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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

FINANCIAL SUMMARY

- Revenue for the six months ended 30 June 2023 amounted to HK\$45.5 million (six months ended 30 June 2022: HK\$88.1 million), representing a decrease of 48.4% as compared with that of the corresponding period in 2022 (the “**Last Corresponding Period**”).
- Gross profit for the six months ended 30 June 2023 was HK\$19.4 million (six months ended 30 June 2022: HK\$21.4 million), representing a decrease of 9.3% as compared with that of the Last Corresponding Period.
- Net loss for the six months ended 30 June 2023 was HK\$7.6 million (six months ended 30 June 2022: net loss of HK\$1.0 million), representing an increase of 660.0% as compared with that of the Last Corresponding Period.
- The Board has resolved not to declare the payment of any dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

The board (the “**Board**”) of directors (the “**Directors**”) of ELL Environmental Holdings Limited (the “**Company**”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2023 (the “**Period**”), together with the relevant comparative figures as follows:

* For identification purpose only

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023

	Notes	Six months ended 30 June	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Revenue	3	45,465	88,110
Cost of sales		<u>(26,065)</u>	<u>(66,722)</u>
Gross profit		19,400	21,388
Other income and net (losses)/gains		(1,752)	1,811
Administrative expenses		(14,795)	(14,412)
Finance costs	5	<u>(6,118)</u>	<u>(3,817)</u>
(Loss)/profit before tax	6	(3,265)	4,970
Income tax expense	7	<u>(4,361)</u>	<u>(5,963)</u>
Loss for the period		<u>(7,626)</u>	<u>(993)</u>
(Loss)/profit for the period attributable to:			
Owners of the Company		(8,127)	(1,611)
Non-controlling interests		<u>501</u>	<u>618</u>
		<u>(7,626)</u>	<u>(993)</u>
		<i>HK cent</i>	<i>HK cent</i>
Loss per share	9		
— Basic		<u>(0.73)</u>	<u>(0.15)</u>
— Diluted		<u>(0.73)</u>	<u>(0.15)</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Loss for the period	(7,626)	(993)
Other comprehensive expense		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	(311)	(21,323)
Reallocation of cumulative exchange reserve upon deregistration of a subsidiary	(34)	—
Net fair value loss on debt instrument at fair value through other comprehensive income	(316)	(1,698)
	<u>(661)</u>	<u>(23,021)</u>
Other comprehensive expense for the period, net of income tax	(661)	(23,021)
Total comprehensive expense for the period	<u>(8,287)</u>	<u>(24,014)</u>
Total comprehensive (expense)/income for the period attributable to:		
Owners of the Company	(8,723)	(23,059)
Non-controlling interests	436	(955)
	<u>(8,287)</u>	<u>(24,014)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

		30 June 2023	31 December 2022
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		65,595	64,129
Receivables under service concession arrangements	<i>10</i>	303,185	298,498
Goodwill	<i>11</i>	—	—
Debt instrument at fair value through other comprehensive income	<i>12</i>	—	583
Other financial assets at amortised cost		—	—
Prepayments and other receivables		—	312
		368,780	363,522
CURRENT ASSETS			
Inventories		6,404	4,417
Trade receivables	<i>13</i>	7	414
Receivables under service concession arrangements	<i>10</i>	29,504	28,327
Prepayments and other receivables		60,603	94,360
Debt instrument at fair value through other comprehensive income	<i>12</i>	267	—
Other financial assets at amortised cost		—	—
Restricted bank deposits		27,241	5,405
Bank balances and cash		46,788	34,611
		170,814	167,534

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

As at 30 June 2023

	<i>Notes</i>	30 June 2023 <i>HK\$'000</i> (Unaudited)	31 December 2022 <i>HK\$'000</i> (Audited)
CURRENT LIABILITIES			
Trade payables	14	1,632	5,466
Other payables and accruals		11,331	10,126
Amounts due to related parties		85,603	90,977
Borrowings	15	62,067	41,867
Lease liabilities		423	438
Income tax payable		4,423	6,994
		<u>165,479</u>	<u>155,868</u>
NET CURRENT ASSETS		<u>5,335</u>	<u>11,666</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>374,115</u>	<u>375,188</u>
CAPITAL AND RESERVES			
Share capital		111	111
Reserves		299,666	308,389
Equity attributable to owners of the Company		299,777	308,500
Non-controlling interests		(5,172)	(5,608)
TOTAL EQUITY		<u>294,605</u>	<u>302,892</u>
NON-CURRENT LIABILITIES			
Amounts due to related parties		20,860	14,567
Borrowings	15	20,000	20,000
Lease liabilities		351	557
Deferred tax liabilities		23,571	22,891
Provision for major overhauls		13,760	13,352
Retirement benefit obligations		968	929
		<u>79,510</u>	<u>72,296</u>
		<u>374,115</u>	<u>375,188</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements of the Group for the period have been prepared in accordance with Hong Kong Accounting Standard (the “HKAS”) 34 “Interim Financial Reporting” issued by The Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2022.

These condensed consolidated financial statements are presented in HK\$ and all values are rounded to the nearest thousand (“HK\$’000”) except when otherwise indicated. These condensed consolidated financial statements have not been audited or reviewed by the Company’s external auditor, but has been reviewed by the Company’s audit committee.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (the “HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements of the Group for the six months ended 30 June 2023 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2022.

Application of Amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group’s annual period beginning on or after 1 January 2023 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform — Pillar Two Model Rules

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. REVENUE

	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Types of goods and services		
Wastewater treatment facilities operation services	18,311	26,796
Biomass power plant construction services	8,585	46,210
Sales of biofuel	10,229	6,475
	<hr/>	<hr/>
Revenue from goods and services	37,125	79,481
Imputed interest income on receivables under service concession arrangements	8,340	8,629
	<hr/>	<hr/>
	45,465	88,110
	<hr/> <hr/>	<hr/> <hr/>

	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Timing of revenue recognition		
A point in time	28,540	33,271
Over time	8,585	46,210
	<hr/>	<hr/>
Revenue from goods and services	37,125	79,481
	<hr/> <hr/>	<hr/> <hr/>

The sales of biofuel are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

4. SEGMENT 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 executive directors of the Company, being the chief operating decision maker 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”) and the Republic of Indonesia (“Indonesia”). No operating segments have been aggregated in arriving at the reporting segments of the Group.

Segment Revenue and Results

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

Six months ended 30 June 2023 (unaudited)

	Hong Kong <i>HK\$’000</i>	PRC <i>HK\$’000</i>	Indonesia <i>HK\$’000</i>	Total <i>HK\$’000</i>
Results				
Segment revenue	<u>—</u>	<u>22,424</u>	<u>23,041</u>	<u>45,465</u>
Segment (loss)/profit	<u>(10,962)</u>	<u>9,673</u>	<u>(1,976)</u>	<u>(3,265)</u>
Unallocated expenses				
Administrative expenses				<u>—</u>
Loss before tax				<u>(3,265)</u>

Six months ended 30 June 2022 (unaudited)

	Hong Kong <i>HK\$’000</i>	PRC <i>HK\$’000</i>	Indonesia <i>HK\$’000</i>	Total <i>HK\$’000</i>
Results				
Segment revenue	<u>—</u>	<u>34,108</u>	<u>54,002</u>	<u>88,110</u>
Segment (loss)/profit	<u>(8,972)</u>	<u>13,802</u>	<u>140</u>	<u>4,970</u>
Unallocated expenses				
Administrative expenses				<u>—</u>
Profit before tax				<u>4,970</u>

There were no inter-segment sales for both periods.

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

Revenue from customers contributing over 10% of the Group's revenue for the six months ended 30 June 2023 and 2022 are as follows:

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Customer A from the PRC segment	N/A*	10,414
Customer B from the PRC segment	22,424	23,694
Customer C from the Indonesia segment	12,812	47,527
Customer D from the Indonesia segment	9,062	N/A*
	<u> </u>	<u> </u>

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

5. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on borrowings	1,849	1,115
Interest on loans from related parties	3,873	2,149
Interest on lease liabilities	11	6
Increase in discounted amounts of provision for major overhauls arising from the passage of time	385	547
	<u> </u>	<u> </u>
	<u>6,118</u>	<u>3,817</u>

6. (LOSS)/PROFIT BEFORE TAX

(Loss)/profit before tax has been arrived at after charging the following items:

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Staff cost (including directors' remuneration):		
Salaries, allowances and benefits in kind	6,390	6,836
Discretionary bonus	209	125
Pension scheme contributions (<i>note</i>)	496	892
Less: Amount capitalised in inventories	(106)	(196)
Less: Amount recognised in cost of sales	(917)	(786)
	<u>6,072</u>	<u>6,871</u>
Depreciation of property, plant and equipment	2,855	3,072
Less: Amount capitalised in inventories	(58)	(137)
Less: Amount recognised in cost of sales	(676)	(611)
	<u>2,121</u>	<u>2,324</u>
Cost of construction services	7,573	40,597
Cost of wastewater treatment facilities operation services rendered	8,926	17,479
Cost of biofuel operation	5,255	8,646
Provision for major overhauls	666	966
	<u>666</u>	<u>966</u>

Note: As at 30 June 2023, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (six months ended 30 June 2022: Nil).

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Current tax: PRC	<u>2,612</u>	<u>3,890</u>
Under provision in prior periods: PRC	<u>430</u>	<u>204</u>
Deferred tax	<u>1,319</u>	<u>1,869</u>
	<u>4,361</u>	<u>5,963</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.

No provision for Hong Kong profits tax had been made as the Group did not generate any assessable profits arising in Hong Kong during the Period (six months ended 30 June 2022: Nil).

The provision for the PRC income tax is based on the respective corporate income tax rates applicable to the subsidiaries of the Company located in the PRC as determined in accordance with the relevant income tax 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 Period (six months ended 30 June 2022: Nil).

8. DIVIDEND

No dividends were paid, declared or proposed during the Period. The directors of the Company have determined that no dividend will be paid in respect of the Period (six months ended 30 June 2022: Nil).

9. LOSS PER SHARE

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

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the purposes of basic loss per share, being loss for the period attributable to owners of the Company	<u>(8,127)</u>	<u>(1,611)</u>
	Number of shares	
	Six months ended 30 June	
	2023	2022
	'000	'000
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>1,107,300</u>	<u>1,107,300</u>

No diluted loss per share for the six months ended 30 June 2023 and 2022 were presented as there were no potential ordinary share in issue for the six months ended 30 June 2023 and 2022.

10. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

	30 June	31 December
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Receivables under service concession arrangements	332,689	326,825
Portion classified as current assets	<u>(29,504)</u>	<u>(28,327)</u>
Portion classified as non-current assets	<u>303,185</u>	<u>298,498</u>

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

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Billed within 3 months	13,380	14,147
Billed between 4 to 6 months	4,547	4,648
Unbilled (<i>note</i>)	<u>314,762</u>	<u>308,030</u>
	<u>332,689</u>	<u>326,825</u>

Note: The balance included contract assets from construction contracts as the rights to considerations have not yet to be unconditional.

11. GOODWILL

	<i>HK\$'000</i>
COST	
At 1 January 2022, 31 December 2022, 1 January 2023 and 30 June 2023	<u>81,407</u>
ACCUMULATED IMPAIRMENT	
At 1 January 2022, 31 December 2022, 1 January 2023 and 30 June 2023	<u>81,407</u>
CARRYING VALUE	
At 30 June 2023 (unaudited)	<u><u>—</u></u>
At 31 December 2022 (audited)	<u><u>—</u></u>

The amount represents goodwill arising on the acquisition of Weal Union Limited and its subsidiary on 21 October 2016, and is allocated to the Group's cash-generating unit ("CGU") in the biomass power generation business. The goodwill was fully impaired during the year ended 31 December 2018, as the carrying amount of the CGU was determined to be higher than its recoverable amount.

12. DEBT INSTRUMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Investment in listed bond, with fixed interest of 6.13% and maturity date on 21 February 2024 listed in Hong Kong	<u>267</u>	<u>583</u>
Analysed as:		
Non-current	—	583
Current	<u>267</u>	<u>—</u>
	<u>267</u>	<u>583</u>

13. TRADE RECEIVABLES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Trade receivables	7	414
Less: Allowance for credit losses	<u>—</u>	<u>—</u>
	<u>7</u>	<u>414</u>

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

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
0–60 days	—	407
Over 60 days	<u>7</u>	<u>7</u>

The Group had a policy of allowing a credit period of 30–60 days.

14. TRADE PAYABLES

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

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
0–60 days	1,247	5,036
61–90 days	—	3
Over 90 days	<u>385</u>	<u>427</u>
	<u>1,632</u>	<u>5,466</u>

15. BORROWINGS

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Bank borrowings	58,200	38,000
Other borrowings	23,867	23,867
	<u>82,067</u>	<u>61,867</u>

During the Period, the Group did not repay bank borrowings (six months ended 30 June 2022: HK\$2,240,000), and obtained new bank borrowings amounting to HK\$20,200,000 (six months ended 30 June 2022: other borrowings of HK\$9,000,000) which carried interest at Hong Kong Interbank Offered Rate plus 0.8% per annum. The new bank borrowings of HK\$20,200,000 are secured by a Company subsidiary's corporate guarantee and restricted bank deposit and repayable on demand.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

While the global economy faced downward pressure in the first half of 2023, the fading impacts of the pandemic led to an improvement in the domestic and overseas economic environment, allowing previously suppressed demand to rise again in a concentrated manner. The resumption of economic activities drove the steady growth of China's economy in the first half of 2023 and significantly alleviated the downward pressure on the whole economy. According to the data published by the National Bureau of Statistics, China's gross domestic product for the first half of 2023 was RMB59.3 trillion¹, representing a 5.5% growth over the same period last year.

In recent years, the Chinese government has taken a proactive approach to domestic water management issues. Regarding the development of domestic water management, the Ministry of Water Resources officially published China Water Development Report 2023² (《2023中國水利發展報告》), which fully reflects the effect of the major projects in the previous year, and establishes six implementation goals, including enhancement of flood control system in river basins, launch of major projects for the nationwide water network, restoration of ecological environment in rivers and lakes, promotion of smart water management technology, establishment of sound water-saving systems and policies and strengthening of water management mechanism, laws and regulations. The government has also established specific guidelines and targets for the Yangtze River and Yellow River, which are two crucial rivers in China. In the second half of 2022, the Ministry of Ecology and Environment and other departments and units jointly issued the Action Plan for Deepening the Battle for the Protection and Restoration of the Yangtze River³ (《深入打好長江保護修復攻堅戰行動方案》) and the Action Plan for Protecting and Managing the Ecology of the Yellow River⁴ (《黃河生態保護治理攻堅戰行動方案》), with the primary objectives of improving the pollution treatments and water quality of the two rivers. The action plans also established certain major targets for the Yangtze River and Yellow River and their surrounding areas to be fulfilled by the end of 2025, including maintaining the water quality of the main streams at "Grade II". In July 2023, China's Ministry of Ecology and Environment released a report on national surface water. Among the 3,641 national surface water assessment sections, the proportion of sections with excellent water quality (Grade I-III) reached 87.8%⁵, representing an increase of 2.1% as compared to the same period in the previous year. Meanwhile, the proportion of inferior sections with Grade V was 1.0%, which was lower than 0.9% for the same period of 2021. In the future, it is expected that more manpower and funds will be devoted by China in dealing with water quality issues, and the relevant index will continue to improve steadily.

1. http://www.stats.gov.cn/sj/zxfb/202307/t20230717_1941310.html
2. <http://finance.people.com.cn/BIG5/n1/2023/0613/c1004-40012238.html>
3. <https://huanbao.bjx.com.cn/news/20220919/1255837.shtml>
4. <https://huanbao.bjx.com.cn/news/20220901/1252348.shtml>
5. https://www.mee.gov.cn/ywdt/xwfb/202307/t20230721_1036895.shtml

Overall, the Group has been committed to prudently operating its existing businesses and exploring the potential of other environmental protection businesses over the years. In 2022, the Group sold the relevant interests in Haian Hengfa Wastewater Treatment Company Limited (“**Haian Hengfa**”), and no longer held a wastewater treatment facility operated by it (the “**Haian Hengfa Facility**”), with the relevant resources to be reallocated to the wastewater treatment facilities operated by Rugao Hengfa Water Treatment Company Limited (“**Rugao Hengfa**”) and the power plant project in Bangka, Indonesia. After the disposal of Haian Hengfa, the Group will mainly operate the wastewater treatment facilities of Rugao Hengfa in China. In July 2021, the Group reached an agreement with the local administrative committee, increasing water tariffs from RMB2.67 per tonne to RMB3.43 per tonne, contributing to a more robust result for the Group. With the increase in water tariffs and improvement in project efficiency, the management expects that the revenue and gross profit of the Group will further increase.

The Group has also been actively preparing for the development of suitable environmental protection projects overseas and two key projects are currently being developed. With respect to the power plant project in Bangka, the biomass power plant is still undergoing its final phase of construction, but the Group has already reached a consensus regarding the electricity selling plan with the local government and entered into the power supply agreement with Indonesia’s State Electricity Company. It is expected to supply power to the national grid at a fixed price for 25 years starting from 2023. If the power plant project in Bangka turns out to be a success, we expect that the relevant operation model can be replicated in other outlying islands in Indonesia. Moreover, we will also continue our research 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, with an aim to expand the scale of the biofuel pellet business. The Group’s biofuel pellet business in Indonesia commenced its wood pellet production business in 2021 and has been generating revenue. With the development of biofuel pellet business, the management is confident that the biofuel pellet business will provide growth momentum for the Group and enable the Group to achieve diversification of its environmental businesses in the future.

OUTLOOK

While the economy has gradually been recovering, the global economy still faces downward pressure. Regardless of the changes in the foreign economic environment, the Company will continue to remain composed in dealing with various challenges and balance the risks and opportunities of different development projects. The Group will continue to adhere to the latest national and regional policies, respond to market changes flexibly and explore domestic and foreign development opportunities. Sustainable development is one of the global trends, and the Group is determined to continue to contribute to environmental protection. We will continue to solidify our strong foundation in China's wastewater treatment market and provide high-quality services to customers, creating pristine domestic water quality. Meanwhile, utilizing our years of experience and professional knowledge, we seek to develop and actively implement projects with potential in the environmental protection-related industry chain, making continuous attempts and breakthroughs to grasp and create more opportunities, so as to drive the growth of the Group's business, remain loyal to our customers, enhance the quality of service provided to them, and adhere to a sound and prudent business strategy.

FINANCIAL REVIEW

Revenue

Our total revenue decreased by HK\$42.6 million or 48.4% to HK\$45.5 million for the Period from HK\$88.1 million for the Last Corresponding Period. Such decrease was primarily attributable to (i) the decrease in construction revenue from the construction works of the biomass power plant in Bangka, Indonesia (the “**Bangka Project**”) during the Period, and (ii) the absence of revenue from the Haian Hengfa Facility in the Period due to the disposal of such facility in December 2022.

Cost of Sales

Our total cost of sales decreased by HK\$40.6 million or 60.9% to HK\$26.1 million for the Period from HK\$66.7 million for the Last Corresponding Period, primarily due to (i) the decrease in construction costs arising from the Bangka Project during the Period, and (ii) the absence of costs arising from the Haian Hengfa Facility in the Period due to the disposal of such facility in December 2022.

Gross Profit and Gross Profit Margin

Our gross profit decreased by HK\$2.0 million or 9.3% to HK\$19.4 million for the Period from HK\$21.4 million for the Last Corresponding Period, primarily due to the aforementioned factors. Our gross profit margin increased from 24.3% for the Last Corresponding Period to 42.7% for the Period.

Other Income and Net Losses/Gains

We recorded other income and net losses of HK\$1.8 million for the Period as compared to other income and net gains of HK\$1.8 million for the Last Corresponding Period, primarily due to the increase in net foreign exchange loss as compared to the Last Corresponding Period.

Administrative Expenses

Our administrative expenses increased slightly by HK\$0.4 million or 2.7% to HK\$14.8 million for the Period from HK\$14.4 million for the Last Corresponding Period, primarily due to the increase in legal and professional fee during the Period.

Finance Costs

Our finance costs increased by HK\$2.3 million or 60.3% to HK\$6.1 million for the Period from HK\$3.8 million for the Last Corresponding Period, primarily due to the increase in loan borrowings for the financing of the Bangka Project during the Period.

(Loss)/Profit Before Tax

Our Group recorded a loss before tax of HK\$3.3 million for the Period as compared to a profit before tax of HK\$5.0 million for the Last Corresponding Period, primarily due to the factors mentioned above.

Income Tax Expense

Our income tax expense decreased by HK\$1.6 million or 26.9% to HK\$4.4 million for the Period from HK\$6.0 million for the Last Corresponding Period, mainly due to the disposal of Haian Hengfa Facility in December 2022.

Loss for the Period Attributable to Owners of the Company

Loss attributable to owners of the Company amounted to HK\$8.1 million for the Period as compared to HK\$1.6 million for the Last Corresponding Period, primarily due to the factors mentioned above.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Our principal liquidity and capital requirements primarily relate to investments in our projects, construction and upgrading of our wastewater treatment facilities, purchases of equipment as well as costs and expenses related to the operation and maintenance of our wastewater treatment and electricity generating facilities.

As at 30 June 2023, the carrying amount of the Group's bank balances and cash was HK\$46.8 million, representing an increase of 35.2% as compared with that of HK\$34.6 million as at 31 December 2022. As at 30 June 2023, the Group's bank balances and cash of HK\$11.1 million, HK\$31.8 million, HK\$1.8 million and HK\$2.1 million were denominated in Renminbi (“**RMB**”), Hong Kong Dollars (“**HK\$**”), Indonesian Rupiah (“**IDR**”) and United States Dollars (“**US\$**”), respectively (31 December 2022: HK\$13.0 million, HK\$1.8 million, HK\$0.9 million and HK\$18.9 million were denominated in RMB, HK\$, IDR and US\$, respectively).

Bank and Other Borrowings

As at 30 June 2023, the total amount of our utilised bank borrowings was HK\$58.2 million, of which HK\$38.2 million was repayable on demand and HK\$20.0 million was repayable within 2 to 5 years. All HK\$58.2 million of the outstanding bank borrowings were denominated in HK\$ (31 December 2022: all HK\$38.0 million were denominated in HK\$).

Out of the HK\$58.2 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 (“**HIBOR**”), HK\$20.2 million bore a floating interest rate of 0.8% per annum over the HIBOR and HK\$20.0 million bore a fixed interest rate of 2% below Hong Kong Dollar prime rate (31 December 2022: HK\$18.0 million bore a floating interest rate of 1.4% per annum over the HIBOR and HK\$20.0 million bore a fixed interest rate of 2% below Hong Kong Dollar prime rate). We had HK\$28.5 million unutilised banking facilities as at 30 June 2023 (31 December 2022: HK\$4.7 million).

As at 30 June 2023, the Company had an outstanding borrowing from independent third parties of the Group amounting to HK\$23.9 million (31 December 2022: HK\$23.9 million), which bore a fixed interest rate of 8% per annum. The loan was repayable within one year.

As at 30 June 2023, the Company had outstanding amounts due to related parties of the Group amounting to HK\$106.5 million (31 December 2022: HK\$105.5 million), of which HK\$83 million bore a fixed interest rate of 8% per annum and HK\$23.5 million bore a fixed interest rate of 6% per annum. Out of the HK\$106.5 million outstanding amounts due to related parties, HK\$85.6 million was repayable within one year and HK\$20.9 million was repayable within two to five years (31 December 2022: HK\$105.5 million outstanding amounts due to related parties, HK\$90.9 million was repayable within one year and HK\$14.6 million was repayable within two to five years).

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

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 55.3% as at 31 December 2022 to 64.0% as at 30 June 2023.

Charge on Assets

As at 30 June 2023, the Group did not have any charge on assets (31 December 2022: 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 Period. The Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time. Surplus cash will be invested appropriately so that the Group's cash requirements for its strategy or direction from time to time can be met.

Capital Expenditures

Our capital expenditures consist primarily of expenditures for the Bangka Project and the biofuel pellet business in Indonesia. During the Period, our capital expenditures amounted to HK\$10.2 million (Last Corresponding Period: HK\$41.4 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 30 June 2023, the Group had no contingent liabilities (31 December 2022: Nil).

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2023, the Group had 169 employees (31 December 2022: 185 employees). Employee costs, including Directors' emoluments, amounted to approximately HK\$6.1 million for the Period (Last Corresponding Period: HK\$6.9 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 this announcement, the Group did not have any other significant investments, material acquisitions or disposals of assets, subsidiaries, associates or joint ventures during the Period.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this announcement, the Group has no plan for other material investments or additions of capital assets as at the date of this announcement.

EVENTS AFTER THE REPORTING PERIOD

The Group has not undertaken any material event subsequent to the end of the Period and up to the date of this announcement.

INTERIM DIVIDEND

During the Board meeting held on 31 August 2023, the Board resolved not to declare the payment of any interim dividend for the Period (Last Corresponding Period: Nil).

CORPORATE GOVERNANCE

The Company strives to maintain a high standard of corporate governance, and has applied the principles and complied with all the mandatory disclosure requirements and the applicable code provisions as set out in the section headed “Part 2 — Principles of good corporate governance, code provisions and recommended best practices” of the Corporate Governance Code contained in Appendix 14 (the “**CG Code**”) to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) throughout the Period and up to the date of this announcement.

SECURITIES TRANSACTIONS BY DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

REVIEW BY AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**”) in compliance with Rule 3.21 of the Listing Rules and paragraph D.3 of the CG Code for the purpose of reviewing and providing supervision over the Group’s financial reporting process, risk management and internal controls. The Audit Committee comprises 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 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 unaudited interim results of the Group for the Period.

PUBLICATION OF INTERIM REPORT

The 2023 interim report of the Company will be published on the respective websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.ellhk.com>) and despatched to the shareholders of the Company (the “**Shareholders**”) in due course.

APPRECIATION

I would like to take this opportunity to express my most sincere thanks and gratitude to our Shareholders and various parties for their continuing support, and to my fellow Directors and our staff for their dedication and hard work during the Period.

By Order of the Board
ELL Environmental Holdings Limited
Chau On Ta Yuen
Chairman

Hong Kong, 31 August 2023

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.