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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)

VERY SUBSTANTIAL DISPOSAL DISPOSAL OF A SUBSIDIARY

THE SALE AND PURCHASE AGREEMENT

The Board is pleased to announce that on 21 July 2022 (after trading hours), the Seller and the Purchaser entered into the Sale and Purchase Agreement, pursuant to which the Seller has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Sale Shares at the total Consideration of approximately RMB68.2 million (inclusive of applicable tax) in accordance with the terms and conditions of the Sale and Purchase Agreement. Upon Completion, the Company will cease to hold any interest in the Target Company and the Target Company will cease to be a subsidiary of the Company. The financial results of the Target Company will no longer be consolidated into the consolidated financial statements of the Company.

LISTING RULES IMPLICATION

As one of the applicable percentage ratios in respect of the Disposal under the Sale and Purchase Agreement exceeds 75%, the Disposal constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements thereunder.

EGM

An EGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Sale and Purchase Agreement and the Disposal. 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 Sale and Purchase Agreement and the Disposal, and as such, no Shareholder would be required to abstain from voting on the relevant resolutions(s) to approve the Sale and Purchase Agreement and the Disposal at the EGM.

GENERAL

A circular containing, among other things, (i) further details of the Disposal; (ii) other information as required by the Listing Rules and (iii) a notice of the EGM, is expected to be despatched to the Shareholders on or before 29 August 2022 so as to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

Completion of the Disposal is conditional upon the satisfaction of the conditions set out in the section headed “The Sale and Purchase Agreement — Conditions Precedent” in this announcement, including the approval of the Sale and Purchase Agreement and the Disposal by the Shareholders at the EGM. 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 21 July 2022 (after trading hours), the Seller and the Purchaser entered into the Sale and Purchase Agreement, pursuant to which the Seller has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Sale Shares at the total Consideration of approximately RMB68.2 million (inclusive of applicable tax) in accordance with the terms and conditions of the Sale and Purchase Agreement.

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are set out as follows:

Date: 21 July 2022

Parties: (i) Everbest Water Treatment Development Company Limited (“**Everbest**”), an indirect wholly-owned subsidiary of the Company, as the seller; and
(ii) CGN Environmental Protection Industry Co., Ltd., 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.

Subject matter of the Disposal: Pursuant to the Sale and Purchase Agreement, the Seller has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Sale Shares.

The Sale Shares represent 70% of the issued share capital of the Target Company.

Consideration, payment terms and schedule: The total Consideration is approximately RMB68.2 million (inclusive of applicable tax), which shall be settled by the Purchaser by way of bank transfer in the following manner:

(i) 50% of the Consideration shall be paid by the Purchaser to the Seller upon the satisfaction of the Conditions Precedent and within 30 working days upon the fulfilment of the conditions including the Target Company obtains the approval documents from the Government of Hainan Province in respect of the increase of water tariffs to RMB1.45 per tonne for the financial years ended 2020 and 2021 with retrospective effect from 1 January 2020;

- (ii) 30% of the Consideration shall be paid by the Purchaser to the Seller upon the completion of audit during the Transitional Period and within 30 working days upon the fulfilment of the conditions including, among other things, (a) the satisfaction of the aforementioned payment condition; (b) the Seller writes off the required balances from the current account based on new findings in the audited report for the Transitional Period and completes the requisite filings at the local tax bureau for such write-off with losses deductible from the declaration of income tax; (c) the Seller settles all outstanding tax payables prior to the Completion; (d) the Seller recovers the principal and interest of the related party transaction between the Target Company and Rugao Hengfa Water Treatment Company Limited; (e) the Target Company receives all outstanding wastewater treatment fee payable by the government authority prior to the Completion; and (f) the Seller procures the execution and due filing of the new articles of association of the Target Company as agreed between Hai'an Urban Construction Development Investment and the Purchaser; and
- (iii) the remaining 20% of the Consideration shall be paid by the Purchaser to the Seller within 30 working days upon, among other things, the satisfaction of the aforementioned payment conditions.

The Consideration was determined after arm's length negotiation between the Seller and the Purchaser after taking into account factors including (i) the historical financial performance and position of the business operated by the Target Company; and (ii) the value of approximately RMB67.3 million for 70% equity interest in the Target Company based on valuation of the Target Company as at 31 December 2021 as appraised by an independent valuer engaged by the Company in accordance with the income approach. The Consideration represents a gain of approximately RMB0.2 million on the Disposal to the unaudited net asset value of the Target Company as at 31 December 2021.

Details of the principal assumptions of the valuation of the Target Company are as follows:

- (i) water tariffs of the wastewater treatment plant operated by the Target Company will be adjusted in each of the review interval throughout the remaining Concession Period until its expiry as stipulated under the concession agreements;
- (ii) the management of the Company does not foresee any legal obstacle in renewing and retaining the Tax Benefits throughout the remaining Concession Period;
- (iii) the Target Company is assumed to have no contingent assets and liabilities or any other off-balance sheet items which should be recognised or valued attributable to the Target Company;
- (iv) to continue as a going concern throughout the projection period, the Target Company will successfully carry out all necessary activities for the development of its business;
- (v) the contractual parties of relevant agreements will act in accordance with the terms and conditions of the agreements and understandings between the parties and will be renewable upon expiry, if applicable;
- (vi) the audited/unaudited financial and operational information of the Target Company as provided to the independent valuer have been prepared in a manner which truly and accurately reflect the financial position of the Target Company as at the respective balance sheet dates;
- (vii) the availability of financing will not be a constraint on the forecast growth of the Target Company's operations;
- (viii) market trends and conditions where the Target Company operates will not deviate significantly from the economic forecasts in general;

- (ix) key management, competent personnel and technical staff will all be retained to support ongoing operations of the Target Company;
- (x) there will be no material change in the business strategy of the Target Company and its expected operating structure;
- (xi) interest rates and exchange rates in the localities for the operations of the Target Company will not differ materially from those presently prevailing;
- (xii) all relevant consents, business certificates, licenses or other legislative or administrative approvals from any local, provincial or national government, or private entity or organisation required to operate in the localities where the Target Company operates or intends to operate will be officially obtained and renewable upon expiry unless otherwise stated; and
- (xiii) there will be no major changes in the political, legal, economic or financial conditions and taxation laws in the localities in which the Target Company operates or intends to operate, which would adversely affect the revenues and profits attributable to the Target Company.

The Consideration of approximately RMB68.2 million represents a slight premium of approximately 1.3% to the appraised value of 70% equity interest in the Target Company. 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 consider that the Consideration is fair and reasonable and in the interest of the Company and its Shareholders taken as a whole.

Conditions Precedent: Completion of the Sale and Purchase Agreement shall be conditional upon:

- (i) the Seller obtaining all necessary written consents or no objections from Haian County Bureau of Commerce* (海安市商務局), Haian County Construction Bureau and Haian Urban Construction Development Investment in relation to the Disposal;
- (ii) the Sale and Purchase Agreement and the Disposal having been approved by the board of directors and shareholders of the Seller; and
- (iii) the Sale and Purchase Agreement and Disposal having been approved by the Shareholders at the EGM in compliance with the Listing Rules.

Save as the Condition Precedents (iii) above, all the Condition Precedents are required to be fulfilled (or, where applicable, waived) within 60 working days from the date of the Sale and Purchase Agreement or any such date as agreed by the Purchaser in writing. The Purchaser shall confirm the fulfillment of Conditions Precedent within five working days upon receiving the declaration of satisfaction of fulfilling the Conditions Precedent from the Seller. Otherwise, the Purchaser is entitled to terminate the Sale and Purchase Agreement within two months with liquidated damages in the amount of 30% of the Consideration.

Should the Condition Precedent (iii) above has not been fulfilled within 60 working days from the date of the Sale and Purchase Agreement or any such later date as agreed by the Purchaser in writing, either party is entitled to terminate the Sale and Purchase Agreement within one month and neither party shall have any liabilities towards each other.

Completion: Completion shall take place (a) after the fulfilment of the Conditions Precedent and within 20 working days after the Purchaser verified the details of the declaration of satisfaction of fulfilling the Conditions Precedent from the Seller; and (b) upon completion of the registration procedures in respect of the Disposal with the relevant administrative authority for industry and commerce in the PRC.

Upon Completion, the Company will cease to hold any interest in the Target Company and it will cease to be a subsidiary of the Company.

INFORMATION ON THE TARGET COMPANY

The Target Company is an indirect non-wholly-owned subsidiary of the Company and a limited liability company incorporated under the laws of the PRC, held by the Company and Hai'an Urban Construction Development Investment, as to 70% and 30%, respectively. The Target Company is principally engaged in wastewater treatment business in the Hai'an County of Jiangsu Province in the PRC.

Set out below is the unaudited financial information of the Target Company for the two years ended 31 December 2020 and 2021:

	For the year ended 31 December 2021 <i>HK\$'000</i> (unaudited)	For the year ended 31 December 2020 <i>HK\$'000</i> (unaudited)
Revenue	37,329	25,580
Net profit before taxation	25,149	17,462
Net profit after taxation	19,892	13,475

As at 31 December 2021, the unaudited net asset value of the Target Company was approximately HK\$116.7 million (equivalent to approximately RMB95.2 million).

FINANCIAL EFFECT OF THE DISPOSAL

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

It is estimated that the Company will recognise an estimated gain on the Disposal upon the Completion of approximately RMB0.2 million. The estimated gain was calculated with reference to the difference between the Consideration for the Sale Shares of approximately RMB68.2 million (inclusive of applicable tax) after deducting (i) the unaudited net asset value calculated based on the Seller's 70% interest in the Target Company of approximately RMB66.6 million as at 31 December 2021; and (ii) the transaction costs and expenses of the Disposal of approximately RMB1.4 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. It currently operates two wastewater treatment facilities, one in Haiian 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 and is in the process of developing a biomass power plant in Bangka, Indonesia (the “**Bangka Plant**”).

The Seller is a limited liability company incorporated under the laws of Hong Kong, an indirect wholly-owned subsidiary of the Company which principally engaged in investment holding.

The Purchaser

The Purchaser is a limited liability company incorporated under the laws of the PRC, a member of China General Nuclear Power Corporation which principally engaged in environmental protection and wastewater treatment businesses. Its ultimate beneficial owner is the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. As at the date of this announcement, the Purchaser is operating a total of five wastewater treatment plants in the PRC.

REASONS AND BENEFITS AND USE OF PROCEEDS OF THE DISPOSAL

The Company considers the Disposal provides the Group with proceeds of approximately RMB66.8 million which shall improve the overall cashflow position of the Group. The Group intends to reallocate its resources to focus on (i) potential development of Rugao Hengfa Facility; and (ii) the development of the Bangka Plant.

The Target Company recorded revenue of approximately RMB31.0 million for the year ended 31 December 2021 (“FY2021”) which included approximately RMB13.8 million generated from the one-off retrospective upward adjustment in water tariffs of the wastewater treatment facility operated by the Target Company prior to FY2021. With the exclusion of such upward adjustment, the Target Company recorded revenue of approximately RMB17.2 million and net profit of approximately RMB2.7 million.

As at the date of this announcement, the Group operates another wastewater treatment facility which focuses on the treatment of a mixture of municipal and industrial wastewater, the Rugao Hengfa Facility, through a wholly-owned subsidiary, Rugao Hengfa. For FY2021, Rugao Hengfa generated revenue of approximately RMB35.2 million and net profit of approximately RMB12.5 million. Upon Completion, the Group will continue to optimise its resources in operating the Rugao Hengfa Facility which has been the key revenue generator of the Group and to continue to explore any potential development and enhance the profitability of Rugao Hengfa Facility and the Group as a whole.

Furthermore, as disclosed in the circular of the Company dated 24 February 2022 in relation to the construction of the Bangka Plant in Indonesia, the Group has been actively exploring alternatives for the biomass power generation business in Jambi City, Indonesia since its suspension in 2020 as a result of a significant drop of electricity unit price in the local proximity, including but not limited to the development of biofuel pellets business and the expansion of its business footprint into other parts of Indonesia. The Bangka Plant is expected to supply electricity to the national grid at a fixed price for a period of 25 years from 2023 pursuant to a power supply agreement for a term of 25 years with PT Perusahaan Listrik Negara (Persero) (also known as State Electricity Company). As at the date of this announcement, the Group has invested approximately RMB12.0 million on the construction of the Bangka Plant and it intends to apply approximately RMB33.4 million, being part of the proceeds from the Disposal, for the procurement of raw materials and equipment for the Bangka Plant.

The Group will allocate approximately RMB26.7 million of the net proceeds from the Disposal to repay its indebtedness and to improve liquidity of the Group and a remaining of approximately RMB6.7 million to replenish the working capital for the day-to-day operation of the Group. The Group would be able to utilise such portion of internal cash instead of placing reliance on external borrowing which could potentially assist the Group to reduce an annual finance cost of no less than RMB2.1 million.

Based on the reasons above, the Directors are of the view that the terms of the Sale and Purchase Agreement and the Disposal are fair and reasonable and in the interests of the Company and its Shareholders taken as a whole.

LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios in respect of the Disposal under the Sale and Purchase Agreement exceeds 75%, the Disposal constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements thereunder.

EGM

An EGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Sale and Purchase Agreement and the Disposal 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 Sale and Purchase Agreement and the Disposal, and as such, no Shareholder would be required to abstain from voting on the relevant resolutions(s) to approve the Sale and Purchase Agreement and the Disposal at the EGM.

GENERAL

A circular containing, among other things, (i) details of the Disposal; (ii) other information required to be included in the circular pursuant to the Listing Rules and (iii) a notice of the EGM, is expected to be despatched to the Shareholders on or before 29 August 2022 so as to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

Completion of the Disposal is conditional upon the satisfaction of the conditions set out in the section headed "The Sale and Purchase Agreement — Conditions Precedent" in this announcement, including the approval of the Sale and Purchase Agreement and the Disposal by the Shareholders at the EGM. 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”	completion of sale and purchase of the Sale Shares in accordance with the Sale and Purchase Agreement
“Completion Date”	the date on which Completion takes place
“Concession Period”	the aggregated concession period from December 2002 to May 2036 under a series of concession agreements entered into among Everbest, Haian County Construction Bureau, Haian Urban Construction Development Investment and the Target Company
“Conditions Precedent”	the condition(s) precedent to the Completion as set out under the section headed “The Sale and Purchase Agreement — Conditions Precedent” of this announcement
“Consideration”	the total consideration of approximately RMB68.2 million (inclusive of applicable tax) payable by the Purchaser to the Seller in respect of the Disposal pursuant to Sale and Purchase Agreement
“Director(s)”	director(s) of the Company
“Disposal”	the conditional disposal of the Sale Shares by the Seller to the Purchaser pursuant to the Sale and Purchase Agreement
“Group”	the Company and its subsidiaries from time to time

“Haian Urban Construction Development Investment”	Haian Urban Construction Development Investment Group Co., Ltd. (海安市城建開發投資集團有限公司), a limited liability company established under the laws of the PRC, which is wholly-owned by Haian County State-owned Assets Supervision and Administration Office (海安市政府國有資產監督管理辦公室)
“Haian County Construction Bureau”	The Bureau of Housing and Urban-Rural Construction of Haian County (海安市住房和城鄉建設局)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, excluding, Hong Kong and the Macau Special Administrative Region
“Purchaser”	CGN Environmental Protection Industry Co., Ltd. (中廣核環保產業有限公司), a limited liability company incorporated under the laws of the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Rugao Hengfa”	Rugao Hengfa Water Treatment Company Limited, a limited liability company established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“Rugao Hengfa Facility”	the wastewater treatment facility operated by Rugao Hengfa
“Sale and Purchase Agreement”	the sale and purchase agreement entered into between the Seller and the Purchaser dated 21 July 2022
“Sale Shares”	70% of the issued share capital of the Target Company
“Seller”	Everbest Water Treatment Development Company Limited (恒發水務發展有限公司), a limited liability company incorporated under the laws of Hong Kong and an indirect 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 Company”	Haian Hengfa Wastewater Treatment Company Limited (海安恆發污水處理有限公司), a limited liability company established under the laws of the PRC, held by the Seller and Haian Urban Construction Development Investment, as to 70% and 30%, respectively
“Tax Benefits”	the return on the annual amount of the value-added tax paid and the corporate income tax allowance based on the revenue per annum as entitled by the Target Company under the applicable PRC laws
“Transitional Period”	the period between 31 August 2021 and the Completion Date
“%”	per cent

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

Hong Kong, 21 July 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.

* *For identification purposes only*