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

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

(Stock Code: 1527)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

SUMMARY

- The revenue of Zhejiang Tengy Environmental Technology Co., Ltd (the "**Company**") and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2018 (the "**Year**") was approximately RMB858.8 million, representing an increase of approximately 8.4% when compared with that of the corresponding period of last year.

- The Group's profit attributable to owners of the Company for the Year was approximately RMB31.2 million, representing a decrease of approximately 62.5% when compared with that of the corresponding period of last year.

- The board (the "**Board**") of directors (the "**Directors**" and each a "**Director**") of the Company does not recommend the payment of any final dividend for the Year.

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018 (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 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	*4*	**858,817**	792,152
Cost of sales		**(717,577)**	(593,050)
Gross profit		**141,240**	199,102
Other income	*5*	**3,726**	14,109
Selling and distribution expenses		**(20,690)**	(24,707)
Administrative expenses		**(71,580)**	(67,969)
Other expenses		**(10)**	(231)
Finance costs	*6*	**(6,278)**	(5,821)
PROFIT BEFORE TAX		**46,408**	114,483
Income tax	*7*	**(15,172)**	(31,319)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**31,236**	83,164
Attributable to:			
Owners of the Company		**31,236**	83,164
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted *(RMB per share)*	*8*	**0.23**	0.62

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	At 31 December 2018 RMB'000	At 31 December 2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**81,629**	86,906
Prepaid land lease payments		**43,020**	45,001
Intangible assets		**193**	389
Deferred tax assets	*15*	**33,887**	25,479
Deposit for intangible asset		**1,292**	–
Pledged deposits	*12*	**1,871**	3,577
Total non-current assets		**161,892**	161,352
CURRENT ASSETS			
Inventories	*9*	**324,280**	470,939
Trade and bills receivables	*10*	**653,581**	619,345
Contract assets and contract costs		**261,028**	193,201
Prepayments, deposits and other receivables	*11*	**45,771**	44,544
Prepaid land lease payments		**1,981**	1,981
Tax receivables		**–**	14,323
Pledged deposits	*12*	**39,323**	86,169
Cash and cash equivalents	*12*	**16,432**	47,706
Total current assets		**1,342,396**	1,478,208

	Notes	At 31 December 2018 RMB'000	At 31 December 2017 RMB'000
CURRENT LIABILITIES			
Trade and bills payables	*13*	**363,337**	419,709
Contract liabilities		**202,284**	310,482
Other payables and accruals	*14*	**108,185**	109,379
Bank loans		**109,000**	110,000
Tax payable		**256**	–
Total current liabilities		**783,062**	949,570
NET CURRENT ASSETS		**559,334**	528,638
TOTAL ASSETS LESS CURRENT LIABILITIES		**721,226**	689,990
Net assets		**721,226**	689,990
EQUITY			
Capital and reserves			
Share capital	*16*	**135,000**	135,000
Share premium		**239,064**	239,064
Reserves	*17*	**347,162**	315,926
Total equity		**721,226**	689,990

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company					
	Share capital *RMB'000*	**Share premium** *RMB'000*	**Statutory surplus reserve*** *RMB'000*	**Safety production reserve*** *RMB'000*	**Retained profits*** *RMB'000*	**Total** *RMB'000*
At 1 January 2017	135,000	239,064	27,614	5,408	199,740	606,826
Total comprehensive income for the year	–	–	–	–	83,164	83,164
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	274,554	689,990
At 1 January 2018	**135,000**	**239,064**	**35,366**	**6,006**	**274,554**	**689,990**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**31,236**	**31,236**
Appropriation to statutory surplus reserve	**–**	**–**	**3,172**	**–**	**(3,172)**	**–**
Appropriation to safety production reserve	**–**	**–**	**–**	**855**	**(855)**	**–**
At 31 December 2018	**135,000**	**239,064**	**38,538**	**6,861**	**301,763**	**721,226**

* *These reserve accounts comprise the consolidated reserves of RMB347,162,000 (2017: RMB315,926,000) 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.

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 principal subsidiaries as at 31 December 2018 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

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 2018. 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.

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 sale of environmental protection equipment for installation and sale of environmental pollution prevention equipment and electronic products; the invoiced value of materials 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

	2018	2017
	RMB'000	*RMB'000*
Mainland China	**850,788**	772,584
Other countries	**8,029**	19,568
	858,817	792,152

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

	2018	2017
	RMB'000	*RMB'000*
Customer A	**N/A***	99,459

* Customer did not contribute more than 10% of the total consolidated revenue of the Group for the Year.

4. REVENUE

The Group's revenue represents sales of environmental protection equipment for installation and sales of environmental pollution prevention equipment and electronic products; the invoiced value of materials sold and the value of services rendered during the Year.

	2018	2017
	RMB'000	*RMB'000*
Revenue		
Sales of environmental protection equipment	**848,815**	778,757
Sales of materials	**8,002**	12,943
Rendering of services	**2,000**	452
	858,817	792,152

Disaggregation of revenue from sales of environmental protection equipment:

	2018	2017
	RMB'000	*RMB'000*
Geographical markets		
Mainland China	**840,786**	759,189
Other countries	**8,029**	19,568
Total	**848,815**	778,757
Major products		
Electrostatic precipitator	**537,173**	542,574
Electrostatic-bag composite precipitator	**132,711**	88,836
Bag filter precipitator	**71,093**	44,376
SO2 and NOx emission reduction (desulfurisation and denitrification devices)	**84,496**	82,784
Others (e.g. Pneumatic ash conveying system)	**23,342**	20,187
Total	**848,815**	778,757
Timing of revenue recognition		
At a point in time		
– Sales of Environmental protection equipment	**848,815**	778,757
– Sale of materials	**8,002**	12,943
– Rendering of services	**2,000**	452
Total	**858,817**	792,152

Sales of Environmental protection equipment

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 materials

The Group sells the materials 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

	2018	2017
	RMB'000	*RMB'000*
Bank interest income	**1,197**	4,528
Government grants	**2,103**	8,699
Foreign exchange gain	**258**	–
Others	**168**	882
	3,726	14,109

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2018	2017
	RMB'000	*RMB'000*
Interest on bank loans	**6,278**	5,821

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:

	2018	2017
	RMB'000	*RMB'000*
PRC Enterprise Income Tax for the year	**23,580**	27,311
Deferred tax *(note 15)*	**(8,408)**	4,008
Income tax for the year	**15,172**	31,319

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:

	2018	2017
	RMB'000	*RMB'000*
Profit before tax	**46,408**	114,483
Tax at the statutory tax rate of 25%	**11,602**	28,621
Tax effect of non-deductible expenses	**3,570**	2,698
Income tax for the year	**15,172**	31,319

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 135,000,000 (2017: 135,000,000) in issue during the Year.

There were no potentially dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017.

The calculations of basic earnings per share are based on:

	2018	2017
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	**31,236**	83,164

	Number of shares	
	2018	2017
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

	2018	2017
	RMB'000	*RMB'000*
Raw materials	**31,209**	19,927
Work in progress	**13,704**	30,741
Finished goods	**279,367**	420,271
	324,280	470,939

10. TRADE AND BILLS RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**606,985**	535,658
Less: provision for loss allowance	**(109,496)**	(78,906)
	497,489	456,752
Bills receivable	**160,665**	162,593
Less: provision for loss allowance	**(4,573)**	–
	653,581	619,345

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. As at 31 December 2018, the Group's bills receivable of RMB41,590,000 (2017: RMB50,548,000) 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:

	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**123,562**	171,362
1 to 2 years	**259,387**	187,705
2 to 3 years	**96,158**	76,889
3 to 4 years	**18,382**	20,796
	497,489	456,752

Reconciliation of loss allowance for trade receivables:

	2018	2017
	RMB'000	*RMB'000*
At 1 January	**78,906**	55,108
Increase in loss allowance for the year	**30,590**	23,798
At 31 December	**109,496**	78,906

Reconciliation of loss allowance for bills receivables:

	2018	2017
	RMB'000	*RMB'000*
At 1 January 2018	**–**	–
Increase in loss allowance for the year	**4,573**	–
At 31 December 2018	**4,573**	–

The Group applies the simplified approach under HKFRS 9 "Financial Instrument" to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the aging. The expected credit losses also incorporate forward looking information.

	Current	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**Total**
At 31 December 2018					
Weighted average expected loss rate	**0%**	**6%**	**20%**	**79%**	**18%**
Receivable amount *(RMB'000)*	**123,562**	**276,922**	**120,197**	**86,304**	**606,985**
Loss allowance *(RMB'000)*	**–**	**17,535**	**24,039**	**67,922**	**109,496**
At 31 December 2017					
Weighted average expected loss rate	0%	7%	20%	69%	15%
Receivable amount *(RMB'000)*	171,362	201,266	96,111	66,919	535,658
Loss allowance *(RMB'000)*	–	13,561	19,222	46,123	78,906

At 31 December 2018, 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 2018 was RMB162,601,000 (2017: RMB116,096,000). 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 (the "**Derecognised Notes**") with an amount of RMB69,411,000 as at 31 December 2018 (2017: RMB52,983,000). 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 RMB62,973,000 as at 31 December 2018 (2017: RMB63,113,000), because the Directors believe that the Group has retained 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 (2017: 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

	2018	2017
	RMB'000	*RMB'000*
Other receivables	**22,544**	26,654
Less: impairment losses	**(2,315)**	(2,156)
	20,229	24,498
Prepayments	**25,380**	17,607
Due from the holding company	**162**	2,439
	45,771	44,544

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

	2018	2017
	RMB'000	*RMB'000*
At beginning of year	**2,156**	1,691
Impairment losses recognised	**159**	465
At end of year	**2,315**	2,156

12. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

At the end of the Year, the bank and cash balances of Group denominated in RMB amounted equivalent to approximately RMB16,161,000 (2017: RMB47,282,000). 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.

13. TRADE AND BILLS PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**338,831**	360,092
Bills payables	**24,506**	59,617
	363,337	419,709

The bills payables were secured by the pledge of bank deposits of RMB27,130,000 (2017: RMB18,736,000) (note 12) and the Group's bills receivables of RMB41,590,000 (2017: RMB50,548,000) as at 31 December 2018 (note 10).

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

	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**242,905**	301,933
1 to 2 years	**75,466**	50,760
2 to 3 years	**15,729**	2,508
Over 3 years	**4,731**	4,891
	338,831	360,092

14. OTHER PAYABLES AND ACCRUALS

	2018	2017
	RMB'000	*RMB'000*
Other payables	**102,151**	108,012
Due to the related companies	**6,034**	1,367
	108,185	109,379

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 2017	423	13,776	10,013	5,275	–	29,487
Deferred tax credited/(charged) to profit or loss during the year	116	5,950	(8,126)	(3,370)	1,422	(4,008)
At 31 December 2017 and 1 January 2018	539	19,726	1,887	1,905	1,422	25,479
Deferred tax credited/(charged) to profit or loss during the year	40	8,791	(335)	(88)	–	8,408
At 31 December 2018	579	28,517	1,552	1,817	1,422	33,887

16. SHARE CAPITAL

Shares

	2018	2017
	RMB'000	*RMB'000*
Issued and fully paid:		
135,000,000 (2017: 135,000,000) ordinary shares	**135,000**	135,000

No changes in the Company's share capital for the 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 years of industry experience and record of continual innovation in industrial technologies.

During the Year, the Group generated its revenue primarily from (i) sales of environmental protection equipment; (ii) sales of materials; and (iii) rendering of services.

The Group's sales of environmental protection equipment 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 services provided 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 materials 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 provided to its customers on a stand-alone basis, which include repair and replacement, and on-site engineering and maintenance services for 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. Currently 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 is mainly caused by 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 controlling the emission of air pollutants in recent years.

The year 2018 marks the opening year for "Defending the blue sky" by the Party Central Committee, the State Council, the Provincial Party Committee and the Provincial Government as well as the Municipal Party Committee and Municipal Government. Guided by the decisions and arrangements of the Party Central Committee and the Provincial Party Committee and the Provincial Government as well as the Municipal Party Committee and Municipal Government regarding "Defending the blue sky", all departments at all levels of the city are obliged to exercise due diligence in discharging their duties, to co-ordinate with other departments and to implement various measures strictly.

In the "Opinions on Strengthening the Protection of the Ecological Environment in All Aspects and Firmly Winning the Battle of the Preventing and Controlling Environmental Pollution" promulgated in June 2018, the guiding ideology, mission and objective of strengthening the protection of the ecological environment in all aspects, and firmly winning the battle of the preventing and controlling environmental pollution have been deployed and requested uniformly. The overall targets and requirements indicate that the quality of ecological environment on the whole will be improved by 2020, with a significant reduction in emissions of key pollutants.

The State Council issued the Notice regarding the "Three-Year Action Plan for Winning the Battle for a Blue Sky" (Guo Fa 2018 No.22) on 27 June 2018, so as to improve the air quality conditions and make every effort to defend blue sky. The action plan aims to reduce the total emissions of major air pollutants and greenhouse gas emissions synergistically, to further reduce the PM2.5 density, lower the number of days of heavy pollution and improve the air quality conditions significantly through three years' unremitting efforts. It is proposed to reduce the PM2.5 concentrations in cities at prefectural level or above, which failed to meet the national standards, by over 18% and the total emissions of sulphur dioxide and nitrogen oxides by over 15% respectively by 2020 as compared with 2015.

With increasingly stringent environmental protection measures, the environmental protection system and equipment which does not meet the requirements and standard must be upgraded and modified immediately, which in turn has given rise to a higher demand for precipitators.

The Group believes that by leveraging on its track record and advanced technologies together with its stable workforce, its ability to secure new projects will be improved. Besides, the Group continues to expand its business and has completed various precipitators-related works in the metallurgy industry in 2018. This laid a solid foundation for the Group to secure orders in the metallurgy industry.

For the Year, the revenue and total comprehensive income of the Group amounted to approximately RMB858.8 million and approximately RMB31.2 million respectively. During the Year, the Group's gross profit amounted to approximately RMB141.2 million, representing a decrease of approximately 29.1% as compared with approximately RMB199.1 million of the corresponding period of last year; and the Group's gross margin decreased by approximately 8.7% from last year to approximately 16.4%. This decrease in the gross profit and gross margin for the Year of the Group was mainly attributable to significant increase in the price of steel, one of the major raw materials of the products produced by the Company, during the Year.

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 RMB981 million. As at 31 December 2018, 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 RMB1,908 million.

The Group's profit before tax for the Year decreased to approximately RMB46.4 million and profits attributable to owners of the Company decreased to approximately RMB31.2 million, representing a year-on-year decrease of approximately 59.5% and approximately 62.4% respectively. The aforesaid downturn is mainly due to the decrease in the gross profit and government grants to approximately RMB141.2 million and approximately RMB2.1 million for the Year respectively.

At the time of raising the amount of product sales, the Group spent great effort in enhancing 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 its 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 in estimating costs, smoothening project operations and improving operating efficiency.

As at 31 December 2018, the Group had 37 registered patents (including 3 invention patents and 34 utility model patents) in the PRC. Based on its 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 1,000MW. The Group is one of the few manufacturers in the PRC which provides electrostatic precipitators for single generator unit with capacity of 1,000MW or above.

As at 31 December 2018, the Group maintained a total of 617 full-time employees (2017: 605). 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 RMB858.8 million for the Year representing an increase of approximately 8.4% from approximately RMB792.2 million of the corresponding period of last year. The increase was mainly due to the completion of certain large-scale projects during the Year.

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			
	2018		2017	
	RMB'000	*%*	*RMB'000*	*%*
Revenue				
Sales of environmental protection equipment	**848,815**	**98**	778,757	97
Sales of materials	**8,002**	**1**	12,943	2
Rendering of services	**2,000**	**1**	452	1
Total	**858,817**	**100**	792,152	100

Revenue generated from sales of environmental protection equipment of the Group amounted to over 98% 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 sales of environmental protection equipment are related to the manufacturing, installation and sales of electrostatic precipitators.

The following table sets forth a further revenue breakdown of sales of environmental protection equipment by types of atmospheric pollution control solutions for the respective years indicated:

	Year ended 31 December			
	2018		2017	
	RMB'000	*%*	*RMB'000*	*%*
Environmental protection equipment				
Ash removal and transfers				
– Electrostatic precipitator	**537,173**	**63**	542,574	70
– Electronstatic-bag composite precipitator	**132,711**	**16**	88,836	11
– Bag filter precipitator	**71,093**	**8**	44,376	6
– Others (e.g. Pneumatic ash conveying system)	**23,342**	**3**	20,187	3
– SO_2 and NOx emission reduction (desulfurisation and denitrification devices)	**84,496**	**10**	82,784	10
	848,815	**100**	778,757	100

The Group's revenue for the Year was mainly generated from sales of electrostatic precipitator and electronstatic-bag composite precipitator. During the Year, as compared with the corresponding period of last year, the revenue derived from sales of electrostatic precipitator was decreased by approximately RMB5.4 million while the revenue derived from sales of electrostatic-bag composite precipitator and bag filter precipitator were increased by approximately RMB43.9 million and approximately RMB26.7 million respectively.

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 sales of environmental protection equipment by types of new installation project as well as upgrading/modification project for the respective years indicated:

	Year ended 31 December			
	2018		2017	
	RMB'000	*%*	*RMB'000*	*%*
Revenue				
Newly installed	**779,208**	**92**	604,296	78
Upgrading/modification	**69,607**	**8**	174,461	22
	848,815	**100**	778,757	100

Cost of sales

The Group's costs incurred in sales of environmental protection equipment 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 RMB717.6 million for the Year representing an increase of approximately 21.0% from approximately RMB593.1 million of the corresponding period of last year.

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	
	2018	2017
Gross profit *(RMB'000)*	**141,240**	199,102
Gross margin *(%)*	**16.4%**	25.1%

The Group's gross profit of the Year amounted to approximately RMB141.2 million, representing a decrease of approximately RMB57.9 million or 29.1% as compared with approximately RMB199.1 million of the corresponding period of last year. The gross margin of the Group decreased to approximately 16.4% for the Year. The decrease was attributable to significant increase in the price of steel, one of the major raw materials of the products produced by the Company, during the Year.

Other income and gains

Other income and gains of the Group during the Year decreased to approximately RMB3.7 million, representing a decrease of approximately 73.6% from approximately RMB14.1 million of the corresponding period of last year. Such decrease is mainly attributable to the following:

(i) The bank interest income in 2018 decreased by approximately RMB4.5 million from last year to approximately RMB1.2 million; and

(ii) Compared with last year, the income from Government grants in 2018 decreased by approximately RMB6.6 million.

Selling and distribution expenses

The Group's selling and distribution expenses of the Year amounted to approximately RMB20.7 million, representing a decrease of approximately RMB4.0 million as compared with approximately RMB24.7 million of the corresponding period of last year.

(i) The travel expenses and business hospitality expenses in 2018 decreased by approximately RMB0.3 million, or approximately 4%, to approximately RMB6.7 million as compared with approximately RMB7.0 million of the corresponding of last year.

(ii) The bid services expenses in 2018 was approximately RMB1 million. Compared with the corresponding period of last year, the amount for the Year decreased by approximately RMB1.7 million, or 63%, from approximately RMB2.7 million.

Administrative expenses

The administrative expenses of the Group for the Year amounted to approximately RMB71.6 million, representing an increase of approximately 5.3% as compared with approximately RMB68.0 million of the corresponding period of last year, mainly due to:

(i) the impairment losses in 2018 increased by approximately RMB6.8 million from 2017 to approximately RMB30.6 million, mainly due to the impairment of trade receivables; and

(ii) the research and development expenses in 2018 decreased by approximately RMB3 million from 2017 to approximately RMB3 million, mainly due to the decrease 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 RMB6.3 million, representing an increase of 7.9% as compared with approximately RMB5.8 million of the corresponding period of last year.

Income tax expense

The Group's income tax expense of the Year amounted to approximately RMB15.2 million, representing a decrease of 51.6% as compared with approximately RMB31.3 million of the corresponding period of last year.

Trade and bills receivables

As at 31 December 2018, the trade and bills receivables of the Group were approximately RMB653.6 million, increased by approximately RMB34.3 million as compared to approximately RMB619.3 million of the corresponding period of last year, mainly due to (i) the acceleration in the launch of projects, as well as (ii) growth of revenue from continuing operations.

Inventories

As at 31 December 2018, the Group experienced a decrease of inventories by approximately RMB146.6 million to approximately RMB324.3 million when compared to approximately RMB470.9 million of the corresponding period of last 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 2018, the cash and cash equivalents of the Group decreased by approximately RMB31.3 million to approximately RMB16.4 million when compared to approximately RMB47.7 million of the corresponding period of last year, which was mainly due to:

(i) the net cash outflow of approximately RMB1.0 million used in financing activities, which mainly consists of the cash outflow of approximately RMB1.0 million on proceeds from bank borrowings and repayments of bank borrowings;

(ii) the net cash outflow of approximately RMB2.8 million used in investing activities of the Group in the Year, which mainly consists of the cash outflow of approximately RMB1.5 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 RMB27.8 million generated from the operation of the Group in the Year.

Indebtedness

As at 31 December 2018, the Group incurred outstanding bank loans of approximately RMB109 million.

Net current assets

As at 31 December 2018, the net current assets of the Group (the difference between total current assets and current liabilities) increased by approximately 5.8% from approximately RMB528.6 million of the corresponding period of last year to approximately RMB559.3 million for the Year.

Capital expenditure

No capital expenditures of the Group were used 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 0.9% (2017: 2.5%) 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 2018, 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 Company has now possessed a grade A environmental engineering design (air pollution control project) qualification certificate (甲級環境工程設計專項(大氣污染防治工程)資質證書) issued by the Ministry of Housing and Urban-Rural Development in the People's Republic of China (中華人民共和國住房和城鄉建設部), a grade A air pollution control engineering design service capability evaluation certificate (甲級大氣污染治理工程專項設計服務能力評價證書) and a grade A air pollution control main contractor service capability evaluation certificate (甲級大氣污染治理工程總承包服務能力評價證書) both issued by Zhejiang Environmental Protection Industry Association in the People's Republic of China, which allow the Company to tender for more projects in the future.

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 29 March 2019.

Accounting policies, accounting estimates and other auditing methods

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 2018, 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 of Hong Kong Limited ("**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 2018:

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	Beneficial owner	13,266,032	13.27	9.83
	Interest in a controlled corporation *(Note 1)*	46,169,147	46.17	34.20
Mr. Bian Jianguang	Beneficial owner	6,843,000	6.84	5.07
	Interest in a controlled corporation *(Note 1)*	46,169,147	46.17	34.20
Mr. Bian Weican	Beneficial owner	1,851,000	1.85	1.37
Ms. Bian Shu	Beneficial owner	3,933,000	3.93	2.91
	Interest in a controlled corporation *(Note 1)*	46,169,147	46.17	34.20
Mr. Chen Jiancheng	Beneficial owner	1,851,000	1.85	1.37
Mr. Zhang Yuanyuan *(Note 2)*	Family interest of spouse	50,102,147	50.10	37.11

Notes:

1. According to the disclosure of interest filings, these 46,169,147 domestic shares in the Company are beneficially owned 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. Pursuant to Part XV of the SFO, Mr. Bian Yu, Mr. Bian Jianguang and Ms. Bian Shu are deemed to be interested in TGL's interest in the Company.

2. 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 2018, 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 2018:

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	46,169,147	46.17	34.20
Ms. Bao Guo *(Note 2)*	Family interest of spouse	59,435,179	59.44	44.03
Ms. Xu You *(Note 3)*	Family interest of spouse	53,012,147	53.01	39.27
寧波梅山保稅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 2018:

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	6,000,000	17.14	4.44
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 of the shares of the Company in the Stock Exchange up to 31 December 2018, 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" ("**Model Code**") under Appendix 10 to the Listing Rules 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 Wednesday, 1 May 2019 to Friday, 31 May 2019 (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 Tuesday, 30 April 2019, 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 despatched to the Company's shareholders and published on the aforementioned websites in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the management of the Group and all the staff for their hard work and dedication, as well as the shareholders, investors and business associates for their continuing trust in and support to the Group throughout the Year.

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

Zhuji City, Zhejiang Province, the PRC
29 March 2019

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 Mr. ZHANG Bing, Mr. FUNG Kui Kei and Mr. Li Jiannan.