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MAJOR TRANSACTION CONSTRUCTION CONTRACT IN RELATION TO THE CONSTRUCTION OF THE BANGKA PLANT

Unless the context otherwise requires, all capitalised terms in this cover page shall have the same meanings as those defined the section headed “Definitions” in this circular.

A letter from the Board is set out on pages 5 to 17 of this circular.

The Company has obtained Written Shareholders’ Approval for the Construction Contract and the transaction contemplated thereunder in accordance with Rule 14.44 of the Listing Rules from a closely allied group of Shareholders who together hold more than 50% of the entire issued capital of the Company. Accordingly, no extraordinary general meeting will be convened for the purpose of approving the Construction Contract as permitted under Rule 14.44 of the Listing Rules.

This circular is being despatched to the Shareholders for information only.

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DEFINITIONS

In this circular, unless the context otherwise requires, the following terms or expressions used shall have the following meanings:

“Bangka Plant”	the Group’s biomass power plant in Bangka, Indonesia
“Bangka Project”	the development and construction of the Bangka Plant
“Board”	the board of Directors
“Boiler Purchase Agreement”	the boiler purchase agreement entered into between PT SJP and Jinan Co dated 21 January 2021 in relation to the purchase of boiler set at a total consideration of approximately RMB10,380,000 (exclusive of VAT)
“Carlton Asia”	Carlton Asia Limited
“Company”	ELL Environmental Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1395)
“connected person”	has the meaning ascribed to it in the Listing Rules
“Construction Contract”	the construction contract entered into between PT SJP and the Contractor dated 23 December 2021
“Construction Works”	the construction and installation works in respect of the Bangka Plant based on the design drawings prepared by PT SJP at South Sadai Industrial Zone, Bangka, Indonesia
“Contractor”	Powerchina Sepco1 Electric Power Construction Co., Ltd. (中國電建集團山東電力建設第一工程有限公司), a company incorporated under the laws of the PRC, an independent third party of the Company
“Director(s)”	director(s) of the Company
“Everbest Environmental”	Everbest Environmental Investment Limited

DEFINITIONS

“Group”	the Company and its subsidiaries from time to time
“Hangzhou Chinen”	Hangzhou Chinen Steam Turbine Power Company Limited* (杭州中能汽輪動力有限公司), a company incorporated under the laws of the PRC, an independent third party of the Company
“Hightop”	Hightop Investment Limited
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Indonesia”	the Republic of Indonesia
“IDR”	Indonesian Rupiah, the lawful currency of Indonesia
“Jambi Biomass Power Plants”	the Company’s biomass power generation business in Jambi City, Indonesia
“Jinan Co”	Jinan Boiler Group Company Limited* (濟南鍋爐集團有限公司), a company incorporated under the laws of the PRC, an independent third party of the Company
“Latest Practicable Date”	24 February 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Procurement Agreement”	the master procurement agreement entered into between PT SJP and Jinan Co dated 16 November 2021, pursuant to which PT SJP has agreed to entrust, and Jinan Co has agreed to be entrusted to procure and handle cargo transportation and export customs clearance procedures for the machineries and materials for the Bangka Project at a total consideration of approximately RMB16,570,000 (exclusive of applicable tax)

DEFINITIONS

“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Pile Foundation Contract”	the pile foundation supply and piling contract entered into between PT SJP and PT HYPEC dated 9 June 2021
“Power Construction Corporation”	Power Construction Corporation of China (中國電力建設集團有限公司), a state-owned enterprise of the PRC, an independent third party of the Company
“PRC”	the People’s Republic of China, excluding Hong Kong and the Macau Special Administrative Region
“PT HYPEC”	PT HYPEC International, a limited liability company incorporated under the laws of Indonesia, an independent third party of the Company
“PT SJP”	PT Sentosa Jaya Purnama, a subsidiary which is indirectly held as to 95% by the Company
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong
“Share(s)”	ordinary share(s) of par value HK\$0.0001 each in the share capital of our Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	a supplemental agreement entered into between PT SJP and Hangzhou Chinen dated 8 January 2021 in relation to the amendment of certain terms and conditions of the Turbine Generator Purchase Agreement
“subsidiary”	has the meaning ascribed to it in the Listing Rules

DEFINITIONS

“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Total Contract Price”	the contractual amount of approximately RMB48,000,000 (exclusive of VAT) subject to the adjustments under the Construction Contract
“Turbine Generator Purchase Agreement”	the turbine generator purchase agreement entered into between PT SJP and Hangzhou Chinen dated 31 December 2020 in relation to the purchase of a steam turbine generator set at an adjusted consideration of approximately USD1,100,000 (exclusive of VAT)
“VAT”	value-added tax
“Wealthy Sea”	Wealthy Sea Holdings Limited
“Written Shareholders’ Approval”	the written approval dated 23 December 2021 given by Wealthy Sea and Everbest Environmental in respect of the Construction Contract and the transaction contemplated thereunder
“%”	per cent

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Chau On Ta Yuen (*Chairman*)
Mr. Chan Kwan (*Chief Executive Officer*)
Mr. Radius Suhendra
Mr. Chau Chi Yan Benny

Registered Office:

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Non-executive Director:

Mr. Chan Pak Lam Brian

Headquarters:

Rugao Hengfa Municipal and
Industrial Wastewater Treatment Facility
North of Huimin Road
Rugao Economic and
Technological Development Zone
Jiangsu Province
The PRC

Independent Non-executive Directors:

Ms. Ng Chung Yan Linda
Mr. Ng Man Kung
Ms. Leung Bo Yee Nancy

Principal Place of Business in Hong Kong:

Unit 5, 7th Floor
Westlands Centre
20 Westlands Road
Hong Kong

25 February 2022

To the Shareholders

Dear Sir or Madam

**MAJOR TRANSACTION
CONSTRUCTION CONTRACT IN RELATION TO
THE CONSTRUCTION OF THE BANGKA PLANT**

* For identification purposes only

LETTER FROM THE BOARD

1. INTRODUCTION

The Board is pleased to announce that on 23 December 2021, PT SJP and the Contractor entered into the Construction Contract, pursuant to which the Contractor has agreed to undertake the Construction Works in respect of the Bangka Plant at a Total Contract Price of approximately RMB48,000,000 (exclusive of VAT).

The purpose of this circular is to provide the Shareholders with further details of the Construction Contract and the transaction contemplated thereunder, and such other information as required under the Listing Rules.

2. MAJOR TERMS OF THE CONSTRUCTION CONTRACT

The principal terms of the Construction Contract are set out as follows:

Date	:	23 December 2021
Parties	:	(i) PT SJP as the owner; and (ii) Powerchina Sepco1 Electric Power Construction Co., Ltd. as the contractor.
Scope of Construction Works	:	The construction and installation work in respect of the Bangka Plant based on the design drawings prepared by PT SJP at South Sadai Industrial Zone, Bangka, Indonesia, including but not limited to, the construction of the foundation, structure and roofing of the main building, the boiler steel structure foundation, the composite building, the dormitory building, the structure of the mechanical ventilation cooling tower and the ancillary works and the installation works for the Bangka Plant.
Construction period	:	The Bangka Plant is expected to be grid-connected in 2023.

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Total Contract Price : The total amount payable by PT SJP to the Contractor is approximately RMB48,000,000 (exclusive of VAT), which comprises approximately RMB34,000,000 (exclusive of VAT) with respect to the construction works for the Bangka Plant (“**Construction Contract Price**”) and approximately RMB14,000,000 (exclusive of VAT) with respect to the installation works for the Bangka Plant (“**Installation Contract Price**”), subject to adjustments arising from the increase of actual work performed and/or change in design of the Construction Works.

Not less than 50% of the Total Contract Price shall be funded by the Company’s internal resources and not more than 50% shall be funded by a shareholder’s loan provided by Everbest Environmental to the Group. Everbest Environmental has provided a legally binding written confirmation on 1 January 2022 that it would irrevocably provide an unsecured loan without any guarantee obligation for no more than RMB24 million to the Company upon the Company’s request. Such loan shall carry an interest of 8% per annum which shall be calculated from the date of its drawdown. As at the Latest Practicable Date, Everbest Environmental and the Company have not entered into a shareholder’s loan agreement.

The Total Contract Price was determined after arm’s length negotiations between PT SJP and the Contractor and on normal commercial terms with reference to (i) the expected scope, complexity and quality of the Construction Works; (ii) the experience, competency and market position of the Contractor; (iii) the anticipated material and labour costs; and (iv) the prevailing market prices for carrying out construction works of comparable scale and complexity.

Adjustment Mechanism : **Construction**

LETTER FROM THE BOARD

In the event that an increase of actual work performed is resulted from (i) the variation of design between the design drawings and the tender design drawings for bidding purposes, and (ii) the additional work performed (the “**Additional Work**”) arising from such change in design exceeds the corresponding item(s) in the bill of quantities, the costs incurred for the Additional Work (the “**Additional Costs**”) shall be determined with reference to the agreed bill of quantities for the corresponding items or similar items. In the absence of such corresponding item(s) in the bill of quantities, the Additional Costs shall be subject to the Parties’ negotiation.

In the event that the Additional Work is resulted from an increase in the scope of construction, the Additional Costs incurred for the Additional Work performed shall be settled according to the actual bill of quantities. The Parties shall separately negotiate the settlement of the Additional Costs if the Additional Work performed exceeded the bill of quantities.

Installation

The consideration for the installation part shall be settled in accordance with the actual work performed.

The Group would consider factors including but not limited to (i) the extent of the variation in design between the design drawings and the tender design drawings for bidding purposes; (ii) the extent of the change of scope of construction; and (iii) the change of quantities of equipment installed based on the actual work performed in determining the Additional Costs. As such, the Company expected that the Additional Costs (if any) shall be capped at RMB7,200,000.

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In the event that there is a material change in the terms of the Construction Contract, the Company will re-comply with the relevant requirements under Chapter 14 of the Listing Rules including but not limited to the convening of an extraordinary general meeting for Shareholders to approve the transaction contemplated under the Construction Contract by way of ordinary resolution.

Payment terms and schedule : The Total Contract Price shall be settled by way of bank transfer in the following manner:

(i) Prepayment

10% of the Total Contract Price shall be paid by PT SJP to the Contractor within 10 days upon receipt of the invoice and request of payment as well as the fulfilment of the conditions including (a) the Construction Contract becomes effective; and (b) the provision of a letter from bank performance guarantee by the Contractor for the purposes of its application for prepayment representing 10% of the Total Contract Price covering a period of 12 months commencing from the date on which the Construction Contract becomes effective. The purpose of the performance guarantee given by the Contractor to PT SJP is to guarantee that the Contractor has the ability to fulfill the obligations under the Construction Contract, failing which the 10% of the Total Contract Price under the performance guarantee shall be repaid to PT SJP.

(ii) Construction

(a) 10% of the Construction Contract Price shall be paid by PT SJP to the Contractor within 15 days upon receipt of the invoice and request of payment after the completion of the foundation of the main building;

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- (b) 10% of the Construction Contract Price shall be paid by PT SJP to the Contractor within 15 days upon receipt of the invoice and request of payment after the safety inspection of the boiler steel structure foundation;
- (c) 10% of the Construction Contract Price shall be paid by PT SJP to the Contractor within 15 days upon receipt of the invoice and request of payment after the completion of the structure of the main building;
- (d) 10% of the Construction Contract Price shall be paid by PT SJP to the Contractor within 15 days upon receipt of the invoice and request of payment after the completion of roofing of the main building including, among others, the steam turbines and auxiliary systems;
- (e) 10% of the Construction Contract Price shall be paid by PT SJP to the Contractor within 15 days upon receipt of the invoice and request of payment after the completion of the composite building;
- (f) 10% of the Construction Contract Price shall be paid by PT SJP to the Contractor within 15 days upon receipt of the invoice and request of payment after the completion of the dormitory building;
- (g) 10% of the Construction Contract Price shall be paid by PT SJP to the Contractor within 15 days upon receipt of the invoice and request of payment after the completion of the structure of the mechanical ventilation cooling tower;
- (h) 7% of the Construction Contract Price shall be paid by PT SJP to the Contractor within 15 days upon receipt of the invoice and request of payment after the completion of ancillary works, including, among others, the construction of roads and pipe trenches;

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- (i) 10% of the Construction Contract Price shall be paid by PT SJP to the Contractor within 15 days upon receipt of the invoice and request of payment after successful trial operation of the relevant construction parts for 96 hours;

The payments of the Construction Contract Price to be made by PT SJP to the Contractor are conditional upon the relevant constructed parts fulfilling the corresponding specifications and requirements as specified in the agreed design drawings.

(iii) Installation

- (a) the maximum amount of the monthly progress payment shall be limited to 92%, and each monthly progress payment shall be paid by PT SJP to the Contractor, within 15 days upon receipt of the invoice and request of payment in accordance to the actual installation progress for the Bangka Plant in that month, pursuant to which the prepaid portion of the Installation Contract Price shall be deducted from the monthly progress payable in five equal portions when the accumulated monthly progress payment reaches 40% of the Installation Contract Price. After the prepaid portion of the Installation Contract Price has been fully offset against by the monthly progress payments payable, PT SJP shall still be required to pay the monthly progress payment for the remaining construction term under the Construction Contract;
- (b) 5% of the Installation Contract Price shall be paid by PT SJP to the Contractor within 15 days upon receipt of the invoice and request of payment after the successful trial operation of the relevant construction parts for 96 hours; and

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(iv) Warranty

the remaining 3% of the Total Contract Price shall be paid by PT SJP to the Contractor within 30 days upon receipt of the invoice and request of payment, after the expiry of the warranty period of any defects of the Construction Works, and upon the issuance of the final acceptance certificate from PT SJP to the Contractor.

- Warranty : The warranty period of any defects of the Construction Works shall be 12 months commencing from the successful trial operation of the relevant construction parts for 96 hours.
- Conditions precedent to the Construction Contract : The Construction Contract is subject to, among other things, (i) the approval of the board of directors of PT SJP and the approval of the Shareholders; and (ii) the compliance with applicable laws and regulations (including but not limited to the applicable requirements under the Listing Rules) which all have been fulfilled as at the Latest Practicable Date.

3. REASONS AND BENEFITS OF ENTERING INTO THE CONSTRUCTION CONTRACT

As at the Latest Practicable Date, the operation of the Jambi Biomass Power Plants had been suspended since 2020 as a result of a significant drop of electricity unit price in the local proximity. The Group has been actively exploring alternatives for its Jambi Biomass Power Plants, including but not limited to the development of biofuel pellets business and the expansion of its business footprint into other parts of Indonesia. The Group has commenced wood pellets manufacturing in 2021 for export in Asian countries such as Korea. Further, the Group has been in active negotiations with PT Perusahaan Listrik Negara (Persero) (also known as State Electricity Company), an Indonesian government-owned corporation (the “**PLN**”), to enter into power supply agreements in order to fully utilise the Jambi Biomass Power Plants.

The Group plans to develop the Bangka Plant which will have a capacity of 10 megawatts to generate electricity for distribution by a national power supplier under a pre-existing power supply arrangement under which the Group has entered into a power supply agreement (the “**Agreement**”) with a term of 25 years (the “**Term**”) with the PLN. Pursuant to the Agreement, the Group will supply electricity to the national grid at a fixed price for a period of 25 years from 2023, 20 years of which is subject to a minimum off-take of 65% capacity, with the remaining 5 years to be agreed by the parties. Upon the expiry of the Term, the Bangka Plant will be transferred to the PLN under the business model of “Build — Operate — Transfer”. The terms of the proposed

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disposal of the Bangka Plant to PLN including the mechanism for determining the consideration thereof upon the expiry of the Term is not provided for under the Agreement. As at the Latest Practicable Date, the Group has not entered into any legally binding agreement in relation to the disposal of the Bangka Plant with PLN. In the event that the disposal of the Bangka Plant is materialised, the Company will comply with the reporting and announcement requirement under Chapter 14 of the Listing Rules as and when appropriate.

According to feasibility studies conducted by independent third-party researchers, Bangka has been experiencing steady growth in population and business activities and is in need of new power plants to replace outdated and inefficient power generators in order to support its development. To the best of the Directors' knowledge, activities that require intense electricity consumption such as heavy industry businesses are less prevalent in outer islands of Indonesia, including Bangka. Given that household consumption still takes up the majority of Bangka's overall electricity consumption and the peak consumption capacity of Bangka is estimated to be around 152 megawatts, our Directors believe that such demographic environment, while less attractive to large scale PRC-state owned power supply companies which typically operate with a capacity of 300 megawatts, is suitable and less competitive for small scale power supply operation, which our Group specialises in.

The Directors consider that constructing a new power plant in Bangka for that purpose is more cost effective and efficient than transporting the Jambi Biomass Power Plants to Bangka. If successful, the Bangka Project may be replicated in other outer islands of Indonesia to strengthen the Group's income base for its long-term benefit. After entering into the Pile Foundation Contract, the piling works thereunder has completed as at the Latest Practicable Date, the Company considered it is necessary to continue the construction of the Bangka Plant. As such, the Company initiated the tendering process with multiple third-party contractors and after considering (i) the terms and quotations provided, (ii) the relevant qualifications and experiences in the relevant industry and (iii) their creditability and track records, the Company shortlisted the Contractor and entered into the Construction Contract for the construction of the Bangka Plant.

Based on the reasons above, the Directors consider that the terms and conditions of the Construction Contract are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

To the best of the directors' knowledge, information and belief having made all reasonable enquiry, there is, and in the past 12 months, there has been, no material loan arrangement between (i) the Contractor, its directors and legal representative and any of its ultimate beneficial owner(s) who can exert influence on the transactions; and (ii) the Company, any connected person at the Company's level and/or any connected person of PT SJP.

LETTER FROM THE BOARD

4. LISTING RULES IMPLICATIONS

On 9 June 2021, PT SJP entered into a Pile Foundation Contract with PT HYPEC, an indirect subsidiary of Power Construction Corporation, pursuant to which PT HYPEC agreed to provide pile foundation supply and piling works for the Bangka Plant at a contract price of approximately IDR2,911 million (equivalent to approximately RMB1,300,000) (exclusive of VAT). As the Pile Foundation Contract and the Construction Contract are entered into by PT SJP with associated counterparties within a 12-month period, these contracts will be aggregated as a series of transactions pursuant to Rule 14.22 of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Construction Contract, when aggregated with the Pile Foundation Contract, exceed 25% but are less than 100%, the transactions contemplated under the Construction Contract and the Pile Foundation Contract constitute a major transaction and is subject to reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder or any of their respective associates have any material interest in the Construction Contract and the transaction contemplated thereunder, and as such, no Shareholder would be required to abstain from voting if the Company were to convene a general meeting for the approval of the Construction Contract and the transaction contemplated thereunder.

In addition, the Company has obtained Written Shareholders' Approval for the Construction Contract and the transaction contemplated thereunder in accordance with Rule 14.44 of the Listing Rules from a closely allied group of Shareholders who together, holding in total 562,500,000 Shares, representing in aggregate of approximately 50.80% of the entire issued capital of the Company as at the date of this circular.

Everbest Environmental and Wealthy Sea collectively form "a closely allied group of shareholders" of the Company under Rule 14.45 of the Listing Rules for the following reasons:

- (a) As at the Latest Practicable Date, Wealthy Sea holds 225,000,000 Shares, which is owned as to 90% and 10% by Mr. Chau On Ta Yuen, an executive Director and the chairman of the Board and his spouse, Ms. Wong Mei Ling, respectively; and Everbest Environmental holds 337,500,000 Shares, which are owned as to 50%, 30% and 20% by Ms. Wong Shu Ying, Ms. Judy Chan and Mr. Chan Kwan, an executive Director and the chief executive officer of the Company, respectively. Mr. Chan Kwan is the sole director of Everbest Environmental. Ms. Wong Shu Ying is the mother of all of Ms. Judy Chan, Mr. Chan Kwan and Mr. Chan Pak Lam Brian, the non-executive Director;

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- (b) The Group's business was initially founded by Mr. Chan Kwan's sister, Ms. Judy Chan in 2002. The shareholder of Everbest Environmental, Mr. Chan Kwan, has been an executive Director and the chief executive officer of the Company since the listing of its Shares on the Stock Exchange. The majority shareholder of Wealthy Sea, Mr. Chau On Ta Yuen, has been closely involved in and contributed significantly to the growth of the Group's business since December 2002 and has been the executive Director and the chairman of the Board since the listing of its Shares on the Stock Exchange;
- (c) Both Wealthy Sea and Everbest Environmental have been shareholders of the Company for a considerable period of time (i.e., more than seven years) since 2014;
- (d) Everbest Environmental, Wealthy Sea, Ms. Wong Shu Ying, Ms. Judy Chan, Mr. Chan Kwan and Mr. Chau On Ta Yuen are together regarded as "acting in concert" for the purposes of the Takeovers Code as they are controlling shareholders of the Company as defined under the Listing Rules; and
- (e) Wealthy Sea and Everbest Environmental have voted on the same side for all of the shareholders' resolutions of the Company in which they were both entitled to vote (i.e., not abstained from voting because it had a material interest in the relevant transaction).

On the basis that (i) no Shareholder of the Company is required to abstain from voting if the Company were to convene an extraordinary general meeting for the approval of the Construction Contract and the transaction contemplated thereunder; and (ii) the Written Shareholders' Approval have been obtained, no extraordinary general meeting will be convened for the purpose of approving the Construction Contract as permitted under Rule 14.44 of the Listing Rules.

5. FINANCIAL EFFECT OF THE CONSTRUCTION CONTRACT

The contract price of the Construction Contract will be funded by the Company's internal resources and external borrowings. As at 31 December 2021, the Group had cash and cash equivalents of approximately HK\$77.9 million. The Directors consider that the Construction Contract will not have any immediate material effect on the total assets, earnings and liabilities of the Group. The Company believes that the construction of the Bangka Plant would have a positive impact on the Group's revenue in the long run.

After the completion of the construction, given that the Total Contract Price of approximately RMB48,000,000 under the Construction Contract will have incurred after completion, the entire amount of approximately RMB48,000,000 plus an expected gain from the Bangka project (subject to valuation) will be recognised as "receivable under service concession agreement" under the consolidated statement of the financial position of the Group immediately after completion of the

LETTER FROM THE BOARD

construction, in which the majority of the amount will be classified as non-current assets. In addition, assuming eventually 50% of the Total Contract Price will be satisfied with internal resources and the remaining 50% with a shareholder's loan, the "bank balances and cash" is expected to be decreased by approximately RMB24,000,000 and the "amounts due to related parties" is expected to be increased by approximately RMB24,000,000. Save as the abovementioned, the Directors consider that the Construction Contract will not have any other material effect on the total assets, total liabilities and earnings of the Group.

6. INFORMATION OF THE PARTIES

Information on the Group and PT SJP

The Group is principally engaged in providing wastewater treatment facilities in Jiangsu Province, China, using the "Build — Operate — Transfer" (or BOT) model. It currently operates two wastewater treatment facilities, one in Hai'an County and the other in the Rugao Economic and Technical Development Zone. The Group also owns a biomass power generation powerplant in Jambi City, Indonesia.

PT SJP is a limited liability company incorporated under the laws of Indonesia and indirectly held as to 95% by the Company. It is principally engaged in investment in the development and operation of biomass power plants.

Information on the Contractor

The Contractor is a company incorporated under the laws of the PRC. The Contractor has over 60 years of experience in the power engineering industry and is principally engaged in the development and construction of thermal power, nuclear power and biomass power projects, and the provision of related power transmission, power plant operation and maintenance services. The Contractor holds relevant construction qualifications including but not limited to, Special Grade general contracting qualification for power plant project (電力工程施工總承包特級), Grade I general contracting qualification of architecture construction (建築工程施工總承包壹級), Grade A qualification for power plant industry design (電力行業設計甲級), Grade A qualification for power plant commissioning (電站調試甲級), Grade I qualification for boiler erection and retrofitting (鍋爐安裝改造壹級) and Grade A design, manufacture, installation and maintenance qualification for hoisting machinery (起重機械設計製造安裝維修A級). The Contractor is directly wholly-owned by Power Construction Corporation, a state-owned enterprise of the PRC and is rated as a National Contract Abiding and Promise Keeping Enterprise* (全國守合同重信用企業). The Contractor has completed more than 600 power-generating units of all kinds with a total installation capacity of

* For identification purposes only

LETTER FROM THE BOARD

more than 114,000 megawatts. In particular, the Contractor has recently completed construction and installation for 2x250 megawatts thermal power generation project in Weidabai Industrial Park, Indonesia and 1x250 megawatts thermal power generation project in Morowali Industrial Park, Indonesia. To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Contractor and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

7. RECOMMENDATION

Although no general meeting of the Company will be convened for the approval of the Construction Contract and the transaction contemplated thereunder, the Board (including the independent non-executive Directors) considers that the terms of the Construction Contract are on normal commercial terms, are fair and reasonable and are in the interest of the Company and the Shareholders as a whole. Accordingly, if a general meeting of the Company was convened for the approval of the Construction Contract and the transaction contemplated thereunder, the Board would have recommended that all Shareholders vote in favour of the resolutions to approve the Construction Contract and the transaction contemplated thereunder.

8. ADDITIONAL INFORMATION

Your attention is drawn to the financial information of the Group and general information set out in the appendices to this circular.

For and on behalf of
ELL Environmental Holdings Limited
Chan Kwan
Executive Director and Chief Executive Officer

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the financial years ended 31 December 2018, 2019 and 2020 and for the six months ended 30 June 2021 are disclosed in the following documents which have been published both on the websites of the Stock Exchange at <https://www.hkexnews.hk> and the Company at <http://www.ellhk.com>:

- Annual report of the Company for the year ended 31 December 2018 (pages 114 to 264) <https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0429/ltn20190429669.pdf>
- Annual report of the Company for the year ended 31 December 2019 (pages 111 to 244) <https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0427/2020042700745.pdf>
- Annual report of the Company for the year ended 31 December 2020 (pages 116 to 260) <https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0427/2021042701829.pdf>
- Interim report of the Company for the six months ended 30 June 2021 (pages 25 to 52) <https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0928/2021092800336.pdf>

INDEBTEDNESS

Borrowings

As at the close of business on 31 December 2021, the Group had (i) an unsecured one-year bank loan with a carrying amount of HK\$18.0 million, which was denominated in Hong Kong dollars (“HK\$”) 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\$2.2 million, which was denominated in United States dollars (“US\$”) with variable interest rates at London Interbank Offered Rate (LIBOR) plus 1.4% per annum. The above bank loans are guaranteed by the Company and a Director.

As at the close of business on 31 December 2021, the Company had an outstanding borrowing from an independent third party of the Group amounted to HK\$14.9 million, which bore a fixed interest rate of 8% per annum. The loan was unsecured, unguaranteed and repayable within one year.

As at the close of business on 31 December 2021, the Company had outstanding amounts due to related parties of the Group amounted to HK\$39.2 million, of which HK\$15.9 million bore a fixed interest rate of 8% per annum and HK\$23.3 million bore a fixed interest rate of 6% per annum. The amounts due to related parties were unsecured, unguaranteed and repayable within one year.

Contingent Liabilities

As at the close of business on 31 December 2021, the Group did not have any material contingent liabilities.

Lease Liabilities

As at the close of business on 31 December 2021, the Group had total lease liabilities, primarily the rental payable for the Group's office premise of approximately HK\$0.5 million.

Commitments

As at the close of business on 31 December 2021, the Group had total capital commitments of approximately HK\$93.6 million.

Save as disclosed above, as at the close of business on 31 December 2021, the Company did not have any other debt securities issued and outstanding, or authorised or otherwise created but unissued, loans or term loans (secured, unsecured, guaranteed or otherwise), other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

2. WORKING CAPITAL

The Directors, after due and careful considerations, are of the opinion that, after taking into account the financial resources available to the Group including cash and cash equivalent on hand and the existing facilities, the Group has, in the absence of unforeseeable circumstances, sufficient working capital for its present requirement for the next 12 months from the date of this circular.

3. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

With regard to the biofuel pellet business in Indonesia, the Group has commenced wood pellets manufacturing business in 2021 and started generating revenue, the Group has been actively expanding such business and exploring opportunities to cooperate with other power plants, thereby promoting the development of biofuel pellet business continuously. The management is confident that the biofuel pellet business will provide growth drivers for the Group and will enable the Group's environmental protection business to achieve diversified development in the long run.

With regard to the business in China, Haian Hengfa Wastewater Treatment Company Limited, an indirect non-wholly owned subsidiary of the Company, successfully agreed with a local authority in China on 24 December 2021 that the water tariffs generated from the wastewater treatment business had been increased from RMB1.14 per tonne to RMB1.45 per tonne with retrospective effect from January 2020. As for Rugao Hengfa Water Treatment Company Limited, an indirect wholly-owned subsidiary of the Company, the water tariffs had also been increased from RMB2.67 per tonne to RMB3.43 per tonne effective from April 2021. It is expected that the above water tariffs adjustment would result in a continuous positive contribution to the Group's revenue and gross profit in the current financial year.

Although the operating environment is full of challenges in recent years and the external economic environment is changing rapidly, the Group will respond to various challenges rationally and calmly and evaluate the risks and opportunities of different development projects.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at the Latest Practicable Date, the interests or short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required: (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Directors/ chief executive	Capacity/nature of interest	Number of Shares held	Approximate of percentage of shareholding interest in the Company
Mr. Chau On Ta Yuen	Interest in a controlled corporation	225,000,000 ^{(1)(L)}	20.32%
Mr. Chan Kwan	Interest in controlled corporations	353,200,000 ^{(2)(L)}	31.90%

Notes:

- (1) Wealthy Sea which held 225,000,000 Shares is owned as to 90% and 10% by Mr. Chau On Ta Yuen, an executive Director and the chairman of the Board, and Ms. Wong Mei Ling, the wife of Mr. Chau, respectively.
- (2) Everbest Environmental which held 337,500,000 Shares is owned as to 50%, 30% and 20% by Ms. Wong Shu Ying, Ms. Judy Chan and Mr. Chan Kwan, an executive Director and the chief executive officer of the Company, respectively. Mr. Chan Kwan is the sole director of Everbest Environmental. Ms. Wong Shu Ying is the mother of all of Ms. Judy Chan, Mr. Chan Kwan and Mr. Brian Chan, the non-executive Director. Mr. Chan Kwan also owns 20% of the issued shares in Kingdrive Limited which in turn owns 100% of the issued shares in Carlton Asia. Carlton Asia held 15,700,000 Shares and is accustomed to act in accordance with the directions of Mr. Chan Kwan.
- (L) The Shares were held in long position.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, to the best of the Directors' knowledge, the following entities or persons (other than the Directors and chief executive of the Company) had or were deemed or taken to have an interest and/or a short position in the Shares or the underlying Shares, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or which was recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Name of Shareholders	Capacity/nature of interest	Number of Shares held	Total	Approximate of percentage of shareholding interest in the Company
Everbest Environmental	Beneficial interest	337,500,000 ^{(1)(L)}	337,500,000	30.48%
Ms. Wong Shu Ying	Beneficial interest	18,915,000 ^{(1)(L)}	371,080,000	33.51%
	Interest in controlled corporations	352,165,000 ^{(1)(L)}		
Mr. Chan Chun Keung	Interest in a controlled corporation	14,665,000 ^{(2)(L)}	371,080,000	33.51%
	Interest held by spouse	356,415,000 ^{(1)(2)(L)}		
Wealthy Sea	Beneficial interest	225,000,000 ^{(3)(L)}	225,000,000	20.32%
Ms. Wong Mei Ling	Interest held by spouse	225,000,000 ^{(3)(L)}	225,000,000	20.32%
Morgan Top Trading Co., Ltd.	Beneficial interest	143,300,000 ^(L)	143,300,000	12.94%

Notes:

- (1) Each of Everbest Environmental and Hightop is owned as to 50% by Ms. Wong Shu Ying and, therefore, Ms. Wong Shu Ying is deemed to be interested in the 337,500,000 Shares and 14,665,000 Shares held by Everbest Environmental and Hightop respectively pursuant to the SFO. Also, Ms. Wong Shu Ying is beneficially interested in 18,915,000 Shares.
 - (2) Hightop is also owned as to 50% by Mr. Chan Chun Keung, the husband of Ms. Wong Shu Ying. Therefore, Mr. Chan Chun Keung is deemed to be interested in the 14,665,000 Shares held by Hightop, 337,500,000 Shares deemed to be held by Ms. Wong through Everbest Environmental and 18,915,000 Shares beneficially owned by Ms. Wong Shu Ying pursuant to the SFO.
 - (3) Wealthy Sea is owned as to 90% and 10% by Mr. Chau On Ta Yuen, an executive Director and the Chairman, and Ms. Wong Mei Ling, the wife of Mr. Chau On Ta Yuen, respectively. Ms. Wong Mei Ling is, therefore, deemed to be interested in the 225,000,000 Shares held by Wealthy Sea controlled by Mr. Chau pursuant to the SFO.
- (L) The Shares were held in long position.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any entities which or persons (other than a Director or the chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the Shares or the underlying Shares, which had been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were entered in the register kept by the Company under the SFO.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has or is proposed to have a service contract or letter of appointment with the Company that is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020 (being the date to which the latest published audited consolidated accounts of the Company have been made up).

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective close associates (as defined in the Listing Rules) had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group.

7. DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

As at the Latest Practicable Date, save as disclosed in the annual report of the Company for the year ended 31 December 2020:

- (a) none of the Directors had any interest, either directly or indirectly, in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2020, being the date to which the latest published audited consolidated accounts of the Company were made up; and
- (b) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and was significant in relation to the business of the Group

8. MATERIAL LITIGATION

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, the Group was not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

9. MATERIAL CONTRACTS

The following contracts (not being in the ordinary course of business of the Group) have been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date that are or may be material:

- (a) Turbine Generator Purchase Agreement and the Supplemental Agreement;
- (b) Boiler Purchase Agreement;
- (c) Master Procurement Agreement;
- (d) Pile Foundation Contract; and
- (e) Construction Contract.

10. GENERAL

The company secretary of the Company is Ms. Tung Wing Yee Winnie, who is a senior corporate secretarial manager of Boardroom Corporate Services (HK) Limited, and a fellow member of The Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant of the CPA Australia.

The principal place of business of the Company in Hong Kong is Unit 5, 7th Floor, Westlands Centre, 20 Westlands Road, Hong Kong.

The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The branch share registrar of the Company is Boardroom Share Registrars (HK) Limited, Room 2103B, 21st Floor, 148 Electric Road, North Point, Hong Kong.

11. DOCUMENTS AVAILABLE ON DISPLAY

Copies of the Turbine Generator Purchase Agreement, Supplemental Agreement, Boiler Purchase Agreement, Pile Foundation Contract and Construction Contract referred to in the paragraph headed “9. MATERIAL CONTRACTS” in this appendix will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<https://www.ellhk.com/>) from the date of this circular up to and including 11 March 2022.

12. MISCELLANEOUS

In the event of any inconsistency, the English version of this circular shall prevail over the Chinese version.