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 2019

FINANCIAL SUMMARY

- Revenue for the six months ended 30 June 2019 amounted to HK$24.4 million (six months ended 30 June 2018: HK$41.6 million), representing a decrease of 41.4% as compared with that of the corresponding period in 2018 (the "Last Corresponding Period").
- Gross profit for the six months ended 30 June 2019 was HK$2.4 million (six months ended 30 June 2018: HK$6.7 million), representing a decrease of 64.8% as compared with that of the Last Corresponding Period.
- Net loss for the six months ended 30 June 2019 was HK$11.0 million (six months ended 30 June 2018: net loss of HK$47.5 million), representing a decrease of 76.8% 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 2019 (six months ended 30 June 2018: nil).

The board (the "Board") of directors (the "Directors") of ELL Environmental Holdings Limited (the "Company" or "ELL Environmental") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2019 (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 2019

	Notes	Six months ended 30 June 2019 HK$'000 (Unaudited)	2018 HK$'000 (Unaudited)
Revenue	*3*		
Construction services		**4,468**	12,352
Wastewater treatment facility operation services		**11,488**	10,874
Sales of electricity generated from biomass power plants		**1,223**	11,872
Imputed interest income on receivables under service concession arrangements		**7,183**	6,499
		24,362	41,597
Cost of sales		**(21,996)**	(34,881)
Gross profit		**2,366**	6,716
Other income, gains and losses		**3,038**	3,347
Impairment loss recognised in respect of goodwill		**—**	(38,536)
Administrative expenses		**(13,610)**	(16,190)
Finance costs	*5*	**(838)**	(821)
Loss before tax	*6*	**(9,044)**	(45,484)
Income tax expense	*7*	**(1,986)**	(1,995)
Loss for the period		**(11,030)**	(47,479)
Loss for the period attributable to:			
Owners of the Company		**(10,930)**	(46,865)
Non-controlling interests		**(100)**	(614)
		(11,030)	(47,479)
		HK cents	*HK cents*
Loss per share	*9*		
— Basic		**(1.00)**	(4.22)
— Diluted		**(1.00)**	(4.22)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss for the period	**(11,030)**	(47,479)
OTHER COMPREHENSIVE (EXPENSE) INCOME		
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on translation of foreign operations	**(130)**	1,542
Fair value change on debt instruments at fair value through other comprehensive income	**93**	180
Investment revaluation reserve released upon disposal of debt instruments at fair value through other comprehensive income	**76**	—
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD	**(10,991)**	(45,757)
Total comprehensive expense for the period attributable to:		
Owners of the Company	**(10,870)**	(45,686)
Non-controlling interests	**(121)**	(71)
	(10,991)	(45,757)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**61,307**	54,493
Deposits paid for purchase of property, plant and equipment		**1,400**	2,661
Receivables under service concession arrangements	*10*	**282,798**	285,230
Goodwill	*11*	—	—
Debt instruments at fair value through other comprehensive income		**8,193**	8,193
Restricted bank deposits		**5,975**	5,882
		359,673	356,459
CURRENT ASSETS			
Inventories		**706**	728
Receivables under service concession arrangements	*10*	**30,332**	29,109
Trade receivables	*12*	—	8,018
Prepayments and other receivables		**5,873**	7,385
Income tax recoverable		**765**	930
Debt instruments at fair value through other comprehensive income		**18,550**	23,060
Restricted bank deposits		**5,975**	5,882
Bank balances and cash		**37,654**	44,317
		99,855	119,429

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 30 June 2019

	Notes	**30 June 2019 HK$'000 (Unaudited)**	31 December 2018 HK$'000 (Audited)
CURRENT LIABILITIES			
Trade payables	*13*	**3,369**	4,971
Other payables and accruals		**5,189**	7,682
Amounts due to related parties		**2,404**	3,424
Bank borrowings — due within one year	*14*	**32,513**	32,517
Income tax payables		**56**	164
		43,531	48,758
NET CURRENT ASSETS		**56,324**	70,671
TOTAL ASSETS LESS CURRENT LIABILITIES		**415,997**	427,130
CAPITAL AND RESERVES			
Share capital	*15*	**111**	111
Reserves		**339,428**	350,392
Equity attributable to owners of the Company		**339,539**	350,503
Non-controlling interests		**23,752**	23,873
TOTAL EQUITY		**363,291**	374,376
NON-CURRENT LIABILITIES			
Bank borrowings — due after one year	*14*	**4,480**	6,720
Deferred tax liabilities		**35,659**	34,186
Provision for major overhauls		**12,196**	11,040
Retirement benefit obligations		**371**	808
		52,706	52,754
		415,997	427,130

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”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and the Hong Kong Companies Ordinance.

The Unaudited Condensed Interim Financial Information does not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018.

This Unaudited Condensed Interim Financial Information is presented in Hong Kong dollars (“HK$”) and all values are rounded to the nearest thousand (“HK$’000”) except when otherwise indicated. This Unaudited Condensed Interim Financial Information has not been audited or reviewed by the Company’s external auditor, but has been reviewed by the Company’s audit committee (the “Audit Committee”).

2. PRINCIPAL ACCOUNTING POLICIES

In the current interim period, the Group has applied, for the first time, the following new amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA, which are mandatorily effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group’s condensed consolidated financial statements:

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

3. REVENUE

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Types of goods and services		
Construction services	**4,468**	12,352
Wastewater treatment facility operation services	**11,488**	10,874
Sales of electricity generated from biomass power plants	**1,223**	11,872
Revenue from goods and services	**17,179**	35,098
Imputed interest income on receivables under service concession arrangements	**7,183**	6,499
	24,362	41,597

4. SEGMENT INFORMATION

The Group is engaged in the construction and operation of wastewater treatment facilities and the generation of electricity. 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 the 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 2019 (unaudited)

	Hong Kong	**PRC**	**Indonesia**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Results				
Segment revenue	—	23,139	1,223	24,362
Segment (loss) profit	(5,932)	2,407	(5,505)	(9,030)
Unallocated expense				
Administrative expenses				(14)
Loss before tax				(9,044)

Six months ended 30 June 2018 (unaudited)

	Hong Kong *HK$'000*	PRC *HK$'000*	Indonesia *HK$'000*	Total *HK$'000*
Results				
Segment revenue	—	29,725	11,872	41,597
Segment (loss) profit	(6,724)	9,565	(9,777)	(6,936)
Unallocated expenses				
Administrative expenses				(12)
Impairment loss recognised in respect of goodwill				(38,536)
Loss before tax				(45,484)

There were no inter-segment sales for both periods.

All of the segment revenue reported above was generated from external customers.

Revenues from customers contributing over 10% of the Group's revenue for the six months ended 30 June 2019 and 2018 are as follows:

	Six months ended 30 June	
	2019 ***HK$'000*** **(Unaudited)**	2018 *HK$'000* (Unaudited)
Customer A from the PRC segment	**5,266**	5,025
Customer B from the PRC segment	**17,873**	24,700
Customer C from the Indonesia segment	**N/A** *(note)*	11,872

Note: The corresponding revenue from the customer did not contribute over 10% of the total revenue of the Group for the six months ended 30 June 2019.

5. FINANCE COSTS

	Six months ended 30 June	
	2019 ***HK$'000*** **(Unaudited)**	2018 *HK$'000* (Unaudited)
Interest on bank borrowings	**505**	585
Increase in discounted amounts of provision for major overhauls arising from the passage of time	**333**	236
	838	821

6. LOSS BEFORE TAX

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss before tax has been arrived at after charging (crediting):		
Employee benefit expense (including Directors' remuneration):		
Salaries and other benefits	**8,029**	9,019
Pension scheme contributions *(note)*	**851**	967
Share-based payments	**4**	—
	8,884	9,986
Cost of construction services	**3,556**	7,986
Cost of wastewater treatment facilities operation services rendered	**12,843**	8,637
Cost of power plant operation	**983**	8,971
Cost of inventories recognised as expenses	**4,614**	9,287
Depreciation of property, plant and equipment	**2,089**	6,145
Foreign exchange (gain) loss, net	**(269)**	4,388
Provision for major overhauls	**861**	1,694

Note: As at 30 June 2019, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (six months ended 30 June 2018: nil).

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current — PRC		
— Charge for the period	**1,558**	1,556
Deferred tax	**428**	439
Total tax charge for the period	**1,986**	1,995

Pursuant to the laws and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

No provision for Hong Kong profits tax had been made as the Group did not generate any assessable profits arising in Hong Kong during the Period (six months ended 30 June 2018: nil).

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces a two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The Directors considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to these condensed consolidated financial statements.

Withholding tax is calculated at 5% of the dividend income received from a subsidiary in 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 2018: 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 laws and regulations of the PRC.

8. DIVIDEND

No interim dividend in respect of the six months ended 30 June 2019 has been proposed by the Board (six months ended 30 June 2018: nil).

9. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the shareholders of the Company is based on the following data:

	Six months ended 30 June	
	2019	2018
	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	**(10,930)**	(46,865)

	Number of shares Six months ended 30 June	
	2019	2018
	'000	*'000*
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of calculating loss per share	**1,107,374**	1,111,000

For the six months ended 2019 and 2018, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options since their exercise would result in a decrease in loss per share.

10. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

	30 June 2019 *HK$'000* (Unaudited)	31 December 2018 *HK$'000* (Audited)
Receivables under service concession arrangements	**313,130**	314,339
Portion classified as current assets	**(30,332)**	(29,109)
Portion classified as non-current assets	**282,798**	285,230

The following is an ageing analysis of receivables under service concession arrangements, presented based on the invoice date at the end of the reporting period:

	30 June 2019 *HK$'000* (Unaudited)	31 December 2018 *HK$'000* (Audited)
Billed:		
Within 3 months	**13,291**	12,113
4 to 6 months	**6,942**	7,268
	20,233	19,381
Not yet billed	**292,897**	294,958
	313,130	314,339

11. GOODWILL

	HK$'000
COST	
At 31 December 2017 and 1 January 2018	85,998
Exchange adjustments	(4,591)
At 31 December 2018 and 30 June 2019	81,407
IMPAIRMENT	
At 31 December 2017 and 1 January 2018	43,756
Impairment loss recognised	39,889
Exchange adjustments	(2,238)
At 31 December 2018 and 30 June 2019	81,407
CARRYING VALUES	
At 30 June 2019 (unaudited)	**—**
At 31 December 2018 (audited)	—

The amount represents goodwill arising on the acquisition of Weal Union Limited ("Weal Union") and its subsidiary (the "Weal Union Group") on 21 October 2016. As at 30 June 2019, the goodwill arising on the acquisition of Weal Union Group had been fully impaired. Details are disclosed in the Group's consolidated financial statements for the year ended 31 December 2018.

12. TRADE RECEIVABLES

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Trade receivables	—	8,018

Trade debtors mainly arise from sales of electricity and management services fee of wastewater facilities. The Company's credit terms are negotiated at terms determined and agreed with its trade customers. The credit periods range from 30 to 60 days.

The following is an ageing analysis of trade receivables, presented based on the invoice date at the end of the reporting period:

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
0-30 days	—	5,088
31-60 days	—	2,930
	—	8,018

13. TRADE PAYABLES

The following is an ageing analysis of the trade payables, presented based on the invoice date at the end of the reporting period:

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
0-60 days	**1,173**	2,790
61-90 days	—	504
Over 90 days	**2,196**	1,677
	3,369	4,971

Included in the Group's trade payables are construction retention payables of HK$75,000 (31 December 2018: HK$75,000).

14. BANK BORROWINGS

	30 June 2019	31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
On demand or within one year	**32,513**	32,517
In the second year	**2,240**	2,240
In the third to fifth years inclusive	**2,240**	4,480
	36,993	39,237
Less: Amount due within one year shown under current liabilities	**(32,513)**	(32,517)
Amount due after one year	**4,480**	6,720
Current-secured	**2,273**	2,277
Current-unsecured	**30,240**	30,240
	32,513	32,517
Non-current-unsecured	**4,480**	6,720
	36,993	39,237

15. SHARE CAPITAL

	30 June 2019 *HK$'000* **(Unaudited)**	31 December 2018 *HK$'000* (Audited)
Authorised:		
3,800,000,000 ordinary shares of HK$0.0001 each	**380**	380
Issued and fully paid:		
1,107,300,000 (31 December 2018: 1,108,000,000) ordinary shares of HK$0.0001 each	**111**	111

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

	Number of shares	**Amount** *HK$'000*
At 1 January 2018	1,111,000,000	111
Shares repurchased and cancelled	(3,000,000)	N/A*
At 31 December 2018	1,108,000,000	111
Shares repurchased and cancelled	(700,000)	N/A*
At 30 June 2019	**1,107,300,000**	**111**

* *Amount less than HK$1,000.*

During the Period, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchase	**No. of ordinary shares**	**Price per share**		**Aggregate consideration paid**
		Highest *HK$*	**Lowest** *HK$*	*HK$'000*
January 2019	700,000	0.140	0.140	98

The above ordinary shares were cancelled on 10 May 2019.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2019, driven by a series of "Six Stabilities" policies implemented by the Chinese government to ensure "stability in employment, stability in financial operations, stability in foreign trade, stability in foreign investment, stability in domestic investment and stability in expectations", the pace of economic growth in the PRC returned to a stable level and continued to develop with overall social stability. China, which posted a 6.4% growth in gross domestic product (GDP) in the first quarter of 2019, remains a powerhouse of global economic growth. Meanwhile, as water pollution is one of the major constraints on China's economic and social development, water pollution treatment has been listed by the Chinese government as a part of its long-term strategic development plan. In recent years, the Chinese government has made overarching plans and deployments around the water treatment industry and has emphasised the need to promote the development of the industry to achieve full collection and treatment of wastewater in built-up areas of cities, and to accelerate the progress of comprehensive rural environment management in 130,000 administrative villages as a part of its "13th Five-Year Plan" for Nationwide Integrated Treatment of Rural Environment (全國農村環境綜合整治「十三五」規劃). In addition, the "Notice of the Ministry of Finance on the Fund Budget for Prevention and Control of Water Pollution of 2019" (《財政部關於下達2019年度水污染防治資金預算的通知》) released by the Chinese government in the first quarter of 2019 further reflects the determination of the Chinese government to alleviate the problem of water pollution in China, and to promote the environmental protection industry.

Despite the fact that the Chinese government had injected more resources into environmental protection, intensifying competition in the domestic environmental protection industry made it increasingly difficult for enterprises to maintain their stable growth and profitability. Thus, in view of the level of risk and instability in the market, the Group adopted a practical and prudent approach to business expansion in the first half of 2019. At present, ELL Environmental owns two wastewater treatment facilities in Jiangsu Province, China, respectively operated by Haian Hengfa Wastewater Treatment Company Limited, a 70%-owned subsidiary of the Company ("Haian Hengfa") and Rugao Hengfa Water Treatment Company Limited ("Rugao Hengfa"), a wholly-owned subsidiary of the Company. The Group has been cooperating and negotiating with the local authorities to raise the tariffs for the wastewater treatment facilities. In fact, our management had reached an agreement with the relevant authorities to retrospectively increase water tariffs for Haian Hengfa's waste water treatment operations from RMB0.91 per tonne to RMB1.14 per tonne retrospectively from 2010 onwards, and expects to be able to reach a consensus on a tariff raise for Rugao Hengfa by the end of this year. The tariff adjustments are expected to not only make up for the price difference in the previous decade, but will also raise the current tariff to a reasonable level. Upon the gradual implementation of the tariff adjustment by the end of this year, it is expected that the Group will see an increase in its revenue and gross profit in the coming years, which will in turn stabilise its financial position.

In addition, in the fourth quarter of 2016, the Group acquired the Weal Union Group comprising Weal Union and its subsidiary in Indonesia, PT Rimba Palma Sejahtera Lestari ("RPSL") to expand to new business areas. Weal Union is engaged in the biomass power generation business in Jambi, Indonesia. RPSL's power plant has two generating units, which mainly powers its palm kernel oil production facility and also meets unsatisfied local electricity demand. Indonesia is the largest economy in the Association of Southeast Asian Nations (ASEAN) and has maintained an annual economic growth of over 5% in recent years. Its soaring electricity demand, driven by the country's rapid urbanisation and coupled with the local government's environmental drive in recent years, was expected to create opportunities for the renewable energy industry. However, the biomass power plant of the Group in Indonesia has failed to reach its expected utilisation rate since the acquisition of Weal Union Group. In the first half of 2019, revenue from RPSL's power plant continued to be less than satisfactory, with the Indonesian subsidiary RPSL recording a net loss of approximately HK$3.8 million. This was mainly attributable to (i) low electricity consumption by local end-users in the vicinity of the power plant; (ii) increased competition with other local coal power plants; (iii) continuing delay in the progress of certain government projects, which resulted in slower growth in the market and economy, and hence energy consumption in the vicinity of such operations; and (iv) continuing delay in the construction of power lines and other infrastructure by the government to connect the South of Sumatra, Indonesia, where the biomass power plant is located, to the North of Sumatra, where the energy demand is much higher.

Despite some improvement in the local economy and new infrastructures favoring of the operation of the power plant, the aforementioned factors still failed to promote revenue growth effectively. Therefore, the Group reduced the level of operation of the power plant in the first half of 2019 in order to minimise its loss. We expect that normal operation of the power plant will resume with the commencement of our biofuel pellets production business, which will enable the self-consumption of power generated from the power plant and thus increase the utilisation rate of the same. We are optimistic that the production of biofuel pellets will commence this year. Moreover, the Group is actively exploring opportunities to cooperate with other power plants in order to facilitate the development of its biofuel pellets business. The Group's management expects that operation of the power plant will resume in the third quarter of 2019, and firmly believes that the biomass power generation business and biofuel pellets business will bring new growth momentum for the Group and facilitate its expansion into other environmental business areas and its strategic diversification in the future.

OUTLOOK

Confronted with increasing challenges and opportunities in the market, the Group plans to implement sound business strategies and maintain a prudent approach in devising risk-oriented development strategies. Meanwhile, the Group will also solidify its strong foundation in China's wastewater treatment market and maintain strong business performance and competitiveness, as well as capitalise on its rich experience and extensive expertise in order to vigorously develop environmental protection-related industrial chain projects. In terms of corporate governance, the Group will strengthen its internal controls to ensure the efficiency of its operations and full regulatory compliance, striving to maintain a healthy cash flow and embrace a brand new stage of development in steady steps.

FINANCIAL REVIEW

Revenue

Our total revenue decreased by HK$17.2 million or 41.4% to HK$24.4 million for the Period from HK$41.6 million for the Last Corresponding Period, of which the revenue excluding the imputed interest income decreased by HK$17.9 million or 51.1% to HK$17.2 million for the Period from HK$35.1 million for the Last Corresponding Period. Such decrease was primarily attributable to (i) the decrease of construction revenue arising from the upgrade works of the wastewater treatment facility operated by Rugao Hengfa (the "Rugao Hengfa Facility") during the Period by HK$7.9 million as compared to the Last Corresponding Period, and (ii) the decrease in sales of electricity generated from biomass power plants by HK$10.6 million during the Period. Our revenue from the operations in the PRC segment decreased by HK$6.6 million or 22.2% to HK$23.1 million for the Period from HK$29.7 million for the Last Corresponding Period, while our revenue from our operations in the Indonesia segment decreased by HK$10.6 million or 89.7% to HK$1.2 million for the Period from HK$11.9 million for the Last Corresponding Period.

Cost of Sales

Our total cost of sales decreased by HK$12.9 million or 36.9% to HK$22.0 million for the Period from HK$34.9 million for the Last Corresponding Period, primarily due to (i) the decrease in construction costs during the Period for the aforementioned upgrade works of Rugao Hengfa Facility by HK$4.4 million as compared to the Last Corresponding Period, (ii) the decrease in cost of power plant operation by HK$8.0 million as compared to the Last Corresponding Period due to the reduction in power generated during the Period, and (iii) the offsetting effect from the increase in cost of sales of the wastewater treatment facilities operation services rendered by HK$4.2 million as compared to the Last Corresponding Period.

Gross Profit and Gross Profit Margin

Our gross profit decreased by HK$4.4 million or 64.8% to HK$2.4 million for the Period from HK$6.7 million for the Last Corresponding Period, primarily due to the aforementioned factors. Our gross profit margin decreased to 9.7% for the Period from 16.1% for the Last Corresponding Period.

Other Income, Gains and Losses

Our other income and gains remained at HK$3.0 million as compared to HK$3.3 million for the Last Corresponding Period. Such gains comprised mainly the refund of tax and sewage expenses paid for the Period.

Administrative Expenses

Our administrative expenses decreased by HK$2.6 million or 15.9% to HK$13.6 million for the Period from HK$16.2 million for the Last Corresponding Period, primary due to a decrease in salary expenses of our Indonesia subsidiaries as a result of the reduction of the number of staff as compared with the Last Corresponding Period.

Finance Costs

Our finance costs remained at HK$0.8 million for the Period, which were approximately the same as those for the Last Corresponding Period. The finance costs mainly comprised the interest expenses from the Group's bank borrowings.

Loss Before Tax

Loss before tax decreased by HK$36.4 million or 80.1% to HK$9.0 million for the Period from HK$45.5 million for the Last Corresponding Period, primarily due to the factors mentioned above.

Income Tax Expense

Our income tax expense recognised remained stable at HK$2.0 million for the Period, which was approximately the same as that for the Last Corresponding Period. Such income tax was recognised primarily in relation to our PRC wastewater treatment operations, which remained profitable during the Period. The effective tax rate was -22.0% for the Period as compared with -4.4% for the Last Corresponding Period due to the fact that the major component of the loss, being the impairment loss recognised in respect of goodwill, for the Last Corresponding Period was not tax deductible.

Loss for the Period Attributable to Owners of the Company

Loss attributable to owners of the Company decreased by HK$35.9 million or 76.7% to HK$10.9 million for the Period from HK$46.9 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 2019, the carrying amount of the Group's bank balances and cash was HK$37.7 million, representing a decrease of 15.0% as compared with that of HK$44.3 million as at 31 December 2018.

As at 30 June 2019, the Group's bank balances and cash of HK$19.7 million, HK$0.7 million, HK$1.3 million and HK$16.0 million were denominated in Renminbi ("RMB"), HK$, Indonesian Rupiah ("IDR") and United States Dollars ("US$"), respectively (31 December 2018: HK$16.7 million, HK$2.3 million, HK$1.7 million and HK$23.6 million were denominated in RMB, HK$, IDR and US$, respectively).

Bank Borrowings

As at 30 June 2019, the total amount of our utilised bank borrowings was HK$37.0 million, of which approximately HK$32.5 million was repayable within one year and approximately HK$4.5 million was repayable after one year but within five years. Approximately HK$28.0 million, HK$6.7 million and HK$2.3 million of the outstanding bank borrowings were denominated in HK$, US$ and RMB, respectively (31 December 2018: HK$28.0 million, HK$8.9 million and HK$2.3 million were denominated in HK$, US$ and RMB, respectively).

HK$28.0 million bore a floating interest rate of 1.4% over the Hong Kong Interbank Offered Rate per annum. HK$6.7 million bore a floating interest rate of 1.4% over London Interbank Offered Rate per annum. HK$2.3 million bore a fixed interest rate of 5.1% per annum. We had no unutilised banking facilities as at 30 June 2019 (31 December 2018: nil).

Gearing Ratio

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 both as at 30 June 2019 and 31 December 2018.

Charge on Assets

As at 30 June 2019, there were no charges on the Group's assets.

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 the Group's strategy or direction from time to time can be met.

Capital Expenditures

Our capital expenditures consist primarily of expenditures for construction and acquisition of machinery and equipment for our plant of Rugao Hengfa and for the biofuel pellet business in Indonesia. For the Period, our capital expenditures amounted to HK$8.5 million, which were funded by funds generated from our financing activities.

Foreign Exchange Risk

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

Contingent Liabilities

As at 30 June 2019, the Group had no contingent liabilities (31 December 2018: nil).

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2019, the Group had 120 employees (31 December 2018: 227 employees). Employee costs, including Directors' emoluments, amounted to approximately HK$8.9 million for the Period (six months ended 30 June 2018: HK$10.0 million). The remuneration policy for our Directors, senior management members and general staff is based on their experience and level of responsibility and the 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 self-development of its employees and provides on-the-job training where appropriate.

The Company adopted a share option scheme on 5 September 2014 for the purpose of providing incentives and rewards to eligible directors and employees of the Group.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

As at 30 June 2019, debt instruments at fair value through other comprehensive income classified as current assets in the amount of approximately HK$18.6 million mainly comprise debt instruments held by the Group (31 December 2018: HK$23.1 million). The decrease in amount was primarily as a result of certain listed bonds reaching maturity during the Period. The fair value change on debt instruments at fair value through other comprehensive income decreased from approximately HK$0.2 million to approximately HK$0.1 million.

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

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this announcement, 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 DATE

The Group has no material event subsequent to the end of the Period and up to the date of this announcement.

INTERIM DIVIDEND

During its meeting held on 21 August 2019, the Board has resolved not to declare the payment of any interim dividend for the Period (six months ended 30 June 2018: nil).

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

Mr. Sze Yeuk Lung Benedict ("Mr. Sze") resigned as an independent non-executive Director ("INED"), and ceased to be a member of each of the Board's audit committee, nomination committee (the "Nomination Committee") and 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.

The Company will use its reasonable endeavours to identify a suitable candidate to fill the vacancy of the third INED and fulfil the composition requirement of the Nomination Committee within three months from the effective date of Mr. Sze's resignation, in order to meet the relevant code provision of the CG Code. The Company will make further announcement as and when appropriate.

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

In January 2019, the Company repurchased 700,000 shares of the Company (the "Shares") on the Stock Exchange at a price of HK$0.14 per share, amounting to an aggregate consideration of HK$98,000 excluding transaction costs. All the repurchased Shares had been cancelled on 10 May 2019.

Save as disclosed above, 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 two members, namely Ms. Ng Chung Yan Linda (who is also the chairlady of the Audit Committee) and Mr. Ng Man Kung, both being INEDs. 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 2019 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 30 September 2019.

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, 21 August 2019

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 and Mr. Ng Man Kung as INEDs.