浙江天潔環境科技股份有限公司
Zhejiang Tengy Environmental Technology Co., Ltd

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1527)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS

- The revenue of Zhejiang Tengy Environmental Technology Co., Ltd (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") for the six months ended 30 June 2017 (the "**Reporting Period**") was approximately RMB293.5 million, representing a decrease of 36.8% when compared with that of the corresponding period of last year.

- The Group's profit attributable to owners of the parent for the Reporting Period was approximately RMB41.5 million representing a decrease of 28.4% when compared with that of the corresponding period of last year.

- The Board (the "**Board**") of directors of the Company (the "**Directors**", each a "**Director**") did not recommend the payment of any dividend for the Reporting Period.

INTERIM RESULTS

The Board is pleased to announce the unaudited consolidated interim results of the Group for the Reporting Period.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
REVENUE	**293,460**	464,500
Cost of sales	**(206,538)**	(349,695)
Gross profit	**86,922**	114,805
Other income and gains	**3,731**	5,260
Selling and distribution expenses	**(10,882)**	(9,596)
Administrative expenses	**(22,638)**	(28,041)
Other expenses	**(1,511)**	(590)
Finance costs	**(2,953)**	(3,506)
PROFIT BEFORE TAX	**52,669**	78,332
Income tax expense	**(11,186)**	(20,308)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**41,483**	58,024
Attributable to:		
Owners of the parent	**41,483**	58,024
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
Basic and diluted (RMB)		
— For profit for the period	**0.31**	0.43

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at	
	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
NON-CURRENT ASSETS		
Property, plant and equipment	**42,607**	47,401
Prepaid land lease payments	**18,181**	18,811
Intangible assets	**502**	275
Deferred tax assets	**30,257**	22,645
Pledged deposits	**3,358**	7,776
Total non-current assets	**94,905**	96,908
CURRENT ASSETS		
Inventories	**29,439**	31,341
Gross amounts due from contract customers	**638,169**	609,159
Trade and bills receivables	**479,283**	643,175
Prepayments, deposits and other receivables	**61,144**	43,674
Pledged deposits	**89,657**	56,815
Cash and cash equivalents	**136,911**	160,830
Total current assets	**1,434,603**	1,544,994
CURRENT LIABILITIES		
Gross amounts due to contract customers	**123,177**	111,979
Trade and bills payables	**333,438**	444,033
Advances from customers, other payables and accruals	**176,966**	211,656
Interest-bearing bank borrowings	**110,000**	119,000
Tax payable	**20,159**	30,949
Total current liabilities	**763,740**	917,617
NET CURRENT ASSETS	**670,863**	627,377
TOTAL ASSETS LESS CURRENT LIABILITIES	**765,768**	724,285
Net Assets	**765,768**	724,285
EQUITY		
Equity attributable to owners of the parent		
Share capital	**135,000**	135,000
Share premium	**239,064**	239,064
Reserves	**391,704**	350,221
Total equity	**765,768**	724,285

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

The Company is a joint stock company with limited liability established in the People's Republic of China ("**China**" or "**PRC**"). The registered office of the Company is located at TENGY Industrial Park, Paitou Town, Zhuji City, Zhejiang Province, PRC.

The Group is principally engaged in the design, development, manufacturing, installation and sale of environmental pollution prevention equipment and electronic products.

On 12 October 2015, the Company was listed on the Main Board of the Stock Exchange.

In the opinion of the directors, the holding company of the Company is Tengy Group Limited (天潔集團有限公司) ("**TGL**"), which is established in the PRC. The ultimate controlling shareholders are Bian Yu, Bian Jianguang and Bian Shu.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

The interim condensed consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

3. OPERATING SEGMENT INFORMATION

The Group's revenue during the Reporting Period was mainly derived from the sale of environmental pollution prevention equipments. The products of the Group are subject to similar risks and returns and, therefore, the Group has only one business segment.

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Mainland China	**273,679**	453,347
Other countries	**19,781**	11,153
	293,460	464,500

The revenue information above is based on the locations of the customers.

(b) Non-current assets

All non-current assets of the Group are located in Mainland China.

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents an appropriate proportion of contract revenue of construction contracts and the net invoiced value of goods sold, after allowances for returns and trade discounts during the Reporting Period.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
Construction contracts	**286,239**	462,780
Sale of goods	**6,400**	1,720
Rendering of services	**821**	–
	293,460	464,500
Other income		
Other interest income	**2,236**	–
Bank interest income	**1,270**	1,138
Government grants	**125**	742
Gross rental income	**–**	517
Compensation income	**–**	285
Others	**21**	45
	3,652	2,727
Gains		
Gains on sales of PPE	**79**	–
Foreign exchange gain	**–**	2,533
	79	2,533
	3,731	5,260

5. INCOME TAX

Pursuant to the Corporate Income Tax Law of the PRC and the respective regulations, the Group which operates in Mainland China is subject to Corporate Income Tax ("**CIT**") at a rate of 25% on the taxable income.

The income tax expense of the Group is analysed as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax	**18,798**	24,575
Deferred tax	**(7,612)**	(4,267)
Total tax charge for the periods	**11,186**	20,308

6. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the Reporting Period.

The calculations of basic earnings per share are based on:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**41,483**	58,024

	Number of shares Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**135,000,000**	135,000,000

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

Our Group

With over 20 years of industry experience and continual innovation in industrial technologies, the Group is a well-established integrated atmospheric pollution control solution provider, with a primary focus on particulate emission control by offering mega-sized precipitators to customers in various industries. Precipitators are air-cleaning devices designed to trap and remove particulate matters from the exhaust gas stream of an industrial process. They are widely installed at coal-fired power plants, metallurgical plants, paper mills and other industrial production plants. As such, the Group's customers comprise project owners of power plants and industrial production plants, as well as contractors who undertake the construction work of power plants and industrial production plants.

Our Products

The Group mainly offers three types of precipitators: electrostatic precipitators, bag filter precipitators and electrostatic-bag composite precipitators. The majority of precipitators the Group offered during the Reporting Period were electrostatic precipitators, which accounted for approximately 76.1% of its revenue from the segment of construction contracts for the Reporting Period (74.8% for the six months ended 30 June 2016).

To capture business opportunities arising from the fast-growing atmospheric pollution control industry in the PRC, the Group, leveraging on its experience and expertise in particulate control, started to offer desulfurisation and denitrification solutions to its customers in 2003 and second half of 2013, respectively.

Our Projects

The Group offers tailor-made atmospheric pollution control solutions to its customers on a project basis, which generally comprise engineering design, equipment procurement and manufacturing, supervision of installation and commissioning, customer training, and repair and maintenance.

The Group's product specifications and scope of services are customised and made-to-order in accordance with the specific technical requirements of our customers. Depending on the specifications and technical requirements of customers, the Group may provide atmospheric pollution control devices, comprising precipitators, desulfurisation system and/or denitrification system, either on an integrated basis or a standalone basis. The Group's atmospheric pollution control solutions are applied to new installation projects as well as upgrading or modification projects.

Domestic Market

The Group benefitted, and will continue to benefit, from the synergies created through enhanced customer satisfaction and brand recognition, which helped increase the chance of success in securing project bids. Additionally, with industry qualifications and track record of successful completion of projects for state-owned power plants in the PRC, the Group reinforced its reputation among power enterprises as well as customers in other industries as a reliable atmospheric pollution control solution provider, which enable it to draw on their support for new installation and upgrading or modification projects. Project owners (particularly the state-owned power generation enterprises) generally take into account, for the purpose of an all-rounded tender assessment, multiple factors such as technical expertise and reliability instead of focusing solely on costs. Therefore, the Group could gain advantages over new entrants in project bidding in the PRC market.

International Markets

Leveraging on its extensive experience in the PRC market, the Group has been in the continuing expansion into international markets since 2005 through undertaking projects with PRC subsidiaries of overseas enterprises, including overseas environmental engineering enterprises. This allows for the Group's application of its atmospheric pollution control solutions in foreign countries such as Vietnam, South Korea, Thailand, Indonesia, India, Chile, Panama and Russia. Export sales accounted for approximately 6.7% of the Group's total revenue for the Reporting Period (2.4% for the six months ended 30 June 2016). The aforesaid sales information is based on the locations of the customers.

OVERVIEW

With years of industry experience and continual innovation in industrial technologies, the Group is a well-established integrated atmospheric pollution control solution provider, with a primary focus on particulate emission control by offering mega-sized precipitators to customers in various industries. The Group generates revenue primarily from project construction and sales of goods. Project construction represents tailor-made and integrated atmospheric pollution control solutions offered by the Group to its customers, comprising engineering design, equipment procurement and manufacturing, supervision of installation and commissioning, customer training, and repair and maintenance to its customers on a project basis. The Group mainly offers three types of precipitators: electrostatic precipitators, bag filter precipitators and electrostatic-bag composite precipitators. Sales of goods represent sales of materials, including raw materials, spare parts and components and scrap materials to related parties or independent third parties.

Precipitators are widely installed at coal-fired power plants, metallurgical plants, paper mills and other industrial production plants. As such, the Group is engaged by an extensive range of customers including the project owners of power plants and industrial production plants, as well as contractors who undertake the construction work of power plants and industrial production plants.

BUSINESS REVIEW

The PRC is currently the world's second largest economy. While the economic growth has slowed down in recent years, the growth rate is still among the highest in the world. The sustained increase in demand for energy and electricity in the PRC as a result of the fast economic growth has nonetheless been promoted at the expense of atmospheric environment and air quality. Due to severe atmospheric pollution problems in the city of Beijing as well as Hebei Province happened in recent years, some schools even suspended classes. Therefore, the PRC Government has been strengthening its efforts in environmental protection by implementing more stringent environmental protection policies.

The New Law of the Prevention and Control of Atmospheric Pollution was officially implemented in the PRC on 1 January 2016. Together with the increasing governmental and public awareness of environmental protection in the PRC, the Group believes that there will be a vast investment demand for environmental protection in the coming years. The increasingly stringent environmental protection regulations also promote the rapid development of the environmental protection industry, particularly the industry of operations and maintenance services for atmospheric pollution control facilities. It is anticipated that there will be exponential growth in atmospheric pollution control equipment market in the foreseeable future. Therefore, as a leading integrated atmospheric pollution control solution provider in the industry, the Group remains confident in benefitting sustainably from the aforementioned policies in order to capture new business and investment opportunities.

The Group benefitted, and will continue to benefit, from the synergic effects brought about by enhanced customer satisfaction and brand recognition, leading to an increase in the chance of success of the Group in securing new projects. Additionally, with the Group's industry qualifications and track record of successful completion of projects for state-owned power plants in the PRC, the Group's reputation among power enterprises as well as customers in other industries as a reliable atmospheric pollution control solution provider could well enhance its overall competitiveness over new entrants in project bidding.

For the Reporting Period, total revenue and profit of the Group amounted to approximately RMB293.5 million and RMB41.5 million respectively. During the Reporting Period, the Group's gross profit amounted to RMB86.9 million, representing a decrease of 24.3% as compared with RMB114.8 million for the same period of 2016; and the gross profit margin increased by 4.9% from the same period of 2016 to 29.6%.

For the Reporting Period, the value of the Group's new contracts (which represents the aggregate value of the contracts we entered into during a specified period) amounted to approximately RMB988.9 million. As at 30 June 2017, the Group's backlog (including applicable value-added tax) (which represents the total estimated contract value of work that remains to be completed pursuant to outstanding contracts as of a certain date and assuming performance in accordance with the terms of the contract) amounted to approximately RMB2,273.1 million.

The Group's profit before tax for the Reporting Period amounted to RMB52.7 million and profits attributable to owners of the parent declined to RMB41.5 million, representing a decrease of 32.7% and 28.4% respectively when compared to the same period of 2016. The aforesaid reduction was mainly resulted from the decrease in its operation income of 36.8% to RMB293.5 million for the Reporting Period.

The Group spent great effort on the improvement of its cost management to render products and solutions more cost competitive. The atmospheric pollution control solutions offered by its Group mainly comprise the atmospheric pollution control devices designed and manufactured on our own. The Group possesses the qualifications and expertise in manufacture and supply of the key atmospheric pollution control system of the projects undertaken based on customised design proposals. The Group is dedicated to improving manufacturing process and management system by managing the product quality and operation, reducing energy consumption and assessing the environmental impact in accordance with international standards. The quantitative management, environmental management and quality management systems of the Group were awarded with a number of ISO certificates. These systems help the company estimate costs, smoothen project operations and improve operating efficiency.

Based on the strong design and engineering capabilities, the Group primarily provides comprehensive atmospheric pollution control solutions to its customers. It offers a wide range of models of electrostatic precipitators which support electricity generators with capacity spanning from 6.25MW to over 1000MW. The Group is one of the few manufacturers in the PRC providing electrostatic precipitators for single generator unit with capacity of 1,000MW or above.

FINANCIAL REVIEW

Revenue

The Group's unaudited revenue for the Reporting Period was approximately RMB293.5 million, representing a decrease of approximately 36.8% from approximately RMB464.5 million for the corresponding period of 2016. Reasons for the aforesaid decrease were two fold. First, with the convention of Group-of-Twenty (G20) Summit in the city of Hangzhou in September 2016, governmental authorities requested for temporary cessation of operations of various plants and factories in the vicinity. To avoid delay in the delivery of products in light of the foregoing circumstances and as agreed by the customers in advance, the Group kicked off certain projects earlier than scheduled which resulted in an increase in the recognisable revenue of the Group for the six-month period ended 30 June 2016. Second, the overall steel price in the PRC market recorded a significant increase in 2017 when compared to the preceding year. In order to retain a relatively promising level of gross profit margin and having taken into account the product delivery commitments as per the standing contractual arrangements with various customers, the Group delayed the commencement of certain projects which then resulted in a drop of its recognisable revenue for the Reporting Period.

Cost of Sales

The unaudited cost of sales for the Reporting Period was approximately RMB206.5 million, representing a decrease of approximately 40.9% from approximately RMB349.7 million for the corresponding period of 2016. The Group's cost of sales mainly represents costs for raw materials notably iron and steel. With the significant increase in the prices of iron and steel due to the continuing supply-side reform instituted by the PRC Government, the Group managed to control the procurement prices at reasonably low level during the Reporting Period by optimising steel supply structure as well as inventory level on the basis of the production demand.

Gross Margin

The unaudited gross profit margin for the Reporting Period was approximately 29.6%, representing an increase of approximately 4.9% from approximately 24.7% for the corresponding period of 2016.

Profit attributable to owners of the parent

The unaudited profit attributable to the owners of the parent for the Reporting Period was approximately RMB41.5 million, representing a decrease of 28.4% from approximately RMB58.0 million for the corresponding period of 2016. Weighted average earnings per share amounted to RMB31 cents for the Reporting Period.

WORKING CAPITAL

As at 30 June 2017, the Group's working capital (current assets less current liabilities) amounted to approximately RMB670.9 million (31 December 2016: approximately RMB627.4 million).

INTERIM DIVIDEND

The Directors did not propose to declare an interim dividend for the Reporting Period (six months ended 30 June 2016: Nil).

MATERIAL LITIGATION AND ARBITRATION

As at 30 June 2017, the Group was not involved in any material litigation or arbitration.

MATERIAL ACQUISITION AND DISPOSAL

As at 30 June 2017, the Group was not involved in any material acquisition and disposal.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Accountants' report for the year ended 31 December 2016, except for the adoption of revised standards and new interpretation effective as of 1 January 2017.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*

The adoption of these new and revised HKFRSs has no significant financial effect on the interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in the interim condensed consolidated financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

PROSPECT

Atmospheric pollution has become a serious problem in China and other developing countries, which has posed a serious threat to national public health. Such problem has been considered a by-product of China's economic takeoff in the past few decades, attracting much attention from the national government and citizens. The air quality in 90% of the major cities in the PRC fails to meet the standards. Given that the PRC Government is increasingly concerned about the environment, it is expected that the rigid societal demand for air pollution control equipments and integrated solutions businesses in the second half-year of 2017 will be higher than the first half-year. Towards this end, the Group's main work focuses in the second half of 2017 are as follows:

1. To further strengthen the Group's standardised management, deepen the construction and implementation of internal control systems, strengthen safety production management to ensure stable operation of the production and installation business.

2. By virtue of the Group's solid expertise and reputation in the application of particulate emission control solutions to the conventional coal-fired power generation industry, to strengthen investments in and marketing efforts on the exploration of further business opportunities in other relevant sectors (such as, among others, the paper-making, construction material and metal smelting industries) with a view to ensuring sustainability of the Group's development in the foreseeable future.

3. To further improve the gross margin by focusing on (i) the quality projects and quality customer selection, paying special attention to pricing terms and customer reputation; and (ii) constantly making cost control, lowering the procurement costs for raw materials and improving labour productivity.

4. To continue to increase the investment in research and development, enhance technological innovation, organise an air pollution control and design institute based on the existing design and development team, introduce research and development personnel in coordination with excellent domestic and international industry research institutions, and increase research and development facilities, such that the research and development capabilities of the Group could be fully enhanced.

5. To actively expand financing channels to fund the Group's continuing development, and to meet the tremendous growth of the market.

6. To enhance the Group's national and international brand recognition, as well as develop potential overseas markets to expand its international market share.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by any members of the Group during the Reporting Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company has complied with the provisions listed in the Corporate Governance Code and Corporation Governance Report (the "**Corporate Governance Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") throughout the Reporting Period.

AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") pursuant to a resolution of the Director passed on 10 November 2014 with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules. The written terms of reference of the Audit Committee were adopted in compliance with paragraphs C.3.3 and C.3.7 of the Corporate Governance Code. Its terms of reference are available on the websites of the Company and the Stock Exchange. The Audit Committee comprises three independent non-executive Directors, namely Ms. Tam Hon Shan Celia (Chairman), Mr. Jiang Yan and Mr. Zhang Bing.

APPROVAL OF FINANCIAL STATEMENTS

The unaudited financial statements of the Group for the Reporting Period were reviewed by the Audit Committee and approved by the Board on 29 August 2017.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.tengy.com). The interim report of the Company for the Reporting Period containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and available on the aforesaid websites in due course.

By order of the Board
Zhejiang Tengy Environmental Technology Co., Ltd
Mr. BIAN Yu
Chairman and executive Director

Zhuji City, Zhejiang Province, the PRC
29 August 2017

As at the date of this announcement, the executive Directors are Mr. BIAN Yu, Ms. BIAN Shu and Mr. BIAN Weican; the non-executive Directors are Mr. BIAN Jianguang, Mr. ZHANG Yuanyuan and Ms. ZHU Hong; and the independent non-executive Directors are Ms. Tam Hon Shan Celia, Mr. JIANG Yan and Mr. ZHANG Bing.