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ELL Environmental Holdings Limited

強泰環保控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1395)

ANNOUNCEMENT OF FINAL RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL SUMMARY

- Revenue for FY2021 amounted to HK\$103.1 million (FY2020: HK\$59.0 million), representing an increase of 74.8% as compared with FY2020.
- Gross profit for FY2021 was HK\$53.6 million (FY2020: HK\$29.6 million), representing an increase of 81.1% as compared with FY2020.
- Profit before tax for FY2021 was HK\$22.9 million (FY2020: HK\$5.1 million), representing an increase of 349.4% as compared with FY2020.
- Net profit for FY2021 was HK\$11.5 million (FY2020: net loss of HK\$1.5 million).
- No final dividend has been recommended by the Board for FY2021 (FY2020: nil).

The board of directors of ELL Environmental Holdings Limited (the “**Board**”, the “**Directors**” and the “**Company**”, respectively) is pleased to announce the audited annual consolidated results of the Company and its subsidiaries (collectively, the “**Group**” or “**ELL Environmental**”) for the year ended 31 December 2021 (“**FY2021**” or the “**Year**”).

The audited annual consolidated results of the Group for FY2021, together with the comparative figures for the year ended 31 December 2020 (“**FY2020**”), are as follows:

* For identification purpose only

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

	NOTES	2021 HK\$'000	2020 HK\$'000
Revenue	3	103,136	59,017
Cost of sales		<u>(49,498)</u>	<u>(29,399)</u>
Gross profit		53,638	29,618
Other income and net gains		4,456	5,329
Impairment losses under expected credit loss model		(3,250)	—
Administrative expenses		(27,536)	(27,867)
Finance costs	5	<u>(4,408)</u>	<u>(1,984)</u>
Profit before tax	6	22,900	5,096
Income tax expense	7	<u>(11,394)</u>	<u>(6,581)</u>
Profit/(loss) for the year		<u>11,506</u>	<u>(1,485)</u>
Profit/(loss) for the year attributable to:			
Owners of the Company		6,145	(4,956)
Non-controlling interests		<u>5,361</u>	<u>3,471</u>
		<u>11,506</u>	<u>(1,485)</u>
		HK cent	HK cent
Earnings/(loss) per share	9		
— Basic		<u>0.55</u>	<u>(0.45)</u>
— Diluted		<u>0.55</u>	<u>(0.45)</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021 HK\$'000	2020 HK\$'000
Profit/(loss) for the year	11,506	(1,485)
Other comprehensive income/(expense)		
<i>Item that will not be reclassified to profit or loss:</i>		
Actuarial gain/(loss) of defined benefit retirement plan	754	(4)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	8,813	17,245
Net fair value loss on debt instruments at fair value through other comprehensive income	(1,303)	—
Release on disposal of debt instruments at fair value through other comprehensive income	—	84
Release on redemption of debt instruments at fair value through other comprehensive income	5	—
	8,269	17,325
Other comprehensive income for the year	8,269	17,325
Total comprehensive income for the year	19,775	15,840
Total comprehensive income for the year attributable to:		
Owners of the Company	13,265	10,385
Non-controlling interests	6,510	5,455
	19,775	15,840

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	NOTES	2021 HK\$'000	2020 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		71,490	73,470
Deposits paid for acquisition of property, plant and equipment		—	897
Receivables under service concession arrangements	10	313,194	292,899
Goodwill		—	—
Debt instruments at fair value through other comprehensive income		2,012	3,380
Other financial assets at amortised cost		14	2,038
Prepayments and other receivables		341	—
Restricted bank deposits		2,960	6,015
		390,011	378,699
CURRENT ASSETS			
Inventories		1,973	964
Trade receivables	11	73	—
Receivables under service concession arrangements	10	25,559	21,883
Prepayments and other receivables		30,867	10,175
Income tax recoverable		—	771
Debt instruments at fair value through other comprehensive income		—	1,592
Other financial assets at amortised cost		5	6,215
Restricted bank deposits		2,960	6,015
Time deposits		12,269	—
Bank balances and cash		65,054	51,067
		138,760	98,682
CURRENT LIABILITIES			
Trade payables	12	3,301	2,764
Other payables and accruals		5,984	6,491
Amounts due to related parties	13	35,207	13,406
Borrowings	14	35,107	20,240
Lease liabilities		472	547
Income tax payable		4,972	2,213
		85,043	45,661
NET CURRENT ASSETS		53,717	53,021
TOTAL ASSETS LESS CURRENT LIABILITIES		443,728	431,720

	NOTES	2021 HK\$'000	2020 HK\$'000
CAPITAL AND RESERVES			
Share capital	15	111	111
Reserves		<u>352,754</u>	<u>345,025</u>
Equity attributable to owners of the Company		<u>352,865</u>	345,136
Non-controlling interests		<u>30,200</u>	<u>30,028</u>
TOTAL EQUITY		<u>383,065</u>	<u>375,164</u>
NON-CURRENT LIABILITIES			
Amounts due to related parties	13	4,000	—
Borrowings	14	—	2,240
Lease liabilities		—	472
Deferred tax liabilities		36,620	35,774
Provision for major overhauls		18,978	16,656
Retirement benefit obligations		<u>1,065</u>	<u>1,414</u>
		<u>60,663</u>	<u>56,556</u>
		<u>443,728</u>	<u>431,720</u>

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

2. APPLICATION OF AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Company and its subsidiaries (collectively referred to as the “**Group**”) has applied the following amendments to HKFRSs issued by HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021, for the preparation of the consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

Except as described below, the application of the amendments to HKFRSs in the current year has no material impact on the Group’s financial positions and performance for the current and prior years and/ or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform Phase 2

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 Financial Instruments: Disclosures.

As at 1 January 2021, the Group had several borrowings, the interest of which are indexed to benchmark rates that are subjected to interest rate benchmark reform. The following table shows the total amounts of these outstanding contracts. The amounts of financial liabilities are shown at their carrying amounts.

	HK\$ Hong Kong Interbank Offered Rate (“HIBOR”) HK\$	US\$ Interest Interbank Offered Rate (“LIBOR”) HK\$
Financial liabilities		
Borrowings	18,000,000	4,480,000

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year. The Group will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for borrowings measured at amortised cost.

3. REVENUE

	2021 HK\$’000	2020 HK\$’000
Types of goods and services		
Wastewater treatment operation services	64,384	39,821
Wastewater treatment construction services	420	1,481
Biomass power construction services	22,535	3,165
Sales of biofuel	72	—
Revenue from goods and services	87,411	44,467
Imputed interest income on receivables under service concession arrangements	15,725	14,550
	103,136	59,017

4. SEGMENTAL INFORMATION

The Group is engaged in the construction and operation of wastewater treatment facilities, construction of biomass power plant and sales of biofuel business. Information reported to the Group's chief operating decision maker (i.e. the executive directors) for the purposes of resource allocation and assessment of performance is focused on geographical locations of its manpower and customers, including Hong Kong, the People's Republic of China (the "PRC" or "China") and Indonesia.

Segment revenue and results

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

For the year ended 31 December 2021

	Hong Kong HK\$'000	PRC HK\$'000	Indonesia HK\$'000	Total HK\$'000
Results				
Segment revenue	<u>—</u>	<u>79,743</u>	<u>23,393</u>	<u>103,136</u>
Segment (loss)/profit	<u>(12,353)</u>	<u>45,213</u>	<u>(9,960)</u>	<u>22,900</u>
Unallocated expenses				
Administrative expenses				<u>—</u>
Profit before tax				<u>22,900</u>

For the year ended 31 December 2020

	Hong Kong HK\$'000	PRC HK\$'000	Indonesia HK\$'000	Total HK\$'000
Results				
Segment revenue	<u>—</u>	<u>55,852</u>	<u>3,165</u>	<u>59,017</u>
Segment (loss)/profit	<u>(9,928)</u>	<u>26,641</u>	<u>(11,575)</u>	<u>5,138</u>
Unallocated expenses				
Administrative expenses				<u>(42)</u>
Profit before tax				<u>5,096</u>

There are no inter-segment sales for both years.

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

Segment assets and liabilities

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

As at 31 December 2021

	Hong Kong HK\$'000	PRC HK\$'000	Indonesia HK\$'000	Total HK\$'000
Assets				
Segment and total consolidated assets	<u>9,120</u>	<u>367,885</u>	<u>151,766</u>	<u>528,771</u>
Liabilities				
Segment and total consolidated liabilities	<u>77,061</u>	<u>65,454</u>	<u>3,191</u>	<u>145,706</u>

As at 31 December 2020

	Hong Kong HK\$'000	PRC HK\$'000	Indonesia HK\$'000	Total HK\$'000
Assets				
Segment and total consolidated assets	<u>21,487</u>	<u>355,153</u>	<u>100,741</u>	<u>477,381</u>
Liabilities				
Segment and total consolidated liabilities	<u>40,874</u>	<u>58,061</u>	<u>3,282</u>	<u>102,217</u>

OTHER SEGMENT INFORMATION

Amounts included in the measure of segment profit or loss or segment assets:

For the year ended 31 December 2021

	Hong Kong HK\$'000	PRC HK\$'000	Indonesia HK\$'000	Total HK\$'000
Loss on modification of other financial assets measured at amortised cost	—	—	—	—
Additions to non-current assets (<i>note</i>)	—	91	4,449	4,540
Depreciation of property, plant and equipment	543	464	4,334	5,341
Impairment losses under expected credit loss model	—	1,008	2,242	3,250
Write-down of inventories	—	—	1,058	1,058
Interest income from advance to a third party	—	975	—	975
Bank interest income	3	245	265	513
Finance costs	<u>3,438</u>	<u>970</u>	<u>—</u>	<u>4,408</u>

For the year ended 31 December 2020

	Hong Kong HK\$'000	PRC HK\$'000	Indonesia HK\$'000	Total HK\$'000
Loss on modification of other financial assets measured at amortised cost	—	—	471	471
Additions to non-current assets (<i>note</i>)	—	58	7,049	7,107
Depreciation of property, plant and equipment	544	446	3,478	4,468
Impairment losses under expected credit loss model	—	—	—	—
Write-down of inventories	—	—	—	—
Interest income from advance to a third party	—	—	—	—
Bank interest income	2	370	575	947
Finance costs	1,204	780	—	1,984

Geographical information

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

	2021 HK\$'000	2020 HK\$'000
Hong Kong	453	995
PRC	1,494	1,823
Indonesia	69,543	71,549
	<u>71,490</u>	<u>74,367</u>

Note: Non-current assets excluded receivables under service concession arrangements, debt instruments at fair value through other comprehensive income, other financial assets at amortised cost, prepayments and other receivables and restricted bank deposits.

Information about major customers

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

	2021 HK\$'000	2020 HK\$'000
Customer A from the PRC segment	37,329	25,580
Customer B from the PRC segment	42,414	30,272
Customer C from the Indonesia segment	<u>23,321</u>	<u>N/A*</u>

* The corresponding revenue did not contribute over 10% of the total revenue of the Group.

5. FINANCE COSTS

	2021 HK\$'000	2020 HK\$'000
Interest on borrowings	1,362	569
Interest on loans from related parties	2,048	585
Interest on lease liabilities	28	50
Increase in discounted amounts of provision for major overhauls arising from the passage of time	970	780
	<u>4,408</u>	<u>1,984</u>

6. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	2021 HK\$'000	2020 HK\$'000
Staff cost (including directors' remuneration):		
Salaries, allowances and benefits in kind	12,634	11,745
Discretionary bonus	382	308
Pension scheme contributions (<i>note</i>)	2,067	1,159
Less: Amount capitalised in inventories	(336)	—
Less: Amount recognised in cost of sales	(37)	—
	<u>14,710</u>	<u>13,212</u>
Depreciation of property, plant and equipment	5,341	4,468
Less: Amount capitalised in inventories	(650)	—
Less: Amount recognised in cost of sales	(72)	—
	<u>4,619</u>	<u>4,468</u>
Impairment losses recognised on:		
— Other receivables	1,008	—
— Other financial assets at amortised cost	2,242	—
Loss on modification of other financial assets measured at amortised cost	—	471
Auditors' remuneration	1,090	1,024
Cost of construction services	19,797	4,305
Cost of wastewater treatment facilities operation services rendered	28,393	25,094
Cost of biofuel operation (including write-down of inventories of HK\$1,058,000 (2020: nil))	1,308	—
Provision for major overhauls	757	1,771
Defined benefit retirement plans	<u>466</u>	<u>399</u>

Note: As at 31 December 2021, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2020: nil).

7. INCOME TAX EXPENSE

	2021 HK\$'000	2020 HK\$'000
Current tax:		
Hong Kong	5	6
PRC	<u>11,656</u>	<u>6,215</u>
	<u>11,661</u>	<u>6,221</u>
Under provision in prior years:		
PRC	<u>83</u>	<u>—</u>
Deferred tax:	<u>(350)</u>	<u>360</u>
	<u>11,394</u>	<u>6,581</u>

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

For the year ended 31 December 2021, the provision for Hong Kong Profits Tax was calculated at 16.5% (2020: 16.5%) of the estimated assessable profit for the year.

The provision for the PRC income tax is based on the respective corporate income tax rates applicable to the subsidiaries of the Company located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

No provision for Indonesian income tax had been made as the Group did not generate any assessable profits arising in Indonesia during the year (2020: nil).

8. DIVIDENDS

	2021 HK\$'000	2020 HK\$'000
Dividends recognised as distribution during the year:		
2021 interim dividend — HK0.5 cent per share	5,536	—
2020 special dividend — HK0.5 cent per share	—	5,536
2019 final dividend — HK0.5 cent per share	<u>—</u>	<u>5,537</u>
	<u>5,536</u>	<u>11,073</u>

No final dividend was proposed in respect of the years ended 31 December 2021 and 2020.

9. EARNINGS/(LOSS) PER SHARE

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

	2021	2020
	HK\$'000	HK\$'000
Earnings/(loss) for the purposes of basic and diluted earnings/(loss) per share, being profit/(loss) for the year attributable to owners of the Company	<u>6,145</u>	<u>(4,956)</u>
	Number of shares	
	2021	2020
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	<u>1,107,300</u>	<u>1,107,300</u>

For the year ended 31 December 2020, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options because the exercise price of those options was higher than the average market price for shares for 2020.

No diluted earnings per share for 2021 were presented as there were no potential ordinary share in issue for 2021.

10. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

The Group's receivables under service concession arrangements are as follows:

	2021	2020
	HK\$'000	HK\$'000
Receivables under service concession arrangements	338,753	314,782
Portion classified as current assets	<u>(25,559)</u>	<u>(21,883)</u>
Portion classified as non-current assets	<u>313,194</u>	<u>292,899</u>

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

	2021 HK\$'000	2020 HK\$'000
Billed within 3 months	12,248	9,558
Unbilled (<i>note</i>)	<u>326,505</u>	<u>305,224</u>
	<u><u>338,753</u></u>	<u><u>314,782</u></u>

Note: The balance represented contract assets as the rights to considerations have not yet to be unconditional.

11. TRADE RECEIVABLES

	2021 HK\$'000	2020 HK\$'000
Trade receivables	73	—
Less: Allowance for credit losses	<u>—</u>	<u>—</u>
	<u><u>73</u></u>	<u><u>—</u></u>

The following is an aged analysis of trade receivables (net of allowance for credit losses) presented based on the invoice date:

	2021 HK\$'000	2020 HK\$'000
0 - 60 days	<u><u>73</u></u>	<u><u>—</u></u>

12. TRADE PAYABLES

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

	2021 HK\$'000	2020 HK\$'000
0–60 days	667	649
61–90 days	3	3
Over 90 days	<u>2,631</u>	<u>2,112</u>
	<u><u>3,301</u></u>	<u><u>2,764</u></u>

13. AMOUNTS DUE TO RELATED PARTIES

	2021 HK\$'000	2020 HK\$'000
Non-trading in nature:		
Related company	11,579	8,628
Beneficial owner	11,698	4,778
A close family member of a director	15,930	—
	<u>39,207</u>	<u>13,406</u>
Less: Amount that is expected to settle after 12 months shown under non-current liabilities	<u>(4,000)</u>	<u>—</u>
Amount that is expected to settle within 12 months shown under current liabilities	<u><u>35,207</u></u>	<u><u>13,406</u></u>

14. BORROWINGS

	2021 HK\$'000	2020 HK\$'000
Unsecured bank borrowings	20,240	22,480
Unsecured other borrowings	14,867	—
	<u>35,107</u>	<u>22,480</u>
The carrying amounts repayable:		
On demand or within one year	35,107	20,240
Within a period of more than one year but not exceeding two years	—	2,240
	<u>35,107</u>	<u>22,480</u>
Less: Amounts due within one year shown under current liabilities	<u>(35,107)</u>	<u>(20,240)</u>
Amounts shown under non-current liabilities	<u><u>—</u></u>	<u><u>2,240</u></u>

The exposure of the Group's borrowings are as follows:

	2021 HK\$'000	2020 HK\$'000
Fixed-rate borrowings	14,867	—
Variable-rate borrowings	20,240	22,480
	<u><u>35,107</u></u>	<u><u>22,480</u></u>

15. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Ordinary shares of HK\$0.0001 each		
Authorised		
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	<u>3,800,000</u>	<u>380</u>
Issued and fully paid		
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	<u>1,107,300</u>	<u>111</u>

BUSINESS REVIEW

As the COVID-19 pandemic began to be brought under control at the end of 2020, China's economic and production activities also started to recover, with a strong recovery recorded in the first half of 2021. However, following the surface of the confirmed cases of Delta variant and Omicron variant in China in the second half of the Year, China's economy was once again met with another crises. China's gross domestic product for 2021 was RMB114.4 trillion¹, representing an 8.1% growth over last year, but the quarter-on-quarter growth rate dropped from 18.3% in the first quarter to 4.0%¹ in the fourth quarter.

China has been paying more attention to environmental protection issues in recent years, leading to an increased demand and support for the environmental protection industry. China had been having a serious water pollution issue in the past, which has been effectively improved in recent years due to the Chinese government's proactive response. At the beginning of 2021, ten departments, including China's National Development and Reform Commission, jointly published the Guidance on Promoting Wastewater Resource Utilisation* (《關於推進污水資源化利用的指導意見》), which stated that China will systematically develop the resource utilisation of sewage, showing the Chinese government's determination in resolving the issue of water pollution. 2021 is the first year of the "14th Five-Year Plan", and the Chinese government stressed that ecological conservation will be further advanced and formulated plans for eliminating black and odorous water bodies in cities. Compared with the "13th Five-Year Plan", the "14th Five-Year Plan" has further raised the goals on sewage treatment capability, sewage treatment rate, utilisation rate of reclaimed water and innocuous treatment rate of sludge. The National Development and Reform Commission and the Ministry of Housing and Urban-Rural Development jointly issued the Plan for Urban Sewage Treatment and Resources Utilisation Development* (《城鎮污水處理及資源化利用發展規劃》), setting out a number of major goals. The major goals which shall be achieved by 2025 include: the sewage treatment rate in county will reach 95% or above; the rate of utilisation of reclaimed water for prefecture-level or above cities faced with water shortage will reach 25% or above; direct discharge of domestic sewage and regions without collection and treatment facilities in urban areas will be eliminated; and the centralised collection rate of urban domestic sewage on national level should strive to reach more than 70%; the major goal by the year of 2035 is to achieve a basically complete urban domestic sewage collection pipe network. From January to November 2021, according to the data provided by the China's Ministry of Ecology and Environment, among the 3,641 national surface water assessment sections, the proportion of sections with excellent water quality (Grade I~III) reached 83.6%², representing an increase of 1.7% over the same period last year, which shows that China has invested a large amount

Note:

1. http://www.stats.gov.cn/tjsj/zxfb/202201/t20220117_1826404.html
2. https://www.mee.gov.cn/ywtdt/xwfb/202112/t20211221_964784.shtml

of resources in driving and leading the development of water pollution treatment industry, and achieved progressive and significant results. All of the above showed that China possesses strong determination and implementation capability in managing water pollution and it is expected that more resources will be devoted by China to significantly improve water quality.

In general, the Group has consistently adopted a prudent and risk-oriented approach to business development in the past. The Group owns two wastewater treatment facilities in Jiangsu Province, China, respectively operated by Haian Hengfa Wastewater Treatment Company Limited (“**Haian Hengfa**”) and Rugao Hengfa Water Treatment Company Limited (“**Rugao Hengfa**”). For Haian Hengfa, as announced in our announcement dated 21 January 2022, our management has reached an agreement with the relevant authorities to raise water tariffs from RMB1.14 per tonne to RMB1.45 per tonne effective retrospectively from January 2020 onwards, resulting in a positive growth in revenue and profits for the Group. For Rugao Hengfa, the Group has reached an agreement with the local administrative committee in July 2021, increasing water tariffs from RMB2.67 per tonne to RMB3.43 per tonne effective from April 2021, bringing a better and sound performance for the Group. Due to the upward adjustment in water tariff, it is expected that the Group’s revenue and gross profit will further increase, and the Group will dedicate itself to expand the water facilities’ scale and enhance the daily capacity to improve the financial position of the Group.

The Group has also been actively preparing for the development of suitable environmental protection projects in overseas, and two key projects are currently being developed. In terms of the new power plant project in Bangka, Indonesia (the “**Bangka Project**”), the Group completed the selection of contractor and entered into a construction work contract in December 2021 to carry out relevant construction works. The power plant has a capacity of 10 megawatts, and is expected to be grid-connected and commence operation in 2023. The Group also purchased a turbine generator and a boiler at the end of 2020 and during the Year, and it is believed that the modified construction plan will result in a reduction of landscaping cost, thus reducing the total cost of construction, which would be more cost effective and suitable for the needs of the Bangka Project. If the Bangka Project turns out to be a success, we expect that the relevant operation model can be replicated to other outlying islands in Indonesia. Moreover, we will also continue our study on the feasibility of developing other new energy investment projects in other regions of Indonesia, while actively promoting the “Build-Operate-Transfer” or “BOT” investment projects in order to generate greater value for the Group and bring better cash flows and investment return.

As for the biofuel pellet business in Indonesia, the Group has been actively expanding such business and continuing to explore opportunities to cooperate with other power plants, thereby promoting the development of biofuel pellet business. After multiple stages of preparation and negotiation with various buyers, the final preparatory stage has been reached, and operation is expected to officially commence in 2022, and will start to generate revenue in mid to late 2022. The management is confident that the biofuel pellet business will provide the growth momentum to the Group and will enable the Group to achieve diversified development of its environmental protection business in the long run.

OUTLOOK

Despite the economic condition during the Year has improved, the business environment is still under the influence of COVID-19 pandemic and the ever-changing external economic environment. The Company will deal with various challenges rationally and calmly, and will evaluate the risks and opportunities of different development projects. ELL Environmental will also actively align itself with national policies, remain flexible in coping with market changes, and seize any development opportunities in both China and overseas. Sustainable development is one of the global trends, and the Group will strive to make a contribution to environmental protection. We shall continue to solidify our strong foundation in China's wastewater treatment market and provide high-quality services to customers, creating a pristine water quality domestically. Meanwhile, leveraging on our extensive experience and expertise accumulated throughout the years, we will strive to develop and actively implement potential environmental protection-related industrial chain projects, and will keep trying and looking for breakthroughs to capture and create more business opportunities in order to promote the growth of the Group's business. We will stand by our customers and provide quality service to them, and uphold a sound and prudent business strategy.

FINANCIAL REVIEW

REVENUE

Our total revenue increased by HK\$44.1 million or 74.8% to HK\$103.1 million for the Year as compared to HK\$59.0 million for FY2020. Such increase was primarily attributable to (i) the increase in revenue of the wastewater treatment facility operated by Rugao Hengfa (the "**Rugao Hengfa Facility**") due to the increase in the water tariff from RMB2.67 to RMB3.43 per tonne effective from April 2021, (ii) the recognition and settlement of the underpaid water tariff for the previous years in the wastewater treatment facility operated by Haian Hengfa (the "**Haian Hengfa Facility**"), and (iii) the increase in construction revenue arising from the construction works of the Bangka Project during the Year as compared to FY2020.

COST OF SALES

Our total cost of sales increased by HK\$20.1 million or 68.4% from HK\$29.4 million for FY2020 to HK\$49.5 million for FY2021, primarily due to (i) the increase in construction costs arising from the Bangka Project during the Year as compared to FY2020, and (ii) the increase in operating costs for the Rugao Hengfa Facility as compared to FY2020 due to the increase in cost of material and staff, and the effect of foreign exchange translation difference arising from the appreciation of Renminbi (“RMB”) against Hong Kong Dollars (“HK\$”).

GROSS PROFIT AND GROSS PROFIT MARGIN

Our gross profit increased by HK\$24.0 million or 81.1% from HK\$29.6 million for FY2020 to HK\$53.6 million for FY2021, primarily due to reasons of the aforementioned fluctuation in revenue and cost of sales. Our gross profit margin increased from 50.2% for FY2020 to 52.0% for FY2021.

OTHER INCOME AND NET GAINS

Our other income and net gains decreased by HK\$0.9 million or 16.4% from HK\$5.3 million for FY2020 to HK\$4.5 million for FY2021, primarily due to the decrease in the refund of value-added tax as compared to FY2020.

ADMINISTRATIVE EXPENSES

Our administrative expenses decreased slightly by HK\$0.3 million or 1.2% from HK\$27.9 million for FY2020 to HK\$27.5 million for FY2021. Administrative expenses mainly include staff costs and other operating expenses.

FINANCE COSTS

Our finance costs increased by HK\$2.4 million or 122.2% from HK\$2.0 million for FY2020 to HK\$4.4 million for FY2021, primarily due to the increase in loan borrowing for the financing of the Bangka Project during the Year.

PROFIT BEFORE TAX

Our profit before tax increased by HK\$17.8 million or 349.4% from HK\$5.1 million for FY2020 to HK\$22.9 million for FY2021, primarily due to the factors mentioned above.

INCOME TAX EXPENSE

Our income tax expense increased by HK\$4.8 million or 73.1% from HK\$6.6 million for FY2020 to HK\$11.4 million for FY2021, primarily due to the increase in profit before tax for our PRC subsidiaries.

PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit/(loss) attributable to owners of the Company increased by HK\$11.1 million or 224.0% from loss of HK\$5.0 million for FY2020 to profit of HK\$6.1 million for FY2021, 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 31 December 2021, the Group's bank balances and cash was HK\$65.1 million, representing an increase of 27.4% as compared with that of HK\$51.1 million as at 31 December 2020. As at 31 December 2021, the Group's bank balances and cash of HK\$35.8 million, HK\$4.9 million, HK\$7.7 million and HK\$16.7 million were denominated in RMB, HK\$, Indonesian Rupiah (“IDR”) and United States Dollars (“US\$”), respectively (31 December 2020: HK\$35.1 million, HK\$6.0 million, HK\$0.8 million and HK\$9.2 million were denominated in RMB, HK\$, IDR and US\$, respectively).

BORROWINGS

As at 31 December 2021, the total amount of our utilised bank borrowings was HK\$20.2 million, which was repayable within one year. Approximately HK\$18.0 million and HK\$2.2 million of the outstanding bank borrowings were denominated in HK\$ and US\$, respectively (31 December 2020: HK\$18.0 million and HK\$4.5 million were denominated in HK\$ and US\$, respectively).

Out of the HK\$20.2 million outstanding bank borrowings, HK\$18.0 million bore a floating interest rate of 1.4% per annum over the Hong Kong Interbank Offered Rate (31 December 2020: HK\$18.0 million), and HK\$2.2 million bore a floating interest rate of 1.4% per annum over London Interbank Offered Rate (31 December 2020: HK\$4.5 million). We had HK\$7.3 million unutilised banking facilities as at 31 December 2021 and 31 December 2020.

As at 31 December 2021, the Company had an outstanding borrowing from an independent third party of the Group amounted to HK\$14.9 million (31 December 2020: nil), which bore a fixed interest rate of 8% per annum. The loan was repayable within one year. We had HK\$0.1 million unutilised facilities granted by an independent third party as at 31 December 2021 (31 December 2020: nil).

As at 31 December 2021, the Company had outstanding amounts due to related parties of the Group amounted to HK\$39.2 million (31 December 2020: HK\$13.4 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 repayable within one year. We had HK\$10.9 million and HK\$7 million unutilised facilities granted by related parties as at 31 December 2021 and 31 December 2020, respectively.

To the best knowledge of the Directors and management of the Group, all the interest rates of the above borrowings were determined on arm's length basis.

GEARING RATIO

Gearing ratio is calculated by dividing total debt by total equity and then multiplied by 100%, and total debt includes the interest-bearing bank borrowings, amounts due to related parties and other borrowings. Our gearing ratio increased from 9.6% as at 31 December 2020 to 19.4% as at 31 December 2021.

CHARGE ON ASSETS

As at 31 December 2021, the Group did not have any charge on assets (31 December 2020: nil).

TREASURY POLICIES

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Year. 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 its strategy or direction from time to time can be met.

CAPITAL EXPENDITURES

Our capital expenditures consist primarily of expenditures for the construction and acquisition of machinery and equipment for our plants of Rugao Hengfa and Hai'an Hengfa, our Bangka Project and the biofuel pellet business in Indonesia. During the Year, our capital expenditures amounted to HK\$24.2 million (31 December 2020: HK\$11.3 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 carry 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 foreign exchange exposure by converting its cash and cash equivalents in other currencies generated from the operation of its foreign operating subsidiaries to HK\$.

CONTINGENT LIABILITIES

As at 31 December 2021, the Group had no material contingent liabilities (31 December 2020: nil).

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2021, the Group had 122 employees (31 December 2020: 114 employees). Employee costs, including Directors' emoluments, amounted to approximately HK\$14.7 million for FY2021 (FY2020: HK\$13.2 million). The remuneration policy for our Directors, senior management members and general staff is based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the profit performance of our Group and the individual performance of our Directors, senior management members and general staff. The Group encourages the 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

Save as disclosed in the announcements made by the Company (i) on 31 December 2020 and 8 January 2021 regarding the purchase of a steam turbine generator; (ii) on 21 January 2021 regarding the purchase of a boiler; and (iii) on 23 December 2021 regarding the biomass power plant construction of the Bangka Project, the Group did not have any other significant investments, material acquisitions or disposals of assets, subsidiaries, associates or joint ventures during the Year.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed above 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 PERIOD

Save as disclosed in the announcement made by the Company on 7 March 2022 regarding the adjustment to the consideration of the ancillary materials to be purchased for the Bangka Project, the Group had no material event subsequent to 31 December 2021 and up to the date of this announcement.

FINAL DIVIDEND

No final dividend has been recommended by the Board for FY2021 (FY2020: Nil).

ANNUAL GENERAL MEETING

The Company will hold its annual general meeting on Thursday, 2 June 2022 (the “AGM”), the notice of which will be published and dispatched to the shareholders of the Company (the “Shareholders”) in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the Shareholders’ entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Saturday, 28 May 2022 to Thursday, 2 June 2022 (both dates inclusive), during which period no transfer of shares of the Company will be effected. In order to qualify for attending and voting at the AGM, the non-registered Shareholders must lodge all transfer documents, accompanied by the relevant share certificates, with the Company’s Hong Kong branch share registrar, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on Friday, 27 May 2022.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all applicable code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the “**CG Code**”) throughout FY2021.

SCOPE OF WORK OF THE COMPANY’S EXTERNAL AUDITORS

The figures in respect of the Group’s consolidated statement of financial position as at 31 December 2021, consolidated statement of profit or loss and other comprehensive income for FY2021 and the notes thereto as set out in this announcement above have been agreed by the Company’s external auditors to the amounts set out in the Group’s audited consolidated financial statements for FY2021. The work performed by the Company’s external auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently, no assurance has been expressed by the Company’s external auditors on this announcement.

AUDIT COMMITTEE’S REVIEW

The Company has established an audit committee (the “**Audit Committee**”) in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code (which has been renumbered as paragraph D.3 of the CG Code since 1 January 2022) for the purpose of reviewing and providing supervision over the Group’s financial reporting process, risk management and internal controls. The Audit Committee comprises three members, namely Ms. Ng Chung Yan Linda (who is also the chairlady of the Audit Committee), Mr. Ng Man Kung and Ms. Leung Bo Yee Nancy, all being the independent non-executive Directors. The Audit Committee has reviewed with the Company’s management the accounting principles and practices adopted by the Group and the annual consolidated results of the Group for FY2021.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its own code of conduct governing securities transactions by the Directors. Following specific enquiries made by the Company on the Directors, all of them have confirmed that they had complied with the required standard set out in the Model Code throughout FY2021.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During FY2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website (<http://www.hkexnews.hk>) and the Company's website (<http://www.ellhk.com>). The Company's annual report for FY2021 will be dispatched to the Shareholders and will be available on the respective websites of the Stock Exchange and the Company in due course in the manner as required by the Listing Rules.

APPRECIATION

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

By order of the Board
ELL Environmental Holdings Limited
Chan Kwan
Executive Director and Chief Executive Officer

Hong Kong, 31 March 2022

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.