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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)

MAJOR TRANSACTION FRAMEWORK AGREEMENT IN RESPECT OF DISPOSAL OF TARGET BUSINESS

THE FRAMEWORK AGREEMENT

The Board is pleased to announce that on 15 March 2024 (after trading hours), the Seller and the Purchaser entered into the Framework Agreement, pursuant to which the Seller has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire the Target Business at the total consideration of IDR60.0 billion (equivalent to approximately HK\$30.0 million) in accordance with the terms and conditions of the Framework Agreement.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Disposal under the Framework Agreement is more than 25% but less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements thereunder.

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 has any material interest in the Framework Agreement and the Disposal, and as such, no Shareholder would be required to abstain from voting on the relevant resolution(s) to approve the Framework Agreement and the Disposal in the general meeting of the Shareholders.

In addition, the Company has obtained Written Shareholders' Approval for the Framework Agreement and the Disposal in accordance with Rule 14.44 of the Listing Rules from a closely allied group of Shareholders who together hold in total 562,500,000 Shares, representing in aggregate approximately 51% of the entire issued capital of the Company as at the date of this announcement. The names and the respective number of Shares held by the closely allied group of Shareholders are (i) Everbest Environmental which holds 492,500,000 Shares, owned as to 20% by Mr. Chan Kwan, an executive Director and the chief executive officer of the Company, and (ii) Wealthy Sea which holds 70,000,000 Shares and is owned as to 90% by Mr. Chau On Ta Yuen, an executive Director and the chairman of the Board. The closely allied group of Shareholders have been Shareholders for over nine years and they have been voting in the same way in all resolutions since they were Shareholders.

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 Framework Agreement and the Disposal; and (ii) the Written Shareholders' Approval has been obtained, no extraordinary general meeting will be convened for the purpose of approving the Framework Agreement and the Disposal as permitted under Rule 14.44 of the Listing Rules.

GENERAL

A circular containing, among other things, (i) details of the Framework Agreement and the Disposal; and (ii) other information required to be included in the circular pursuant to the Listing Rules, is expected to be despatched to the Shareholders for their information, on or before 10 April 2024 in accordance with Rule 14.41(a) of the Listing Rules.

Completion of the Disposal is conditional upon the satisfaction of the conditions set out in the section headed "Framework Agreement – Conditions Precedent" in this announcement. Accordingly, the Disposal may or may not proceed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares of the Company.

INTRODUCTION

The Board is pleased to announce that on 15 March 2024 (after trading hours), the Seller and the Purchaser entered into the Framework Agreement, pursuant to which the Seller has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire the Target Business at the total consideration of IDR60.0 billion (equivalent to approximately HK\$30.0 million) in accordance with the terms and conditions of the Framework Agreement.

FRAMEWORK AGREEMENT

The principal terms of the Framework Agreement are set out as follows:

Date: 15 March 2024

Parties:

- (i) PT Rimba Palma Sejahtera Lestari (“**RPSL**”), a non-wholly owned subsidiary of the Company, as the seller; and
- (ii) PT Indorama Eco Viridian, as the purchaser.

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

Conditions to the Framework Agreement:

The Framework Agreement is valid upon:

- (i) the execution by the Parties; and
- (ii) the Company obtaining Shareholders’ approval in respect of entering into the Framework Agreement.

Long-stop date:

The Framework Agreement shall be valid for a period of one year upon execution or upon the Completion of the Disposal, whichever occurs first. In the event that the Disposal is not completed within one year, the term of the Framework Agreement may be extended for a further period of one year by written agreement of the Parties.

Subject matter of the Disposal:

Pursuant to the Framework Agreement, the Seller has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire the Target Business.

The Seller shall establish the Target Company and transfer, among many others, its assets, land, permits, and/or inventories related to the Target Business to the Target Company (the “**Restructuring**”). Upon the completion of the Restructuring, the Purchaser shall subscribe for new shares to be issued by the Target Company (the “**New Shares**”), subject to the terms of the definitive agreements such that the Purchaser shall hold 80% of the enlarged issued share capital of the Target Company upon Completion of the Disposal.

Consideration, payment terms and schedule:

The total Consideration of the Disposal is IDR60.0 billion (equivalent to approximately HK\$30.0 million), which may change from time to time, in accordance with the condition of the assets related to the Target Business and/or as may be mutually agreed by the Parties.

The payment of the Consideration shall be made by the Parties in the following manner upon Completion:

- (i) the Purchaser shall provide two facility loans to the Target Company in the amount of IDR8.5 billion and IDR38.0 billion, respectively (equivalent to approximately HK\$23.3 million in aggregate);
- (ii) the Seller shall provide a facility loan to the Target Company in the amount of IDR9.5 billion (equivalent to approximately HK\$4.7 million) (together with (i) above, the “**Facility Loans**”); and
- (iii) the Target Company will use the Facility Loans obtained from the Parties and the Target Company’s cash resources to settle the Consideration to the Seller.

The Consideration was determined after arm’s length negotiation between the Seller and the Purchaser after taking into account factors including but not limited to (i) the historical financial performance and position of the Target Business; and (ii) the value of IDR60.0 billion for 100% of the unaudited net asset value attributable to the Target Business as at 31 December 2023. The Consideration represents a gain of IDR13.4 billion (equivalent to approximately HK\$6.7 million) on the Disposal with reference to the unaudited net asset value attributable to the Target Business as at 31 December 2023.

The Consideration of IDR60.0 billion (equivalent to approximately HK\$30.0 million) represents a premium of approximately 100.0% to the appraised value of the unaudited net asset value attributable to the Target Business. Such premium was agreed based on arm’s length negotiations with the Purchaser after taking into account the potential transaction and administrative costs of the Disposal.

The Directors (including independent non-executive Directors) consider that the Consideration is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Conditions precedent:

Completion of the Disposal shall be conditional upon, among others:

- (i) the Seller completing the Restructuring and all other actions that are incidental thereto;
- (ii) the due establishment of the Target Company by the Seller as evidenced by a deed of incorporation of the Target Company and receipt of the decision letter from the Ministry of Law and Human Rights on the approval of the establishment of a limited liability company;
- (iii) the Seller obtaining approval from its board of commissioners in respect of the Restructuring;
- (iv) the Seller obtaining approval and the necessary waiver from its shareholders in respect of the Restructuring and Disposal;
- (v) there is no objection from the creditors of the Seller;
- (vi) the Seller fulfilling its obligations in connection with the appointment of certified technical personnel;
- (vii) the Seller fulfilling its obligations in connection with the fulfillment of industrial development and production facilities, as required in certain business permits owned related to the Target Business and applicable laws and regulations, prior to the transfer of these certain permits to the Target Company; and
- (viii) the Seller obtaining approval from the Shareholders in respect of the Disposal.

Irrevocable call option:

The Seller irrevocably grants the Purchaser and/or other parties appointed by the Purchaser the right, but not the obligation, to purchase some or all of the Seller's shares in the Target Company and upon request by the Purchaser to buy the Seller's shares in the Target Company, the Seller is required to sell its shares to the Purchaser (the "**Call Option**").

The Parties agree that the Seller cannot transfer either some or all of the shares owned by the Seller in the Target Company to a third party, without prior written approval from the Purchaser.

The Call Option can be exercised by the Purchaser on one or more occasions at any time from the date the Purchaser subscribes to New Shares until the later of: (a) three years from the date of the Purchaser subscribing to New Shares, or (b) one year after the fulfilment of all conditions subsequent to the Framework Agreement.

The enterprise value pertinent to the Call Option is fixed at IDR67.0 billion for 100% ownership of the Target Company. The exercise price of the Call Option will be determined by multiplying the percentage of shares invoked under the Call Option by IDR67.0 billion. More detailed terms and conditions of the Call Option will be specified in the definitive agreements.

Completion:

Completion of the Disposal shall take place after the fulfillment of the Conditions Precedent.

Upon Completion, the Company is expected to hold 20% equity interest in the Target Company and the Target Company will cease to be a subsidiary of the Company.

INFORMATION ON THE TARGET BUSINESS

The Seller is a non-wholly owned subsidiary of the Company and is primarily engaged in biofuel pellet production businesses in Jambi, Indonesia. The core raw material used in the production process is wood pellets, which are typically generated from the production of wood products. The Seller commenced its Target Business in 2021 and as at the date of this announcement, the Seller has a production plant to process wood pellets for sale to power plants in Southeast Asia.

Set out below is the unaudited financial information of the Target Business for the two years ended 31 December 2022 and 2023:

	For the year ended 31 December 2022 HK\$'000 (unaudited)	For the year ended 31 December 2023 HK\$'000 (unaudited)
Revenue attributable to the Target Business	17,898	13,809
Net loss attributable to the Target Business before taxation	17,519	1,231
Net loss attributable to the Target Business after taxation	17,519	1,231

As at 31 December 2023, the unaudited net asset value attributable to the Target Business was approximately HK\$19.6 million.

FINANCIAL EFFECT OF THE DISPOSAL

Upon Completion, the Company will hold 20% equity interest in the Target Company and the Target Company will cease to be a subsidiary of the Company. Accordingly, the financial results of the Target Company will no longer be consolidated into the financial statements of the Company.

Subject to the entering into of the definitive agreements, it is estimated that the Company will recognise an estimated gain of IDR13.4 billion (equivalent to HK\$6.7 million) on the Disposal upon Completion. The estimated gain was calculated with reference to the difference between the Consideration for the Target Business of approximately IDR60.0 billion (equivalent to approximately HK\$30.0 million) after deducting (i) the unaudited net asset value attributable to the Target Business of approximately IDR39.2 billion (equivalent to approximately HK\$19.6 million) as at 31 December 2023; and (ii) the transaction costs and expenses of the Disposal of approximately IDR7.4 billion (equivalent to HK\$3.7 million). The above financial impact is shown for illustrative purpose only and the actual gain or loss as a result of the Disposal to be recorded by the Company is subject to review by the auditors of the Group and will be assessed after Completion.

INFORMATION RELATING TO THE GROUP AND THE PURCHASER

The Group

The Group is principally engaged in providing wastewater treatment facilities in Jiangsu Province, China, using the “Build – Operate – Transfer” (or BOT) model. The Group also owns a biomass power generation power plant in Jambi, Indonesia and is in the process of developing a biomass power plant in Bangka, Indonesia (“**Bangka Plant**”).

The Seller is a limited liability company incorporated under the laws of Indonesia, a non-wholly owned subsidiary of the Company which principally engaged in biofuel pellet production businesses in Jambi, Indonesia.

The Purchaser

The Purchaser is a limited liability company incorporated under the laws of Indonesia, which principally engaged in investment in environmentally sustainable industries and green businesses in Indonesia, which is ultimately owned by a discretionary trust for the benefits of Mr. Sri Prakash Lohia, an Indonesian resident, and his immediate family members.

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

REASONS AND BENEFITS AND USE OF PROCEEDS OF THE DISPOSAL

The Board is of the view that the Disposal generate a net proceeds of approximately IDR40.6 billion (equivalent to approximately HK\$20.3 million). As the Target Business had been in a loss-making position for the two years ended 31 December 2022 and 2023, the Group expects that the Disposal would reduce the level of losses and improve its overall profitability of the Group. Furthermore, the proceeds from the Disposal would allow the Group to reallocate its financial resources to repay some of its existing external borrowings which could assist the Group to reduce its annual finance costs and lower its gearing ratio given the current high interest rate environment.

The Disposal also allows the Group to focus on the wastewater treatment facilities operated by Rugao Hengfa Water Treatment Company Limited, the development project of the Bangka Plant, and other businesses which the Group considers to be more profitable and have a higher return and development potential.

Based on the reasons above, the Directors (including independent non-executive Directors) are of the view that the terms of the Framework Agreement and the Disposal are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Disposal under the Framework Agreement is more than 25% but less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements thereunder.

In addition, the Company has obtained Written Shareholders' Approval for the Framework Agreement and the Disposal in accordance with Rule 14.44 of the Listing Rules from a closely allied group of Shareholders who together hold in total 562,500,000 Shares, representing in aggregate approximately 51% of the entire issued capital of the Company as at the date of this announcement. The names and the respective number of Shares held by the closely allied group of Shareholders are (i) Everbest Environmental which holds 492,500,000 Shares, owned as to 20% by Mr. Chan Kwan, an executive Director and the chief executive officer of the Company, and (ii) Wealthy Sea which holds 70,000,000 Shares and is owned as to 90% by Mr. Chau On Ta Yuen, an executive Director and the chairman of the Board. The closely allied group of Shareholders have been Shareholders for over nine years and they have been voting in the same way in all resolutions since they were Shareholders.

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 Framework Agreement and the Disposal; and (ii) the Written Shareholders' Approval has been obtained, no extraordinary general meeting will be convened for the purpose of approving the Framework Agreement and the Disposal as permitted under Rule 14.44 of the Listing Rules.

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Completion of the Disposal is conditional upon the satisfaction of the conditions set out in the section headed “Framework Agreement – Conditions Precedent” in this announcement. Accordingly, the Disposal may or may not proceed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares of the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“Board”	the board of Directors
“Company”	ELL Environmental Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1395)
“Completion”	the completion of the Disposal
“Conditions Precedent”	the condition(s) precedent to the Completion as set out under the section headed “Framework Agreement – Conditions Precedent” of this announcement
“connected person”	has the meaning ascribed to it in the Listing Rules
“Consideration”	the total consideration of IDR60.0 billion (equivalent to approximately HK\$30.0 million) in respect of the Disposal pursuant to the Framework Agreement
“Director(s)”	director(s) of the Company
“Disposal”	the conditional deemed disposal of the Target Business by the Seller to the Purchaser pursuant to the Framework Agreement by the Purchaser subscribing for New Shares
“Everbest Environmental”	Everbest Environmental Investment Limited, is owned as to 50%, 30% and 20% by Ms. Wong, 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 is the mother of all of Ms. Judy Chan, Mr. Chan Kwan and Mr. Chan Pak Lam Brian, the non-executive Director of the Company

“Framework Agreement”	the framework agreement entered into between the Seller and the Purchaser dated 15 March 2024
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong Dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the Peoples’ Republic of China
“IDR”	Indonesian Rupiah, the lawful currency of Indonesia
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ministry of Law and Human Rights”	the Ministry of Law and Human Rights of the Republic of Indonesia
“Purchaser”	PT Indorama Eco Viridian, a limited liability company incorporated under the laws of Indonesia
“Seller”	PT Rimba Palma Sejahtera Lestari, a limited liability company incorporated under the laws of Indonesia and a non-wholly owned subsidiary of the Company
“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
“Target Business”	the wood pellet production business currently operated and managed by RPSL
“Target Company”	the new company which the Seller will form as part of the Disposal under the Framework Agreement
“Wealthy Sea”	Wealthy Sea Holdings Limited, 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

“Written Shareholders’
Approval”

the written approval dated 15 March 2024 given by a closely allied group of Shareholders in respect of the Framework Agreement and the Disposal

“%”

per cent

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

Hong Kong, 15 March 2024

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 a non-executive Director, and Ms. Ng Chung Yan Linda, Mr. Ng Man Kung and Ms. Leung Bo Yee Nancy as independent non-executive Directors.

* *For identification purposes only*