016, individual companies in Hong Kong within our Group had translational currency exposure because our available-for-sale investments of HK\$102.0 million and cash and cash equivalents of HK\$26.0 million were denominated in United States dollars.

RMB is not freely convertible into foreign currencies and the conversion of RMB into foreign currencies is subject to rules and regulations of the foreign exchange control promulgated by the PRC government. The Group does not have a foreign currency hedging policy. However, the Directors monitor the Group's foreign exchange exposure closely and may, depending on the circumstances and trend of foreign currency, consider adopting significant foreign currency hedging policy in the future.

Contingent liabilities

As at 30 June 2016, the Group had no contingent liabilities.

Employee and remuneration policies

As at 30 June 2016, the Group had 72 employees (31 December 2015: 78). Employee costs, including Directors' emoluments, amounted to HK\$5.2 million for the Period (six months ended 30 June 2015: HK\$4.3 million). The remuneration policy for our Directors and senior management members 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 and senior management members. The Company has also adopted a share option scheme as incentives to reward and motivate eligible participants.

Material acquisitions and disposals

For the Period, the Group did not have any material acquisitions and disposals of assets.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

The net proceeds from the initial public offering of the Company's shares on the Stock Exchange on 26 September 2014 (after deducting underwriting fees and related expenses) amounted to approximately HK\$77.6 million. During the Period, such net proceeds were applied in the manner consistent with that set out in the Prospectus.

INTERIM DIVIDEND

During its meeting held on 22 August 2016, the Board has resolved not to declare the payment of any interim dividend for the Period (six months ended 30 June 2015: an interim dividend of HK2 cents per ordinary share).

CORPORATE GOVERNANCE

The Company strives to maintain a high standard of corporate governance and applied the principles and complied with all applicable code provisions as set out in the Corporate Governance Code set out in Appendix 14 to the Listing Rules (the “CG Code”) throughout the Period.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as contained in Appendix 10 to the Listing Rules as its own code of conduct governing the securities transactions by the Directors. Following a specific enquiry made by the Company with the Directors, all of them have confirmed that they had complied with the required standard set out in the Model Code during the Period.

PURCHASE, SALE AND REDEMPTION OF SHARES

The Company did not redeem any of its Shares listed on the Main Board of the Stock Exchange nor did the Company or any 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 and internal controls. The Audit Committee comprises four members, namely Ms. Ng Chung Yan Linda (chairlady), Mr. Ng Man Kung and Mr. Sze Yeuk Lung Benedict, all being independent non-executive Directors (the “INEDs”) and Mr. Chau Chi Yan Benny, a non-executive Director. 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 2016 interim report of the Company will be published on the respective websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.ellhk.com>) and despatched to the shareholders of the Company not later than late September 2016.

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, 22 August 2016

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