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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

SUMMARY

- The revenue of Zhejiang Tengy Environmental Technology Co., Ltd (the "**Company**") and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2017 (the "**Year**") was approximately RMB792.2 million, representing a decrease of 17.2% when compared with that of the corresponding period of last year.

- The Group's profit attributable to owners of the parent for the Year was approximately RMB84.7 million representing a decrease of 18.2% 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**") does not recommend the payment of final dividend for the Year.

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017 (AUDITED)

The Board is pleased to announce the audited results of the Group for the Year and the comparative figures of the corresponding period of 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017** *RMB'000*	2016 *RMB'000* *(Restated)*
REVENUE	*4*	**792,152**	956,432
Cost of sales		**(593,050)**	(722,399)
Gross profit		**199,102**	234,033
Other income	*5*	**14,109**	13,284
Selling and distribution expenses		**(24,707)**	(23,039)
Administrative expenses		**(67,969)**	(80,486)
Other expenses		**(231)**	(783)
Finance costs	*6*	**(5,821)**	(6,695)
PROFIT BEFORE TAX		**114,483**	136,314
Income tax expense	*7*	**(29,825)**	(32,859)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**84,658**	103,455
Attributable to:			
Owners of the parent		**84,658**	103,455
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB per share)	*8*	**0.63**	0.77

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	**At 31 December 2017** *RMB'000*	At 31 December 2016 *RMB'000* *(Restated)*	At 1 January 2016 *RMB$'000* *(Restated)*
NON-CURRENT ASSETS				
Property, plant and equipment		**86,906**	47,401	42,878
Prepaid land lease payments		**45,001**	18,811	11,549
Investment property		**–**	–	16,515
Intangible assets		**389**	275	195
Deferred tax assets	*15*	**49,336**	36,185	28,720
Pledged deposits	*12*	**3,577**	7,776	17,606
Total non-current assets		**185,209**	110,448	117,463
CURRENT ASSETS				
Inventories	*9*	**470,939**	510,366	476,678
Trade and bills receivables	*10*	**619,345**	660,039	482,968
Contract assets and contract costs		**193,201**	153,584	125,146
Prepayments, deposits and other receivables	*11*	**44,544**	39,668	44,421
Prepaid land lease payments		**1,981**	1,259	975
Pledged deposits	*12*	**86,169**	56,815	75,272
Cash and cash equivalents	*12*	**47,706**	160,830	209,936
Total current assets		**1,463,885**	1,582,561	1,415,396
CURRENT LIABILITIES				
Trade and bills payables	*13*	**419,709**	462,353	455,742
Contract liabilities		**310,482**	379,330	316,947
Other payables and accruals	*14*	**109,379**	123,852	79,538
Interest-bearing bank borrowings		**110,000**	119,000	174,000
Tax payable		**20,473**	14,081	15,694
Total current liabilities		**970,043**	1,098,616	1,041,921
NET CURRENT ASSETS		**493,842**	483,945	373,475
TOTAL ASSETS LESS CURRENT LIABILITIES		**679,051**	594,393	490,938
Net assets		**679,051**	594,393	490,938
EQUITY				
Equity attributable to owners of the parent				
Share capital	*16*	**135,000**	135,000	135,000
Share premium	*16*	**239,064**	239,064	239,064
Reserves	*17*	**304,987**	220,329	116,874
Total equity		**679,051**	594,393	490,938

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company					
	Share capital	**Share premium**	**Statutory surplus reserve***	**Safety production reserve***	**Retained profits***	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	135,000	239,064	28,072	4,862	204,293	611,291
Effect of changes in accounting policies *(note 2)*	–	–	(10,810)	(231)	(109,312)	(120,353)
At 1 January 2016, as restated	135,000	239,064	17,262	4,631	94,981	490,938
Total comprehensive income for the year	–	–	–	–	103,455	103,455
Appropriation to statutory surplus reserve	–	–	10,352	–	(10,352)	–
Appropriation to safety production reserve	–	–	–	777	(777)	–
At 31 December 2016, as restated	135,000	239,064	27,614	5,408	187,307	594,393
At 1 January 2017, as restated	135,000	239,064	27,614	5,408	187,307	594,393
Total comprehensive income for the year	–	–	–	–	84,658	84,658
Appropriation to statutory surplus reserve	–	–	7,752	–	(7,752)	–
Appropriation to safety production reserve	–	–	–	598	(598)	–
At 31 December 2017	135,000	239,064	35,366	6,006	263,615	679,051

* *These reserve accounts comprise the consolidated reserves of RMB304,987,000 (2016: RMB220,329,000) in the consolidated statements of financial position.*

1. CORPORATE AND GROUP INFORMATION

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

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

In the opinion of the directors, the immediate and ultimate holding company of the Company is Tengy Group Limited (天潔集團有限公司) ("**TGL**"), which is established in the PRC.

Particulars of the Company's subsidiaries at 31 December 2017 are set out below:

Name	**Registered/ paid-up capital**	**Percentage of equity attributable to the Company Direct**	**Place and date of establishment/ registration and place of operations**	**Principal activities**
諸暨市天潔安裝工程有限公司 ("**Tianjie Installation Engineering**")	RMB4,500,000	100%	The PRC 14 May 2003	Provision of installation services
諸暨市天潔電子科技有限公司 ("**Tianjie Electronic and Technology**")	RMB2,000,000	100%	The PRC 29 June 2009	Manufacture and sale of electronic products
吐魯番天潔環境科技有限公司 ("**Turpan Environmental and Technology**")	RMB20,000,000	100%	The PRC 19 July 2013	Manufacture and sale of environmental pollution prevention equipment and electronic products

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong).

They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") that are relevant to its operations and effective for its accounting year beginning on 1 January 2017 and early adopted HKFRS15. HKFRSs comprise Hong Kong Financial Reporting Standards ("**HKFRS**"); Hong Kong Accounting Standards ("**HKAS**"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below.

HKFRS 15 "Revenue from Contracts with Customers"

Revenue of the Group's construction contract was previously recognised using the percentage of completion method. Under HKFRS 15, such contracts do not meet the conditions of recognising the revenue over time. Revenue of such contracts is now recognised at a point in time when control of the products is transferred to the customers.

HKFRS 15 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	31 December 2016 *RMB'000*	1 January 2016 *RMB'000*
At 31 December 2016:		
Decrease in gross amount due from contract customers	**609,159**	703,831
Increase in deferred tax asset	**13,540**	10,459
Increase in inventories	**479,025**	435,890
Increase in trade and bills receivables	**16,864**	62,093
(Decrease)/Increase in prepayment, deposits and other receivables	**(2,747)**	2,162
Increase in contract assets and contract cost	**153,584**	125,146
Decrease in gross amount due to contract customers	**111,979**	89,523
Increase in trade and bills payables	**18,320**	24,311
Increase in contract liabilities	**379,330**	316,947
Decrease in other payables and accruals	**87,804**	183,804
Decrease in tax payable	**16,868**	15,659
Decrease in statutory surplus reserve	**11,387**	10,810
Decrease in safety protection reserve	**116**	231
Decrease in retained profits	**118,389**	109,312

	2016 *RMB'000*
For the year ended 31 December 2016:	
Decrease in revenue	**41,132**
Decrease in cost of sales	**45,989**
Decrease in other income	**1,045**
Increase in administrative expenses	**16,579**
Decrease in income tax	**3,228**
Decrease in profit for the year	**9,539**
Decrease in Earning per share	**0.07**

The Group has not applied other new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

3. OPERATING SEGMENT INFORMATION

The Group's revenue during the year was mainly derived from construction contract revenue for installation and sale of environmental pollution prevention equipment and electronic products; the invoiced value of goods sold and the value of services rendered. 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

	2017	2016
	RMB'000	*RMB'000*
Mainland China	**759,189**	934,583
Other countries	**19,568**	18,314
	778,757	952,897

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.

Revenue from major customers

	2017	2016
	RMB'000	*RMB'000*
Customer A	**–**	104,607
Customer B	**99,459**	63,145

4. REVENUE

The Group's revenue represents construction contract revenue for installation and sales of environmental pollution prevention equipment and electronic products; the invoiced value of goods sold and the value of services rendered during the year.

	2017	2016
	RMB'000	*RMB'000*
Construction contracts	**778,757**	952,897
Sale of goods	**12,943**	3,529
Rendering of services	**452**	6
	792,152	956,432

Disaggregation of revenue from construction contracts:

	2017	2016
	RMB'000	*RMB'000*
Geographical markets		
Mainland China	**759,189**	934,583
Other countries	**19,568**	18,314
Total	**778,757**	952,897
Major products/service		
Electrostatic precipitator	**542,574**	663,857
Electrostatic-bag composite precipitator	**88,836**	108,717
Bag filter precipitator	**44,376**	54,307
SO2 and NOx emission reduction (desulfurisation and denitrification devices)	**82,784**	101,311
Others (e.g. Pneumatic ash conveying system)	**20,187**	24,705
Total	**778,757**	952,897
Timing of revenue recognition	**792,152**	956,432
At a point in time		
– Construction contracts	**778,757**	952,897
– Sale of goods	**12,943**	3,529
– Rendering of services	**452**	6
Total	**792,152**	956,432

Construction contracts

The Group manufactures, sells and installs environmental pollution prevention equipment to the customers. The customers pay the contract prices to the Group according to the payment schedules as stipulated in the contracts within one month. If the service rendered by the Group exceeds the payments, a contract asset is recognised. If the payments exceed the service rendered, a contract liability is recognised.

If a contract includes the installation of hardware, revenue for the hardware is recognised at a point in time when the hardware is delivered, the legal title has passed and the customer has accepted the hardware.

The contract price is allocated to the performance obligations based on the relative stand-alone selling prices of the performance obligations. The stand-alone selling prices are determined by applying the expected cost plus a margin approach.

Sales of goods

The Group manufactures, sells and installs environmental pollution prevention equipment to the customers. The products amount is repayable within one month. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to the products.

A receivable is recognised when the products are delivered to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

5. OTHER INCOME

	2017	2016
	RMB'000	*RMB'000*
Other income		
Bank interest income	**4,528**	2,684
Government grants	**8,699**	5,839
Foreign exchange gain	**–**	3,878
Compensation income	**–**	285
Rental income	**–**	430
Others	**882**	168
	14,109	13,284

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2017	2016
	RMB'000	*RMB'000*
Interest on bank loans	**5,821**	6,695

7. INCOME TAX

Pursuant to the Corporate Income Tax Law of the PRC and the respective regulations, the Company and its subsidiaries which operate in Mainland China are subject to corporate income tax at a rate of 25% on the taxable income.

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

	2017	2016
	RMB'000	*RMB'000*
PRC Enterprise Income Tax for the year	**42,977**	40,323
Deferred tax *(note 15)*	**(13,152)**	(7,464)
Total tax charge for the year	**29,825**	32,859

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax expense at the effective tax rate is as follows:

	2017	2016
	RMB'000	*RMB'000*
Profit before tax	**114,483**	136,314
Tax at the statutory tax rate of 25%	**28,621**	34,079
Tax effect of non-deductible expenses	**1,204**	785
Additional deduction for research and development activities	**–**	(2,005)
Tax charge at the Group's effective tax rate	**29,825**	32,859

8. 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 of 135,000,000 (2016: 135,000,000) in issue during the year.

There were no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

The calculations of basic earnings per share are based on:

	2017	2016
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation:	**84,658**	103,455

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**135,000,000**	135,000,000

9. INVENTORIES

	2017	2016
	RMB'000	*RMB'000*
Raw materials	**19,927**	28,070
Work in progress	**30,741**	24,167
Finished goods	**420,271**	458,129
	470,939	510,366

10. TRADE AND BILLS RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**535,658**	523,453
Less: impairment losses	**(78,906)**	(55,108)
	456,752	468,345
Bills receivable	**162,593**	191,694
	619,345	660,039

Trade receivables are non-interest-bearing and the credit term is generally one month. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

The Group's bills receivable are all due within one year and are neither past due nor impaired. As at 31 December 2017, the Group's bills receivable of RMB50,548,000 (2016: RMB68,034,000) were pledged to secure the Group's bills payable (note 13).

An aging analysis of the trade receivables, based on the invoice date and net of provisions, is as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 1 year	**171,362**	210,304
1 to 2 years	**187,705**	186,013
2 to 3 years	**76,889**	63,747
3 to 4 years	**20,796**	8,281
	456,752	468,345

The movements in provision for impairment of trade receivables are as follows:

	2017	2016
	RMB'000	*RMB'000*
At beginning of year	**55,108**	27,828
Impairment losses recognised	**23,798**	27,280
At end of year	**78,906**	55,108

The individually impaired trade receivables relate to customers that no longer have transactions with the Group and none of the receivables is expected to be recovered.

The aging analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**360,417**	316,854
Less than 60 days past due	**41,973**	52,998
Over 60 days past due	**54,362**	98,493
	456,752	468,345

At 31 December 2017, the Group endorsed certain bills receivable accepted by certain banks in the PRC (the "**Endorsed Notes**") to certain of its suppliers in order to settle the trade payables due to such suppliers (the "**Endorsement**"). Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Notes, including the sale, transfer or pledge of the Endorsed Notes to any other third parties. In accordance with the "Law of Negotiable Instruments" in the PRC, the holders of the Endorsed Notes have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**"). The total carrying amount of the Endorsed Notes of the Group as at 31 December 2017 was RMB116,096,000 (2016: RMB124,254,000). In the opinion of the directors, the Group has transferred substantially all the risks and rewards relating to certain Endorsed Notes accepted by large and reputable banks with an amount of RMB52,983,000 (the "**Derecognised Notes**") as at 31 December 2017 (2016: RMB68,034,000). Accordingly, the Group has derecognised the full carrying amounts of these Derecognised Notes and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in these Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in these Derecognised Notes are not significant. The Group continued to recognise the full carrying amount of the remaining Endorsed Notes and the associated trade payables settled with an amount of RMB63,113,000 as at 31 December 2017 (2016: RMB56,220,000), because the directors believe that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes.

During the year, the Group has not recognised any gain or loss (2016: Nil) on the date of transfer of the Derecognised Notes. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the year.

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Other receivables	**26,654**	26,147
Less: impairment losses	**(2,156)**	(1,691)
	24,498	24,456
Prepayments	**17,607**	15,212
Due from the holding company	**2,439**	–
	44,544	39,668

The movements in provision for impairment of other receivables are as follows:

	2017	2016
	RMB'000	*RMB'000*
At beginning of year	**1,691**	1,009
Impairment losses recognised	**465**	682
At end of year	**2,156**	1,691

12. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

At the end of reporting period, the bank and cash balances of Group denominated in RMB amounted equivalent to approximately RMB$47,282,000 (2016: RMB$109,212,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

Pledged deposit with banks have been placed as security for bills payables issued by the Group. Bank guarantees are performance guarantees and made for varying periods ranging from several months to five years depending on the agreement of the contract, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Bank balances carry average interest rate of 0.01% (2016: 0.01%) per annum.

13. TRADE AND BILLS PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**360,092**	388,045
Bills payables	**59,617**	74,308
	419,709	462,353

The bills payables were secured by the pledge of the Group's time deposits of RMB18,736,000 (2016: RMB15,440,000) (note 12) and the Group's bills receivables of RMB50,548,000 (2016: RMB68,034,000) as at 31 December 2017 (note 10).

An aging analysis of the trade and bills payables, based on the invoice date, is as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 1 year	**301,933**	358,031
1 to 2 years	**50,760**	21,355
2 to 3 years	**2,508**	6,643
Over 3 years	**4,891**	2,016
	360,092	388,045

Trade payables are non-interest-bearing and have an average credit term of six months.

14. OTHER PAYABLES AND ACCRUALS

	2017	2016
	RMB'000	*RMB'000*
Other payables	**108,012**	108,028
Due to the holding company	**–**	1,204
Due to the related companies	**1,367**	14,620
	109,379	123,852

15. DEFERRED TAX

Deferred tax assets

	Impairment of other receivables	**Impairment of trade receivables**	**Accruals**	**Tax loss**	**Impairment of property, plant and equipment**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	252	6,956	15,588	5,924	–	28,720
Deferred tax credited to profit or loss during the year	171	6,820	1,122	(649)	–	7,464
At 31 December 2016 and 1 January 2017	423	13,776	16,710	5,275	–	36,184
Deferred tax credited/(charged) to profit or loss during the year	116	5,950	9,034	(3,370)	1,422	13,152
At 31 December 2017	539	19,726	25,744	1,905	1,422	49,336

16. SHARE CAPITAL

Shares

	2017	2016
	RMB'000	*RMB'000*
Issued and fully paid:		
135,000,000 (2016: 135,000,000) ordinary shares	**135,000**	135,000

No changes in the Company's share capital for this year.

17. RESERVES

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity of the financial statements.

Statutory surplus reserve

Pursuant to the PRC Company Law and the respective entities' articles of association, the Company and its subsidiaries established in the PRC shall appropriate 10% of their annual statutory net profit (determined in accordance with the PRC accounting principles and regulations and after offsetting any prior years' losses) to the statutory surplus reserve until such reserve fund reaches 50% of the share capital of these entities. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, except for offsetting prior years' losses, such reserve must be maintained at a minimum of 25% of the share capital after usage.

Safety production reserve

Pursuant to the regulation of "Administrative Measures for the Withdrawal and Use of Expenses for Safety Production of Enterprises" in the PRC relating to the construction industry, a subsidiary of the Group, Tianjie Installation Engineering, is required to transfer an amount to the reserve account as safety production reserve. The amount is calculated based on the revenue of construction each year and at the applicable rate of 2%. The safety production reserve will be used for modification and maintenance of safety equipment in accordance with the rules of the Company Law of the PRC and is not available for distribution to shareholders.

DIVIDENDS

The Board does not recommend the payment of final dividend for the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

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 has leveraging years of industry experience and continual innovation in industrial technologies.

During the Year, the Group generated its revenue primarily from (i) project construction; (ii) sales of goods; and (iii) rendering of services.

Project construction represented 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. During the Year, the Group mainly offered three types of precipitators: electrostatic precipitators, bag filter precipitators and electrostatic-bag composite precipitators.

The Group's sales of goods represented sales of materials, including raw materials, spare parts and components and scrap materials to related parties or independent third parties.

The Group's rendering of services represented its technology consultancy services to its customers on a stand-alone basis, which includes repair and replacement, and on-site engineering and maintenance services to those projects which were not constructed by the Group.

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

Business Review

The PRC is currently the second largest economy in the world. Up to now, coal consumption is still in a dominant position in the energy consumption composition of the PRC. Under such circumstances, the most severe atmospheric pollution problem in the PRC is coal-burning pollution, which mainly consists of pollutants such as dust, smoke dust, sulfur dioxide and nitrogen oxides. Since the 21st century, the emission volume of air pollutants, such as smoke dust (dust) and sulfur dioxide, has generally declined. This is mainly due to the fact that the PRC continues to strengthen its effort in environmental protection by strictly control the emission of air pollutants in recent years.

Efforts on the environmental protection inspection were enhanced. A stringent accountability system was rolled out with the aim to achieve the governance effect. In 2016, the State Council established a leading group, under which a central environmental protection inspection team has been formed and has inspected 16 provinces (autonomous regions and municipalities) in 2 stages. The rectification efforts are strong and in a wide range. On 14 February 2017, the Ministry of Environmental Protection of the PRC further carried out a special inspection regarding the air quality for the first quarter of 2017, efforts on supervision and its efficiency were significantly enhanced. Meanwhile, it is also expressly stated in the 2017 Report on the Work of the Government of the PRC that the urgency and importance of atmospheric control is of prime importance. With increasingly stringent environmental protection inspection, the environmental protection equipment which does not meet the requirements must be upgraded and modified immediately, which in turn will give rise to a certain demand for precipitators.

The Group believes that leveraging on its track record and advanced technologies together with its stable workplaces and staff, its ability to secure new projects will be improved. Moreover, the Group has completed various precipitators-related works in the metallurgy industry in 2017. This laid a solid foundation for the Group to secure orders in the metallurgy industry.

For the Year, the revenue and the profit and total comprehensive income of the Group amounted to approximately RMB792.2 million and RMB84.7 million respectively. During the Year, the Group's gross profit amounted to approximately RMB199.1 million, representing a decrease of 14.9% as compared with approximately RMB234.0 million for the same period of the year 2016; while the gross margin increased by 0.6% from the previous year to 25.1%. This decrease in the revenue and the profit and total comprehensive income for the year of the Group was primarily due to that (1) G20 Summit was held in the PRC in 2016, many projects were completed earlier before the summit; and (2) In 2017, the completion dates of certain large-scale projects are delayed to 2018 because of the customers.

For the Year, the value of the Group's new contracts (which represents the aggregate value of the contracts it entered into during a specified period) was approximately RMB1,379 million. As at 31 December 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) was approximately RMB2,454.5 million.

The Group's profit before tax for the Year decreased to approximately RMB114.5 million and profits attributable to owners of the parent company of the Company decreased to approximately RMB84.7 million, representing a year-on-year decrease of 16.0% and 18.2% respectively. The aforesaid downturn is mainly due to the decrease in the revenue of 17.2% to approximately RMB792.2 million for the Year.

At the time of raising the amount of product sales, the Group spent great effort to enhance cost management to make its products and solutions more cost competitive. The atmospheric pollution control solutions offered by the Group mainly comprise the atmospheric pollution control devices designed and manufactured on its own. The Group possesses the qualifications and expertise in manufacture and supply of the key atmospheric pollution control system of the projects it undertakes 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.

As of 31 December 2017, the Group had 36 registered patents (including 2 invention patents and 34 utility model patents) in the PRC. Based on the strong design and engineering capabilities, the Group primarily provides comprehensive atmospheric pollution control solutions to its customers. The Group 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 which provides electrostatic precipitators for single generator unit with capacity of 1000MW or above.

As at 31 December 2017, the Group maintained a total of 605 full-time employees (2016: 640). The remuneration payable to the Group's employees includes basic wages, bonuses and other staff benefit. The Group conducts periodic performance reviews for the employees and determine their remuneration based on factors including qualifications, contributions, years of experience and performance.

Financial Review

Revenue

The revenue of the Group amounted to approximately RMB792.2 million for the Year representing a decrease of 17.2% from approximately RMB956.4 million for the year ended 31 December 2016. The decrease was mainly due to the delay of the completion dates of certain large-scale projects to 2018.

The following table sets forth a breakdown of the Group's revenue by segment and each item as a percentage of revenue for the respective years indicated:

	Year ended 31 December			
	2017		2016	
	RMB'000	%	*RMB'000*	%
			(restated)	
Revenue				
Construction of projects *(note 1)*	**778,757**	**97%**	952,897	98%
Sales of goods	**12,943**	**2%**	3,529	1%
Rendering of services	**452**	**1%**	6	1%
Total	**792,152**	**100%**	956,432	100%

(note 1) Referring to note 2.2 to financial statements, revenue from construction of projects was previously recognised using the percentage of completion method. Under HKFRS 15, early adopted by the Group, such contracts do not meet the conditions of recognising the revenue over time. Revenue of such projects is now recognised at a point in time when control of the products is transferred to the customers. Hence, the revenue of 2016 is retrospectively restated.

Revenue generated from construction of the Group's projects amounted to over 97% of its total revenue. Depending on the specifications and requirements of its customers, the Group may provide an integrated set of atmospheric pollution control devices comprising precipitators, desulfurisation system and/or denitrification system, or only provide one type of the said atmospheric pollution control devices on a stand-alone basis towards new installation projects or upgrading or modification projects. A majority of the Group's construction contracts are related to the manufacturing, installation and sales of electrostatic precipitators.

The following table sets forth a further revenue breakdown of construction contracts by types of atmospheric pollution control solutions for the respective years indicated:

	Year ended 31 December			
	2017		2016	
	RMB'000	*%*	*RMB'000*	*%*
Construction contracts				
Ash removal and transfers				
– Electrostatic precipitator	**542,574**	**70**	663,857	70
– Electrostatic-bag composite precipitator	**88,836**	**11**	108,717	11
– Bag filter precipitator	**44,376**	**6**	54,307	6
– Others (e.g. Pneumatic ash conveying system)	**20,187**	**3**	24,705	2
SO_2 and NOx emission reduction (desulfurisation and denitrification devices)	**82,784**	**10**	101,311	11
	778,757	**100**	952,897	100

The Group's revenue for the Year was mainly generated from ash transfers construction contracts relating to electrostatic precipitator and electrostatic-bag composite precipitator. As a result, the revenue derived from projects relating to electrostatic precipitator and electrostatic-bag composite precipitator were decreased from approximately RMB663.9 million and approximately RMB108.7 million for the year ended 31 December 2016 to approximately RMB542.6 million and approximately RMB88.8 million for the Year.

With the experience in delivery of new installation projects, the Group also provided large scale upgrading and modification projects for power plants and other industries. The following table sets forth a revenue breakdown of construction contracts by types of new installation project as well as upgrading modification project for the respective years indicated:

	Year ended 31 December			
	2017		2016	
	RMB'000	*%*	*RMB'000*	*%*
Revenue				
Newly installed	**604,296**	**78**	876,209	92
Upgrading/modification	**174,461**	**22**	76,688	8
	778,757	**100**	952,897	100

Cost of sales

The Group's costs incurred in project construction principally comprise material costs, staff costs, depreciation and overhead costs. The Group's major raw materials used in the manufacturing process of ash removal and transfer devices and desulfurisation and denitrification devices are steel, electrical instruments, filter bags and others.

The cost of sales of the Group amounted to approximately RMB593.1 million for the year representing a decrease of 18.0% from approximately RMB722.4 million for the year ended 31 December 2016.

Gross profit and gross margin

The following table sets forth the breakdown of gross profit and gross margin of the Group (stated as a percentage of revenue) for the respective years indicated:

	Year ended 31 December	
	2017	2016
Gross profit *(RMB'000)*	**199,102**	234,033
Gross margin *(%)*	**25.1%**	24.5%

The Group's gross profit of the Year amounted to approximately RMB199.1 million, representing a decrease of approximately RMB34.9 million or 14.9% as compared with approximately RMB234.0 million of the previous year. The gross margin of the Group increased to 25.1% for the year ended 31 December 2017. The increase was driven by (i) further enhancement of the bargaining power of the Group over its projects due to the significant increase in market recognition and competitiveness after the listing of the Group on the Main Board of the Stock Exchange; (ii) the enhancement of the standard of environmental protection requirements in the PRC and accordingly governmental support on the construction of environmental protection facilities which improved the profitability of the Group; (iii) the Group's capability of undertaking more technically demanding projects and larger projects owing to its unremitting efforts in technological research and development.

Other income and gains

Other income and gains of the Group during the Year surged to approximately RMB14.1 million, representing a dramatic increase of 6.2% from that of the previous year. Such surge is mainly attributable to the following:

(i) The bank interest income in 2017 increased by approximately RMB2.7 million from 2016 to approximately RMB4.5 million.

(ii) There is no foreign exchange gain for the year ended 31 December 2017.

(iii) Compared with 2016, the income from Government grants in 2017 increased by approximately RMB2.9 million, mainly due to the fact that the Company obtained the Government's assistance in upgrading backbone enterprise reward of approximately RMB7.5 million.

Selling and distribution expenses

The Group's selling and distribution expenses of the Year amounted to approximately RMB24.7 million, representing an increase of approximately RMB1.7 million as compared with approximately RMB23.0 million of the previous year.

(i) The travel expenses and business hospitality expenses in 2017 increased by approximately RMB1.5 million, or approximately 27.3%, to RMB7.0 million as compared with approximately RMB5.5 million of the previous year.

(ii) The bid services expenses in 2017 was approximately RMB2.7 million. Compared with 2016, the amount for the Year decreased by approximately RMB1.1 million, or 28.9%, from approximately RMB3.8 million.

Administrative expenses

The administrative expenses of the Group for the Year amounted to approximately RMB68.0 million, representing a decrease of 15.5% as compared with approximately RMB80.5 million of the previous year, mainly due to:

(i) the impairment losses in 2017 decreased by approximately RMB3.5 million from 2016 to approximately RMB23.8 million, mainly due to the impairment of trade receivables; and

(ii) the research and development expenses in 2017 decreased by approximately RMB16.7 million from 2016 to approximately RMB4.1 million, mainly due to the increase in the number of technicians employed by the Group and the related efforts in research and development during the Year.

Finance cost

The finance cost of the Year amounted to approximately RMB5.8 million, representing a decrease of 13.1% as compared with approximately RMB6.7 million of the previous year.

Income tax expense

The Group's income tax expense of the Year amounted to approximately RMB29.8 million, representing a decrease of 9.4% as compared with approximately RMB32.9 million of the previous year.

Trade and bills receivables

As at 31 December 2017, the trade and bills receivables of the Group were approximately RMB619.3 million, decreased by approximately RMB40.7 million as compared to that of the previous year, mainly due to (i) the acceleration in the launch of projects and settlement, as well as (ii) growth of revenue from continuing operations.

Inventories

As at 31 December 2017, the Group experienced a decrease of inventories by approximately RMB39.4 million to approximately RMB470.9 million when compared to the previous year. The inventories mainly consisted of steels, filter bags, electrical instruments and other components.

Liquidity and capital resources

Cash and cash equivalents

As at 31 December 2017, the cash and cash equivalents of the Group decreased by approximately RMB113.1 million to approximately RMB47.7 million when compared to the previous year, which was mainly due to:

(i) the net cash outflow of approximately RMB9.0 million used in financing activities, which mainly consists of the cash outflow of approximately RMB9.0 million on proceeds from bank borrowings and repayments of bank borrowings;

(ii) the net cash outflow of approximately RMB81.3 million used in investing activities of the Group in the year, which mainly consists of the cash outflow of approximately RMB53.4 million on purchase of plants and equipment to cater for the expansion of the Group's business scale and the growing sales; and

(iii) the net cash outflow of approximately RMB22.8 million generated from the operation of the Group in the Year.

Indebtedness

As of 31 December 2017, the Group incurred outstanding bank loans of approximately RMB110.0 million.

Net current assets

As at 31 December 2017, the net current assets of the Group (the difference between total current assets and current liabilities) increased by approximately 2.0% from approximately RMB483.9 million of the same period in 2016 to approximately RMB493.8 million for the Year.

Capital expenditure

Capital expenditures of the Group amounted to approximately RMB53.4 million, which were used mainly for the purchase of property, plant and equipment in the Year.

Exchange risk

The Group has transactional currency exposures. Such exposures arise from sales by operating units in currencies other than the functional currencies adopted by the units. Approximately 2.5% (2016: 2.6%) of its sales for the Year were denominated in currencies other than the functional currencies of the operating units making the sale. At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations. However, the Group's management will constantly monitor the economic situation and the foreign exchange risk profile of the Group, and will consider appropriate hedging measures in the future should the need arise.

Major acquisitions and disposals

The Group did not have any material acquisition or disposals during the Year.

Significant investments

The Group did not have any significant investments during the Year.

Contingent liabilities

The Group is neither currently involved in any material legal proceedings nor aware of any pending or potential material legal proceedings involving itself. If the Group were involved in such material legal proceedings, the Group would record any loss or contingent events when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

As at 31 December 2017, the Group did not have any material contingent liabilities or guarantees.

PROSPECTS

The Group will actively seek appropriate acquisition projects to expand its capabilities of research and development, manufacturing and sales, as well as to access new markets to complement existing business of the Group.

The Group believes that its established customer base in the PRC and its exposure to overseas markets could help it lay a solid foundation for future expansion in both domestic and overseas markets of the Group and place it in an ideal position to capture the growth in any of those markets. Looking forward, the Group will continue to enhance its research and development capabilities, develop new technologies and expand our product portfolio (such as ash conveyers), strengthen sales and capture the growing opportunities in the atmospheric pollution control solution industry in the PRC, enhance the Group's national and international brand recognition, as well as develop potential overseas markets to expand its international market share.

MATTERS RELATING TO THE FINANCIAL REPORT

Approval of financial statements

The audited financial statements of the Group for the Year were approved by the Board on 23 March 2018.

Accounting policies, accounting estimates and other auditing methods

Except for the note 2.2 to the financial statements, there were no changes in accounting policies and other auditing methods of the Group during the Year.

Material accounting error correction

There was no correction to material accounting errors for the Group during the Year.

Change in the scope of consolidation

There was no change in the scope of consolidation for the financial statements of the Group during the Year.

OTHER MATTERS

Directors' and chief executive's interest and/or short position in the shares, underlying shares and debentures of the Company

As at 31 December 2017, the interests and short positions of each of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("**SFO**")), as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") were as follows:

1. Long position in respect of domestic shares of the Company ("**Domestic Shares**") as at 31 December 2017:

Name of Director	Capacity/ Nature of interest	Number of Domestic Shares	Approximate % of total issued Domestic Shares	Approximate % of Company's share capital
Mr. Bian Yu *(Note 1)*	Beneficial owner	13,671,000	13.67	10.13
	Interest in a controlled corporation *(Note 2)*	46,169,100	46.17	34.20
Mr. Bian Jianguang *(Note 1)*	Beneficial owner	6,843,000	6.84	5.07
	Interest in a controlled corporation *(Note 2)*	46,169,100	46.17	34.20
Mr. Bian Weican	Beneficial owner	1,851,000	1.85	1.37
Ms. Bian Shu *(Note 1)*	Beneficial owner	3,933,000	3.93	2.91
	Interest in a controlled corporation *(Note 2)*	46,169,100	46.17	34.20
Mr. Chen Jiancheng *(Note 1)*	Beneficial owner	1,851,000	1.85	1.37
Mr. Zhang Yuanyuan *(Note 3)*	Family interest of spouse	50,102,100	50.10	37.11

Notes:

1. The Company is held as to approximately 34.20% by TGL, approximately 10.13% by Mr. Bian Yu, approximately 5.07% by Mr. Bian Jianguang, approximately 1.37% by Mr. Bian Weican, approximately 2.91% by Ms. Bian Shu and approximately 1.37% by Mr. Chen Jiancheng. TGL is held as to approximately 64.08% by Mr. Bian Yu, approximately 22.81% by Mr. Bian Jianguang and approximately 13.11% by Ms. Bian Shu.

2. The disclosed interest represents the interest in the Company held by TGL which is in turn approximately 64.08% owned by Mr. Bian Yu, approximately 22.81% owned by Mr. Bian Jianguang and approximately 13.11% owned by Ms. Bian Shu. Therefore, Mr. Bian Yu, Mr. Bian Jianguang and Ms. Bian Shu are deemed to be interested in TGL's interest in the Company by virtue of the SFO. The indirect interests in the Company's share capital owned by Mr. Bian Yu, Mr. Bian Jianguang and Ms. Bian Shu via their respective interests in TGL are approximately 21.92%, 7.80% and 4.48% respectively.

3. Mr. Zhang Yuanyuan, the spouse of Ms. Bian Shu, is deemed to be interested in Ms. Bian Shu's interest in the Company by virtue of the SFO.

Substantial shareholders' interests and/or short position in the shares and underlying shares of the Company

In respect of the register of substantial shareholders (not being a director or chief executive of the Company) required to be kept under section 336 of Part XV of the SFO shows that as at 31 December 2017, the Company had been notified of the following substantial shareholders' interests and short positions. These interests are in addition to those disclosed above in respect of the directors and chief executive of the Company.

1. Long position in respect of Domestic Shares as at 31 December 2017:

Name	Capacity/ Nature of interest	Number of Domestic Shares	Approximate % of total issued Domestic Shares	Approximate % of Company's share capital
TGL *(Note 1)*	Beneficial owner	46,169,100	46.17	34.20
Ms. Bao Guo *(Note 2)*	Family interest of spouse	59,840,100	59.84	44.33
Ms. Xu You *(Note 3)*	Family interest of spouse	53,012,100	53.01	39.27
寧波梅山保税港區道博宏川股權投資合夥企業（有限合夥）	Beneficial owner	5,727,200	5.73	4.24
杭州九益投資合夥企業（有限合夥）	Beneficial owner	5,318,200	5.32	3.94

Notes:

1. TGL is directly interested in approximately 34.20% in the Company.

2. Ms. Bao Guo, the spouse of Mr. Bian Yu, is deemed to be interested in Mr. Bian Yu's interests in the Company by virtue of the SFO.

3. Ms. Xu You, the spouse of Mr. Bian Jianguang, is deemed to be interested in Mr. Bian Jianguang's interests in the Company by virtue of the SFO.

2. Long position in respect of H Shares of the Company ("**H Shares**") as at 31 December 2017:

Name	Capacity/ Nature of interest	Number of H Shares	Approximate % of total issued H Shares	Approximate % of Company's share capital
Shou Erjun	Beneficial owner	10,000,000	28.57	7.41
Hong Kong Joint Financial Investment Ltd	Beneficial owner	5,297,000	15.13	3.92
Zhao Kaiyuan *(Note 4)*	Interest in a controlled corporation	5,297,000	15.13	3.92

Notes:

4. Mr. Zhao Kaiyuan, the controlling shareholder of Hong Kong Joint Financial Investment Ltd, is deemed to be interested in Hong Kong Joint Financial Investment Ltd's interests in the Company by virtue of the SFO.

Purchase, sale or redemption of listed securities

From the date of Listing to 31 December 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Model Code for Directors' Securities Transactions

The Group adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" under Appendix 10 to the Listing Rules ("**Model Code**") as the code of conduct on securities transactions entered into by the directors and supervisors of the Company, in order to govern such transactions. Having made specific written enquiries, all directors and supervisors of the Company confirmed their compliance with the provisions under the Model Code throughout the Year.

Corporate Governance Code

The Group is committed to maintaining high standards of corporate governance to ensure managerial optimisation and to safeguard the interests of all shareholders of the Company. The Group has always been emphasising on transparency and accountability to the shareholders. The Board believes that a high standard of corporate governance could maximise the benefits for the shareholders. Throughout the Year, the Group complied with all principles and code provisions as well as adopted the recommended best practices set out in the "Corporate Governance Code" under Appendix 14 to the Listing Rules.

Audit Committee

The Group's audit committee ("**Audit Committee**") has reviewed with the accounting principles and practices adopted by the Group, and discussed with the management the internal control and financial reporting matters. The Audit Committee also reviewed and confirmed the audited consolidated financial statements of the Group for the Year. The relevant financial information are prepared under the Hong Kong Financial Reporting Standards, in respect of which Zhonghui Anda CPA Limited issued an auditors' report with standard unqualified opinion.

Events of material impact

From the end of the Year to the date of this announcement, no important events had been occurred in a way of affecting the Company and any of its subsidiaries.

ANNUAL GENERAL MEETING

The registration of the transfer of shares of the Company will be suspended from 1 May 2018 to 31 May 2018 (both days inclusive) in order to ascertain the shareholders' entitlement to the attendance in the annual general meeting (the "**AGM**"). All shareholders who wish to attend the AGM must deliver their properly completed H Shares transfer forms accompanied by the relevant share certificates to the Registrar of H Shares in Hong Kong, Tricor Investor Services Limited (the address of which is Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong) no later than 4:30 p.m. on 30 April 2018, for registration.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) as well as the website of the Company (http://www.tengy.com). The Company's annual report for the Year will be dispatched to the Company's shareholders and published on the aforementioned websites in due course.

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

Zhuji City, Zhejiang Province, the PRC
23 March 2018

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