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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 2016

FINANCIAL SUMMARY

- Revenue for the Year amounted to HK$100.3 million (2015: HK$145.5 million), representing a decrease of 31.0% as compared with the preceding year.
- Gross profit for the Year was HK$34.3 million (2015: HK$50.4 million), representing a decrease of 32.0% as compared with the preceding year.
- Net profit for the Year was HK$11.5 million (2015: HK$40.1 million), representing a decrease of approximately 71.3% as compared with the preceding year.
- No final dividend has been recommended by the Board for the Year (2015: HK1 cent per Share).

The board (the "**Board**") of directors (the "**Directors**") of ELL Environmental Holdings Limited (the "**Company**") announces the annual consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2016 (the "**Year**").

The annual consolidated results of the Group for the Year together with the comparative figures of 2015 are as follows:

* *For identification purpose only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
REVENUE	3	**100,317**	145,462
Cost of sales		**(66,011)**	(95,035)
Gross profit		**34,306**	50,427
Other income and gains		**11,357**	5,318
Administrative expenses		**(25,172)**	(18,269)
Finance costs	5	**(1,969)**	(1,247)
PROFIT BEFORE TAX	6	**18,522**	36,229
Income tax (expense) credit	7	**(7,029)**	3,920
PROFIT FOR THE YEAR		**11,493**	40,149
Profit for the year attributable to:			
Owners of the Company		**10,343**	39,506
Non-controlling interests		**1,150**	643
		11,493	40,149
EARNINGS PER SHARE	9	***HK cents***	*HK cents*
— Basic		**1.05**	4.37
— Diluted		**1.05**	N/A

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016	2015
	HK$'000	*HK$'000*
Profit for the year	**11,493**	40,149
Other comprehensive (expense) income		
Item that may be reclassified subsequently to profit or loss:		
Exchange difference arising on translation of foreign operations	**(28,366)**	(16,224)
Fair value change on available-for-sale investments	**2,125**	(555)
Investment revaluation reserve released upon disposal of available-for-sale investments	**(819)**	(246)
Total comprehensive (expense) income for the year	**(15,567)**	23,124
Total comprehensive (expense) income attributable to:		
Owners of the Company	**(15,624)**	23,765
Non-controlling interests	**57**	(641)
	(15,567)	23,124

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**143,130**	2,310
Receivables under service concession arrangements	10	**288,638**	349,807
Goodwill	11	**85,699**	—
Available-for-sale investments		**23,383**	127,921
		540,850	480,038
CURRENT ASSETS			
Inventories		**882**	246
Receivables under service concession arrangements	10	**30,814**	40,410
Trade receivables	12	**2,840**	—
Prepayments and other receivables		**1,569**	1,289
Income tax recoverable		**405**	693
Bank balances and cash		**25,104**	87,763
		61,614	130,401
Assets classified as held for sale	15	**78,676**	—
		140,290	130,401
CURRENT LIABILITIES			
Trade payables	13	**19,955**	12,186
Other payables and accruals		**4,783**	3,543
Amounts due to related parties		**6,542**	—
Derivative financial instrument		**—**	794
Bank borrowings — due within one year	14	**32,426**	32,864
Income tax payables		**122**	627
		63,828	50,014
Liabilities associated with assets classified as held for sale	15	**9,848**	—
		73,676	50,014
NET CURRENT ASSETS		**66,614**	80,387
TOTAL ASSETS LESS CURRENT LIABILITIES		**607,464**	560,425

	Notes	2016 HK$'000	2015 HK$'000
CAPITAL AND RESERVES			
Share capital	*16*	**111**	95
Reserves		**541,841**	487,447
Equity attributable to owners of the Company		**541,952**	487,542
Non-controlling interests		**27,650**	27,593
TOTAL EQUITY		**569,602**	515,135
NON-CURRENT LIABILITIES			
Bank borrowings — due after one year	*14*	**—**	2,336
Deferred tax liabilities		**31,251**	36,514
Provision for major overhauls		**6,611**	6,440
		37,862	45,290
		607,464	560,425

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Basis of preparation

The consolidated financial statements 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.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS(s)**") issued by the Hong Kong Institute of Certified Public Accountants (the "**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 (the "**Stock Exchange**"and the "**Listing Rules**", respectively) and by the Hong Kong Companies Ordinance.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

In the current year, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA:

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 - 2014 Cycle

The application of the above amendments to HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. REVENUE

	2016	2015
	HK$'000	*HK$'000*
Construction services	**36,206**	79,752
Wastewater treatment facility operation services	**40,618**	48,952
Imputed interest income on receivables under service concession arrangements	**19,465**	16,758
Sales of electricity	**4,028**	—
	100,317	145,462

4. SEGMENT INFORMATION

The Group is engaged in the construction and operation of wastewater treatment facilities and generation of electricity. 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 location of its manpower and customers including Hong Kong, the People's Republic of China ("**PRC**") and the Republic of Indonesia ("**Indonesia**"). The Group's operating and reportable segments are as follows:

Year ended 31 December 2016

	Hong Kong	**PRC**	**Indonesia**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Results				
Segment revenue	—	**96,289**	**4,028**	**100,317**
Segment (loss) profit	**(12,586)**	**33,697**	**(2,555)**	**18,556**
Unallocated expenses				
Administrative expenses				**(34)**
Profit before tax				**18,522**

Year ended 31 December 2015

	Hong Kong	PRC	Indonesia	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Results				
Segment revenue	—	145,462	—	145,462
Segment (loss) profit	(11,501)	47,744	—	36,243
Unallocated expenses				
Administrative expenses				(14)
Profit before tax				36,229

There were no inter-segment sales for both years.

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

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

	2016	2015
	HK$'000	*HK$'000*
Customer A from PRC segment	**84,333**	133,167
Customer B[1] from PRC segment	**12,614**	N/A

1 The corresponding revenue of this customer is not disclosed as it did not contribute over 10% of the Group's total gross revenue in 2015.

5. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interest on bank borrowings	**1,560**	920
Increase in discounted amounts of provision for major overhauls arising from the passage of time	**409**	327
	1,969	1,247

6. PROFIT BEFORE TAX

	2016	2015
	HK$'000	*HK$'000*
Profit before tax has been arrived at after charging (crediting):		
Employee benefit expense (including Directors' remuneration)		
Salaries and other benefits	**11,152**	9,168
Pension scheme contribution *(note (a))*	**1,559**	661
Share-based payments	**54**	—
	12,765	9,829
Cost of construction services	**25,531**	60,647
Cost of wastewater treatment facilities operation services rendered	**35,006**	34,388
Cost of power plant operation	**5,474**	—
Cost of inventories recognised as expenses	**13,833**	10,778
Depreciation of property, plant and equipment	**2,513**	472
Minimum lease payments under operating leases	**—**	276
Auditors' remuneration	**1,200**	1,600
Fair value (gain) loss of a derivative financial instrument — a transaction not designated as a hedge *(note (b))*	**(1,231)**	794
Foreign exchange (gain) loss, net	**(177)**	1,077
Provision for major overhauls	**1,616**	1,122

Notes:

(a) At 31 December 2016, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2015: nil).

(b) The fair value loss of a derivative financial instrument for the year ended 31 December 2015 was included in "Administrative expenses" in the consolidated statement of comprehensive income.

7. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "**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 Year (2015: nil).

Withholding tax is calculated at 5% of the dividend income received from a subsidiary in PRC. Tax refunds of HK$764,000 for prior years' withholding tax are realised during the Year.

The provision for the PRC income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in PRC as determined in accordance with the relevant income tax rules and regulations of 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 (2015: nil).

Haian Hengfa Wastewater Treatment Company Limited ("**Haian Hengfa**") and Rugao Hengfa Water Treatment Company Limited ("**Rugao Hengfa**"), subsidiaries incorporated in the PRC, obtained preferential income tax treatment whereby their income taxes are charged at the taxable profit based on 90% of the revenue generated for the Year.

Rugao Honghao Metal Water Treatment Company Limited ("**Rugao Honghao**"), a subsidiary incorporated in the PRC, obtained confirmation from the relevant tax authority during the year ended 31 December 2015 for full exemption on corporate income tax for 2012 (the first profit generating year of Rugao Honghao), 2013 and 2014 and a three-year 50% reduction in corporate income tax rate from 2015 to 2017. Tax refunds of HK$9,998,000 relating to the tax years of 2012, 2013 and 2014, in aggregate, were received during the year ended 31 December 2015.

	2016	2015
	HK$'000	*HK$'000*
Current — PRC		
Charge for the year	**2,842**	5,100
Overprovision in prior years	**—**	(212)
Tax refunds	**(764)**	(9,998)
Deferred tax	**4,951**	1,190
Total tax charge (credit) for the year	**7,029**	(3,920)

8. DIVIDEND

	2016	2015
	HK$'000	*HK$'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2016 Interim — nil (2015: 2015 Interim dividend — HK2 cents) per ordinary share *(note a)*	**—**	19,040
2015 Final — HK1 cent (2015: 2014 Final dividend — nil) per ordinary share *(note b)*	**9,520**	—
	9,520	19,040

Notes:

(a) During the year ended 31 December 2015, the Company declared an interim dividend in respect of the six months ended 30 June 2015 of HK2 cents per ordinary share of the Company in an aggregate amount of HK$19,040,000. Such dividend was paid on 31 October 2015.

(b) During the year ended 31 December 2016, the Company declared a final dividend in respect of the year ended 31 December 2015 of HK1 cent per ordinary share of the Company in an aggregate amount of HK$9,520,000. Such dividend was paid on 13 June 2016.

(c) The Board does not recommend the payment of any final dividend for the Year (2015: HK1 cent per share).

9. EARNINGS PER SHARE

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

	2016	2015
	HK$'000	*HK$'000*
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to owners of the Company	**10,343**	39,506

	Number of shares	
	2016	2015
	'000	*'000*
Weighted average number of ordinary shares for the purpose of earnings per share	**982,493**	903,061

The computation of the diluted earnings per share for the Year does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares for the Year.

No diluted earnings per share has been presented for the year ended 31 December 2015 as there was no outstanding potential ordinary share during that year and at the end of the reporting period.

10. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

	2016	2015
	HK$'000	*HK$'000*
Receivables under service concession arrangements	**319,452**	390,217
Portion classified as current assets	**(30,814)**	(40,410)
Portion classified as non-current assets	**288,638**	349,807

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

	2016	2015
	HK$'000	*HK$'000*
Billed:		
Within 3 months	**8,276**	16,426
4 to 6 months	**13,925**	14,694
	22,201	31,120
Not yet billed	**297,251**	359,097
	319,452	390,217

11. GOODWILL

	HK$'000
COST	
At 1 January 2015 and 31 December 2015	—
Arising on acquisition of subsidiaries	85,699
At 31 December 2016	85,699

The amount represents goodwill arising on the acquisition of Weal Union Limited and its subsidiary PT Rimba Palma Sejahtera Lestari during the Year. The recoverable amount of this cash generating unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 18.2%. The cash flows beyond the 5-year period are extrapolated growth rate at 5%. Cash flow projection during the 5-year budget period is based on the budgeted sales and expected gross margins and the inflation on cost of sales and expenses during the budget period. Expected cash inflows/outflows, which include budgeted sales, gross margin and inflation have been determined based on management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of this cash generating unit.

12. TRADE RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**2,840**	—

Trade debtors mainly arise from sales of electricity. The Company's credit terms are negotiated at terms determined and agreed with its trade customers. The credit periods are ranging from 30 to 60 days.

The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	2016	2015
	HK$'000	*HK$'000*
0-30 days	**344**	—
31-60 days	**2,496**	—
	2,840	—

13. TRADE PAYABLES

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

	2016	2015
	HK$'000	*HK$'000*
0-60 days	**7,040**	9,490
61-90 days	**1,207**	482
Over 90 days	**11,708**	2,214
	19,955	12,186

14. BANK BORROWINGS

	2016	2015
	HK$'000	*HK$'000*
On demand or within one year	**32,426**	32,864
In the second year	**—**	2,336
In the third to fifth years inclusive	**—**	—
	32,426	35,200
Less: Amount due within one year shown under current liabilities	**(32,426)**	(32,864)
Amount due after one year	**—**	2,336
Current-secured	**2,176**	3,034
Current-unsecured	**30,250**	29,830
	32,426	32,864
Non-current-secured	**—**	2,336
	32,426	35,200

15. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

The Group entered into an agreement with an independent third party (the "**Purchaser**") on 21 September 2016 and a supplemental agreement subsequently on 28 February 2017 (as disclosed in note 17) (the "**Agreements**") for the disposal of the entire equity interest in Rugao Honghao (the "**Disposal**"). The consideration of the Disposal is RMB55,000,000 (approximately HK$61,133,000). The Agreements also stipulated that the Purchaser will be responsible for all operating costs and capital expenditure on an as-incurred basis (the "**Additional Payment Arrangements**") with effect from 15 November 2016 (as revised under the supplement agreements) and until the date of completion of the Disposal.

A dividend is expected to be distributed by Rugao Honghao to Greatcorp International Limited ("**Greatcorp**"), an indirect wholly-owned subsidiary of the Company, prior to the completion of the Disposal (the "**Expected Dividend**"). The Disposal is expected to be completed within twelve months from the end of the current reporting period. Upon completion of the Disposal, it is estimated that the proceeds of the Disposal would approximate the carrying amount of the net assets after the distribution of the Expected Dividend. No impairment loss has been recognised on the assets which were classified as assets held for sale during the Year.

The major classes of assets and liabilities of Rugao Honghao classified as held for sale are as follows:

	HK$'000
Property, plant and equipment	418
Receivables under service concession arrangements	70,947
Inventories	62
Prepayments and other receivables	3,268
Bank balances and cash	3,981
Total assets classified as held for sale	78,676
Trade payables	1,255
Provision for major overhauls	1,258
Deferred tax liabilities	7,335
Total liabilities associated with assets classified as held for sale	9,848

16. SHARE CAPITAL

	2016	2015
	HK$'000	*HK$'000*
Authorised:		
3,800,000,000 ordinary shares of HK$0.0001 each	**380**	380
Issued and fully paid:		
1,111,000,000 (2015: 952,000,000) ordinary shares of HK$0.0001 each	**111**	95

A summary of movements in the Company's issued capital is as follows:

	Notes	Number of shares	Amount
			HK$'000
At 1 January 2015		800,000,000	80
Issue of shares pursuant to the Top Up Placing	*(i)*	160,000,000	16
Cancellation of shares repurchased		(8,000,000)	(1)
At 31 December 2015 and 1 January 2016		952,000,000	95
Issue of shares pursuant to the acquisition of subsidiaries	*(ii)*	159,000,000	16
At 31 December 2016		1,111,000,000	111

Notes:

(i) On 5 May 2015, 160,000,000 new ordinary shares of HK$0.0001 each were issued at a price of HK$0.98 per ordinary share pursuant to the top-up placing and top-up subscription agreements entered into by the Company under the general mandate granted by the shareholders of the Company (the "**Shareholders**") for a total cash consideration, before expenses, of HK$156,800,000 (the "**Top Up Placing**"). Further details are set out in the announcements of the Company dated 22 April 2015 and 5 May 2015.

(ii) On 21 October 2016, 159,000,000 new ordinary shares of HK$0.0001 each were duly allotted and issued at a price of HK$0.5 per ordinary share to Morgan Top Trading Company Limited ("**Morgan Top**"), a nominee of Fusion Joy Holdings Inc. ("**Fusion Joy**"), and Carlton Asia Limited ("**Carlton Asia**") for the acquisition of subsidiaries pursuant to the share purchase agreement dated 16 June 2016. Further details are set out in the announcements of the Company dated 16 June 2016 and 21 October 2016.

17. SUBSEQUENT EVENT

On 28 February 2017, Greatcorp signed a supplemental agreement (the "**Supplemental Agreement**") with the Purchaser in respect of the Disposal. Under the Supplemental Agreement, the fee arrangements under the Additional Payment Arrangements as mentioned in note 15 above were terminated with retrospective effect from 15 November 2016. The Supplemental Agreement provides that the Purchaser shall retrospectively be responsible for all operating costs and capital expenditure on an as-incurred basis with effect from 15 November 2016 and until the date of the completion of the Disposal.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2016, the global economy suffered from political uncertainties resulting from elections in multiple countries. Despite the weak recovery of the global economy, China attained an economic growth rate of 6.7% in 2016, contributing 33.2% of the global economic growth. It remains a powerhouse of the global economic growth.

As environmental protection is a global concern, China is in urgent need of environmental protection services and the State Council emphasised the need to promote the environmental protection industry in its 13th Five-Year Plan. In April 2015, the State Council released the Action Plan for Prevention and Treatment of Water Pollution. In October of the same year, it issued a document concerning the reform of wastewater treatment tariff systems. In this context, we expect the wastewater treatment industry in China to see a continuous and rapid development. The Company is committed to actively exploring and capturing market opportunities available, and steadily operating its wastewater treatment business.

Rugao Hengfa has completed its upgrading and entered its commissioning stage, awaiting examination and approval by the government, while Haian Hengfa is undergoing various examinations and approval processes by the local government. With the completion of the upgrade of the wastewater treatment plants of Rugao Hengfa and Haian Hengfa, respectively, we are in a favourable position to negotiate with the relevant governmental sectors to adjust upward the wastewater treatment tariffs and in turn, expect the increased wastewater treatment tariffs to contribute positively to the Company's revenue and gross profit in the near future.

On 21 September 2016, the Group entered into an agreement to sell all of the equity interest of Rugao Honghao to 南通嘉禾科技投資開發有限公司 (Nantong Jiahe Technology Investment Development Co., Ltd.*) to provide an additional source of capital to fund the Group's operations and future business development opportunities. As at 31 December 2016 and the date of this announcement, Rugao Honghao remained as a subsidiary of the Company and we continue to operate two wastewater treatment facilities in Jiangsu Province, including the facilities of Haian Hengfa and Rugao Hengfa. During the Year, these two facilities treated a total of 20 million tonnes of wastewater.

* *the English translation of Chinese name is for information purpose only and should not be regarded as the official English translation of such Chinese name.*

The Company has been actively supporting national policies and coping with market changes in a flexible way. In response to the "Belt and Road" Initiative launched by the Central Government, the Group has been paying close attention to development opportunities in the PRC and abroad. On 21 October 2016, the Group acquired a biomass power generation plant in Jambi, Indonesia, as its first step to invest in the Indonesian environmental protection business. At present, the Group is actively improving its power generation facilities in order to speed up the development of its biomass generation business.

Outlook

Facing the changing market, the Company will continue to implement its prudent and stable operation strategies, based on the solid foundation laid down over the past years. The Group will actively cooperate with local governments in reviewing and discussing the details of upward adjustments to water price, continue to find more suitable wastewater treatment projects, and steadily develop its domestic business.

Moreover, the Board expects that Indonesia's demand for power supply will increase significantly in the near future. As the largest economy in Southeast Asia, Indonesia falls short of power supply. To this end, the Indonesian government has launched the Indonesia Terang / Bright Indonesia Programme, of which the primary objective is to increase national generating capacity of 35,000MW for 10,300 villages by 2019, while improving the national power coverage rate to 97.35%. As part of the Indonesian government's effort to develop renewable energies, 25% of the 35,000MW power increased under this plan will come from renewable energies. The total investment of this plan is about US$3 billion (equivalent to IDR40 trillion) with only 14% financed by the government and public expenditure, which creates huge investment space for private capital.

Indonesia is abundant in biomass resources. It is estimated that the potential total capacity of biomass power generation in Indonesia amounts to 50,000MW. All government policies to promote the development of renewable energies and Indonesia's increasing demand for power supply suggest that Indonesia will make increasingly more efforts to generate power with biomass resources. In this regard, we believe that there is huge potential in Indonesia's biomass power generation market and, therefore, commit to investing in this market in an attempt to improve the Group's biomass power generation facilities and their capacities. The biomass power generation business is not only an expected growth area for the Group, but also a starting point for the Group to launch environmental protection business in Indonesia and/or other regions in Southeast Asia. In the future, we shall actively explore business opportunities in the relevant industries (including production of biomass fuel), with an aim to continue diversifying our environmental protection business portfolios.

Financial Review

Revenue

Our total revenue decreased by 31.0% to HK$100.3 million for the Year from HK$145.5 million for the previous year. The decrease in revenue was primarily attributable to (i) a decrease in construction revenue by 54.6% to HK$36.2 million for the Year from HK$79.8 million for the previous year due to the completion of the upgrade works of the wastewater treatment facility of Rugao Hengfa (the "**Rugao Hengfa Facility**") during the Year; and (ii) the pending water tariff adjustments for the wastewater treatment facilities to cover the increase in costs of raw materials and overheads for the Year, for which negotiation with the local governments is in progress.

Cost of Sales

Our total cost of sales decreased by 30.5% to HK$66.0 million for the Year from HK$95.0 million for the previous year, primarily due to a decrease in total construction costs to HK$25.5 million for the Year from HK$60.6 million for the previous year as a result of the completion of the upgrade works of the Rugao Hengfa Facility during the Year as aforementioned. Such decrease in cost of sales was partly offset by (i) the inclusion of the operating costs of the power plants in a subsidiary incorporated in Indonesia amounting to HK$5.5 million which was absent in the previous year; and (ii) the increases in cost of raw materials and overhead costs for the operation of the wastewater treatment facilities as a result of the increased consumptions of raw materials per unit of wastewater treated and the inflation in market prices of such costs.

Gross Profit and Gross Profit Margin

Our gross profit decreased by 32.0% to HK$34.3 million for the Year from HK$50.4 million for the previous year, primarily due to (i) a decrease in the recognition of construction margin arising from the upgrade works of the Rugao Hengfa Facility to HK$10.7 million for the Year from HK$19.1 million for the previous year due to its completion during the Year as abovementioned; and (ii) the decrease in the gross profit of Rugao Honghao to HK$0.8 million for the Year from HK$4.2 million for the previous year due to the increases in cost of raw materials and overhead costs per unit of wastewater treated as abovementioned.

Our gross profit margin maintained at 34.2% for the Year as compared to 34.7% for the previous year, as the effect of the decrease in the construction margin and the increases in the cost of raw materials and overhead costs in relation to the operation of the wastewater treatment facilities offset with each other.

Administrative Expenses

As a percentage of our revenue, our administrative expenses represented 25.1% and 12.6% for the year ended 31 December 2016 and 2015, respectively. Our administrative expenses increased by 37.8% to HK$25.2 million for the Year from HK$18.3 million for the previous year. The increase was primarily attributable to (i) the professional fees of HK$3.0 million incurred in relation to the acquisition of all the issued shares of Weal Union Limited in connection with the palm kernel oil mill and the ancillary biomass power plants operation business in Indonesia during the Year; and (ii) the increases in staff costs and other office and administrative expenses.

Finance Costs

Our finance costs increased by 57.9% to HK$2.0 million for the Year from HK$1.2 million for the previous year, primarily due to an increase in interest expenses on the bank loan which the Company drew down in September 2015.

Profit Before Tax

Our profit before tax decreased by 48.9% to HK$18.5 million for the Year from HK$36.2 million for the previous year, primarily due to the factors mentioned above.

Income Tax

We recorded an income tax expense of HK$7.0 million for the Year as compared with an income tax credit of HK$3.9 million for the previous year, primarily due to the absence in the current year of the one-off tax refund of HK$10.0 million from the Taxation Bureau of Rugao City, Jiangsu Province, the PRC available in the previous year.

Profit Attributable to Owners of the Company

Our profit attributable to owners of the Company decreased by 73.8% to HK$10.3 million for the Year from HK$39.5 million for the previous year, primarily due to the factors mentioned above.

Bank Borrowings

As at 31 December 2016, the Group had a three-year bank loan with a carrying amount of HK$2.2 million (2015: HK$5.4 million), which was denominated in Renminbi with a fixed interest rate at 6.77% per annum. This bank loan was secured by the land use right and properties used in the operation of the Group's wastewater treatment business.

As at 31 December 2016, the Group had a one-year bank loan with a carrying amount of HK$30.3 million, which was denominated in Hong Kong dollars (2015: HK$29.8 million, which was denominated in Renminbi) with a variable interest rate at Hong Kong Interbank Offered Rate plus 3% per annum (2015: fixed interest rate at 4.5% per annum). The loan is unsecured and repayable on demand.

Liquidity and Financial Resources

Our principal liquidity and capital requirements primarily relate to investments in our projects, construction of our wastewater treatment facilities and purchase of equipment, as well as costs and expenses. As at 31 December 2016, the net assets of the Group amounted to HK$569.6 million (2015: HK$515.1 million), increased by 10.6% as compared with 2015.

The Group's gearing ratio is calculated by dividing total debt by total equity and total debt is the bank borrowings. The gearing ratio was kept stable, being 0.1 as at 31 December 2015 and 0.1 as at 31 December 2016.

Capital Expenditures

Our major capital expenditures consist primarily of expenditures to upgrade and improve the Group's wastewater treatment facilities. During the Year, our capital expenditures incurred for the upgrade works of the Rugao Hengfa Facility amounted to approximately HK$25.5 million (2015: HK$60.6 million). These capital expenditures were funded by funds generated from our operating activities, the proceeds from the share offer completed on 26 September 2014 and the Top Up Placing.

Foreign Exchange Risks

Individual companies in Mainland China and Indonesia within the Group have limited foreign currency risk as most of the transactions are denominated and settled in Renminbi and Indonesian Rupiah, respectively. The Group did not have significant foreign currency exposures from its operations. However, our consolidated financial statements are presented in Hong Kong dollars. Any appreciation or depreciation of Hong Kong dollar against Renminbi and Indonesian Rupiah will affect our financial position and will be reflected in the exchange fluctuation reserve. The Group does not have a foreign currency hedging policy. The management monitors the Group's foreign exchange fluctuation exposure closely. In light of the continued depreciation of Renminbi against Hong Kong dollar recently, the Group has managed to minimize the exposures in Renminbi by converting a majority of the cash and bank balances into United States dollars or Hong Kong dollars. The management considers the volatility of the exchange rate of Hong Kong dollar against Indonesian Rupiah and the Group's currency exposures of Indonesian Rupiah to be acceptable.

Contingent Liabilities

As at 31 December 2016, the Group had no contingent liabilities (2015: nil).

Employee and Remuneration Policies

As at 31 December 2016, the Group had 223 (2015: 78) employees (including the Directors). Employee costs (including Directors' emoluments) amounted to HK$12.8 million for the Year (2015: HK$9.8 million). Our remuneration policy for the Directors and our senior management members is based on their experience, level of responsibility, length of service and general market conditions. Any discretionary bonus and other merit payments are linked to the financial results of the Group and the individual performance of the Directors and senior management members.

The Company has 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.

Events After the Reporting Date

On 21 September 2016 (and supplemented by the Supplemental Agreement dated 28 February 2017), Greatcorp, an indirect wholly-owned subsidiary of the Company, and 南通嘉禾科技投資開發有限公司 (Nantong Jiahe Technology Investment Development Co., Ltd*), being the Purchaser and an independent third party of the Company, entered into an equity transfer agreement in relation to the Disposal of Rugao Honghao, an indirect wholly-owned subsidiary of the Company. As at the date of this announcement, the Disposal has not been completed and Rugao Honghao remains a subsidiary of the Company. To the best of the Directors' knowledge, the conditions precedent to the completion have been fulfilled and the parties are ready to proceed to completion and the settlement of the consideration for the Disposal. The Company is working with the Purchaser with its best endeavours to complete the Disposal as soon as practicable and not later than 31 March 2017. For further details, please refer to the Company's announcements dated 21 September 2016 and 28 February 2017, and Notes 15 and 17 of the Notes to the Financial Information in this announcement.

Save as disclosed in this announcement, the Group had no material event subsequent to the end of the Year and up to the date of this announcement.

Final Dividend

No final dividend for the Year has been recommended by the Board (2015: HK1 cent per ordinary share of the Company (the "**Share**")).

* *the English translation of Chinese name is for information purpose only and should not be regarded as the official English translation of such Chinese name.*

ANNUAL GENERAL MEETING

The Company will hold its annual general meeting on Friday, 19 May 2017 (the "**2017 AGM**"), the notice of which will be published and dispatched to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the Shareholders' entitlement to attend and vote at the 2017 AGM, the register of members will be closed from Tuesday, 16 May 2017 to Friday, 19 May 2017 (both dates inclusive), during which period no transfer of Shares will be effected. In order to qualify for attending and voting at the 2017 AGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Boardroom Share Registrars (HK) Limited at 31/F., 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on Monday, 15 May 2017.

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 the Year, except as disclosed below.

Code provision A.6.7 of the CG Code provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. A non-executive Director (the "**NED**") and an independent non-executive Director (the "**INED**") were not able to attend the annual general meeting held on 20 May 2016 (the "**2016 AGM**") and a NED was not able to attend the extraordinary general meeting held on 8 September 2016 (the "**EGM**") due to their respective business engagements. Other Board members who attended the 2016 AGM and the EGM were already of sufficient calibre and number for answering questions raised by the Shareholders at the 2016 AGM and the EGM. However, to mitigate the above, the date of the 2017 AGM has been discussed earlier to avoid timetable clashes.

SCOPE OF WORK OF THE COMPANY'S EXTERNAL AUDITORS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the notes thereto for the Year as set out in this announcement have been agreed by the Company's external auditors to the amounts set out in the Group's audited consolidated financial statements for the Year. 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 for the purpose of reviewing and providing supervision over the Group's financial reporting process, risk management and internal controls. The Audit Committee comprises four members, namely Ms. Ng Chung Yan Linda (who is also the chairlady of the Audit Committee), Mr. Ng Man Kung and Mr. Sze Yeuk Lung Benedict, all being the INEDs and Mr. Chau Chi Yan Benny, a NED. 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 the Year.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct governing securities transactions by the Directors. Following a specific enquiry 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 the Year or from the date of appointment as a Director until the end of the Year (as the case might be).

ISSUE OF EQUITY SECURITIES

On 16 June 2016, (i) Eternity Time Group Limited (a direct wholly-owned subsidiary of the Company) as purchaser, (ii) the Company as issuer, (iii) Fusion Joy (an independent third party of the Company) and (iv) Carlton Asia (wholly owned by Mr. Chan Kwan, an executive Director and the chief executive officer of the Company, and Mr. Chan Pak Lam Brian, a NED, and their respective associates (as defined in the Listing Rules)) together as vendors (the "**Vendors**") entered into a share purchase agreement in respect of the acquisition of all the shares of Weal Union Limited (the "**Acquisition**"). The consideration of approximately US$21.516 million (equivalent to approximately HK$166.7 million) would be satisfied (i) as to US$11.258 million by cash; and (ii) as to the remaining amounts by the issue of 159,000,000 consideration Shares by the Company to the Vendors at the issue price of HK$0.5 per consideration Share under a specific mandate granted by the Shareholders.

Completion of the Acquisition took place on 21 October 2016, whereby 15,700,000 and 143,300,000 consideration Shares were allotted and issued to Carlton Asia and Morgan Top (a nominee of Fusion Joy), respectively.

The Acquisition provides the Group with an opportunity to invest and develop new business segments in palm kernel oil production and excess biomass power supply in Indonesia. The Directors are of the view that the Acquisition is in line with our corporate value, direction, and hence our strategy to expand and diversify into other green businesses.

For further details, please refer to the Company's circular dated 24 August 2016 and announcements dated 16 June, 8 September, 23 September and 21 October 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's Shares listed on the Main Board of the Stock Exchange during the Year.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website (http://www.hkex.com.hk) and the Company's website (http://www.ellhk.com). The annual report for the Year will be dispatched to the Shareholders and will be available on the respective websites of the Stock Exchange and the Company 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 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
Chau On Ta Yuen
Chairman

Hong Kong, 24 March 2017

As at the date of this announcement, the executive Directors are Mr. Chau On Ta Yuen (Chairman), Mr. Chan Kwan (Chief Executive Officer) and Mr. Radius Suhendra; the NEDs are Mr. Chan Pak Lam Brian and Mr. Chau Chi Yan Benny; and the INEDs are Ms. Ng Chung Yan Linda, Mr. Ng Man Kung and Mr. Sze Yeuk Lung Benedict.