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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)

**AUDITED ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020**

SUMMARY

- The revenue of Zhejiang Tengy Environmental Technology Co., Ltd (the “**Company**”) and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2020 (the “**Year**”) was approximately RMB607.1 million, representing a decrease of approximately 16.5% 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 4.5 million, representing a decrease of approximately 86.9% 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.

AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

The Board is pleased to announce the audited consolidated results of the Group for the Year and the audited comparative figures of the corresponding period of 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	4	607,078	726,647
Cost of sales		<u>(496,124)</u>	<u>(601,333)</u>
Gross profit		110,954	125,314
Other income	5	11,445	11,333
Selling and distribution expenses		(14,017)	(20,922)
Administrative expenses		(102,688)	(63,455)
Other expenses		<u>(124)</u>	<u>(247)</u>
Profit from operations		5,570	52,023
Finance costs	6	(7,066)	(6,909)
Share of profits of an associate		<u>1,999</u>	<u>—</u>
PROFIT BEFORE TAX		503	45,114
Income tax credit/(expenses)	7	<u>3,986</u>	<u>(10,825)</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>4,489</u>	<u>34,289</u>
Attributable to:			
Owners of the Company		<u>4,489</u>	<u>34,289</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (<i>RMB per share</i>)	8	<u>0.03</u>	<u>0.25</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

		At 31 December 2020	At 31 December 2019
	Notes	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		72,320	77,495
Right-of-use assets		41,039	43,020
Intangible assets		1,046	65
Deferred tax assets	16	56,045	40,147
Deposit paid for intangible asset		–	1,292
Investment in an associate		75,499	–
Pledged deposits	13	6,615	4,255
Total non-current assets		252,564	166,274
CURRENT ASSETS			
Inventories	10	226,636	325,135
Trade and bills receivables	11	791,571	800,542
Contract assets and contract costs		72,889	200,005
Prepayments, deposits and other receivables	12	29,616	25,558
Investment at fair value through profit or loss	9	13,464	1,077
Pledged deposits	13	9,283	40,782
Cash and cash equivalents	13	104,548	39,307
Total current assets		1,248,007	1,432,406

		At 31 December 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
	<i>Notes</i>		
CURRENT LIABILITIES			
Trade and bills payables	14	265,819	366,417
Contract liabilities		247,049	233,103
Other payables and accruals	15	95,358	106,944
Bank loans		122,809	126,207
Tax payable		9,532	10,494
		<u> </u>	<u> </u>
Total current liabilities		740,567	843,165
		<u> </u>	<u> </u>
NET CURRENT ASSETS		507,440	589,241
		<u> </u>	<u> </u>
TOTAL ASSETS LESS CURRENT LIABILITIES		760,004	755,515
		<u> </u>	<u> </u>
Net assets		<u>760,004</u>	<u>755,515</u>
EQUITY			
Capital and reserves			
Share capital	17	135,000	135,000
Share premium		239,064	239,064
Reserves	18	385,940	381,451
		<u> </u>	<u> </u>
Total equity		<u>760,004</u>	<u>755,515</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	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 2019	135,000	239,064	38,538	6,861	301,763	721,226
Total comprehensive income for the year	–	–	–	–	34,289	34,289
Appropriation to statutory surplus reserve	–	–	3,815	–	(3,815)	–
Appropriation to safety production reserve	–	–	–	395	(395)	–
At 31 December 2019	<u>135,000</u>	<u>239,064</u>	<u>42,353</u>	<u>7,256</u>	<u>331,842</u>	<u>755,515</u>
At 1 January 2020	135,000	239,064	42,353	7,256	331,842	755,515
Total comprehensive income for the year	–	–	–	–	4,489	4,489
Appropriation to statutory surplus reserve	–	–	368	–	(368)	–
At 31 December 2020	<u>135,000</u>	<u>239,064</u>	<u>42,721</u>	<u>7,256</u>	<u>335,963</u>	<u>760,004</u>

* *These reserve accounts comprise the consolidated reserves of RMB385,940,000 (2019: RMB381,451,000) in the consolidated statements of financial position.*

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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 2020 are set out below:

Name	Registered/ paid-up capital	Percentage of equity attributable to the Company directly	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 HKFRSs

In the current year, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2020. HKFRSs comprise HKFRSs; 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 the 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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Mainland China	591,085	702,817
Other countries	15,993	23,830
	<u>607,078</u>	<u>726,647</u>

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Customer A	N/A	92,881
Customer B	N/A	72,975

* 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.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue		
Sales of environmental protection equipment	580,530	696,284
Sales of materials	25,491	10,596
Rendering of services	1,057	19,767
	<u>607,078</u>	<u>726,647</u>

Disaggregation of revenue from sales of environmental protection equipment:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Geographical markets		
Mainland China	564,537	672,454
Other countries	15,993	23,830
Total	<u>580,530</u>	<u>696,284</u>
Major products		
Electrostatic precipitator	271,097	458,886
Electrostatic-bag composite precipitator	53,077	78,916
Bag filter precipitator	52,038	101,844
SO ₂ and NO _x emission reduction (desulfurisation and denitrification devices)	165,554	53,157
Others (e.g. Pneumatic ash conveying system)	38,764	3,481
Total	<u>580,530</u>	<u>696,284</u>
Timing of revenue recognition		
At a point in time		
– Sales of Environmental protection equipment	580,530	696,284
– Sale of materials	25,491	10,596
– Rendering of services	1,057	19,767
Total	<u>607,078</u>	<u>726,647</u>

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Bank interest income	990	713
Government grants	9,663	7,796
Reversal of impairment loss on bills receivables	–	2,345
Gain on disposal investment at fair value through profit or loss	696	35
Foreign exchange gain	–	285
Others	96	159
	<u>11,445</u>	<u>11,333</u>

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest on bank loans	<u>7,066</u>	<u>6,909</u>

7. INCOME TAX (CREDIT)/EXPENSES

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 (credit)/expense of the Group is analysed as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
PRC Enterprise Income Tax for the year	11,912	17,085
Deferred tax (<i>note 16</i>)	<u>(15,898)</u>	<u>(6,260)</u>
Income tax (credit)/expenses for the year	<u><u>(3,986)</u></u>	<u><u>10,825</u></u>

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit before tax	<u><u>503</u></u>	<u><u>45,114</u></u>
Tax at the statutory tax rate of 25%	126	11,279
Additional deduction on research and development expenses	(3,213)	(605)
Tax effect of non-deductible expenses	518	737
Tax effect of non-taxable income	<u>(1,417)</u>	<u>(586)</u>
Income tax (credit)/expenses for the year	<u><u>(3,986)</u></u>	<u><u>10,825</u></u>

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 (2019: 135,000,000) in issue during the Year.

There were no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019.

The calculations of basic earnings per share are based on:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Earnings		
Profit attributable to ordinary equity holders of the Company		
used in the basic earnings per share calculation	<u>4,489</u>	<u>34,289</u>
	Number of shares	
	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the year		
used in the basic earnings per share calculation	<u>135,000,000</u>	<u>135,000,000</u>

9. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Ferrous metal future contract, at fair value – current assets	<u>13,464</u>	<u>1,077</u>

10. INVENTORIES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Raw materials	32,946	33,135
Work in progress	10,409	11,004
Finished goods	<u>183,281</u>	<u>280,996</u>
	<u>226,636</u>	<u>325,135</u>

11. TRADE AND BILLS RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	875,116	780,694
<i>Less: provision for loss allowance</i>	<u>(170,374)</u>	<u>(128,299)</u>
	704,742	652,395
Bills receivable	89,827	150,375
<i>Less: provision for loss allowance</i>	<u>(2,998)</u>	<u>(2,228)</u>
	<u>791,571</u>	<u>800,542</u>

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 2020, the Group's bills receivable of RMB22,800,000 (2019: RMB52,158,000) were pledged to secure the Group's bills payable (note 14).

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 1 year	214,407	361,537
1 to 2 years	236,572	136,516
2 to 3 years	164,659	136,092
3 to 4 years	89,104	18,250
	<u>704,742</u>	<u>652,395</u>

Reconciliation of loss allowance for trade receivables:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
At 1 January	128,299	109,496
Increase in loss allowance for the year	<u>42,075</u>	<u>18,803</u>
At 31 December	<u>170,374</u>	<u>128,299</u>

Reconciliation of loss allowance for bills receivables:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
At 1 January	2,228	4,573
Increase/(decrease) in loss allowance for the year	<u>770</u>	<u>(2,345)</u>
At 31 December	<u>2,998</u>	<u>2,228</u>

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 2020					
Weighted average expected loss rate	0%	12%	22%	51%	19%
Receivable amount (RMB'000)	214,407	267,994	211,933	180,782	875,116
Loss allowance (RMB'000)	–	31,422	47,274	91,678	170,374
At 31 December 2019					
Weighted average expected loss rate	0%	8%	23%	81%	16%
Receivable amount (RMB'000)	361,537	148,519	176,394	94,244	780,694
Loss allowance (RMB'000)	–	12,003	40,302	75,994	128,299

At 31 December 2020, 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 2020 was RMB206,065,000 (2019: RMB221,691,000). 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 RMB57,121,000 as at 31 December 2020 (2019: RMB38,729,000). 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 RMB147,450,000 as at 31 December 2020 (2019: RMB154,371,000), 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 (2019: 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.

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Other receivables	25,015	26,009
Less: impairment losses	<u>(3,981)</u>	<u>(2,718)</u>
	21,034	23,291
Prepayments	<u>8,582</u>	<u>2,267</u>
	<u>29,616</u>	<u>25,558</u>

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
At beginning of year	2,718	2,315
Impairment losses recognised	<u>1,263</u>	<u>403</u>
At end of year	<u>3,981</u>	<u>2,718</u>

13. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

At the end of the Year, the bank and cash balances of the Group denominated in RMB amounted to approximately RMB104,428,000 (2019: RMB39,150,000). 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.

14. TRADE AND BILLS PAYABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade payables	242,290	320,618
Bills payables	<u>23,529</u>	<u>45,799</u>
	<u>265,819</u>	<u>366,417</u>

The bills payables were secured by the pledge of bank deposits of RMB1,106,000 (2019: RMB27,121,000) (note 13) and the Group's bills receivables of RMB22,800,000 (2019: RMB52,158,000) as at 31 December 2020 (note 11).

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 1 year	185,468	243,468
1 to 2 years	30,898	48,433
2 to 3 years	9,650	16,738
Over 3 years	<u>16,274</u>	<u>11,979</u>
	<u>242,290</u>	<u>320,618</u>

15. OTHER PAYABLES AND ACCRUALS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Other payables	95,046	99,579
Due to the related companies	312	7,365
	<u>95,358</u>	<u>106,944</u>

16. DEFERRED TAX

Deferred tax assets

	Change in investment at fair value through profit or loss <i>RMB'000</i>	Impairment of other receivables <i>RMB'000</i>	Impairment of trade and bills receivables <i>RMB'000</i>	Accruals <i>RMB'000</i>	Tax loss <i>RMB'000</i>	Impairment of property, plant and equipment <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2019	–	579	28,517	1,552	1,817	1,422	33,887
Deferred tax credited to profit or loss during the year	19	101	5,319	52	769	–	6,260
At 31 December 2019 and 1 January 2020	19	680	33,836	1,604	2,586	1,422	40,147
Deferred tax credited/(charged) to profit or loss during the year	692	316	11,636	(61)	3,315	–	15,898
At 31 December 2020	<u>711</u>	<u>996</u>	<u>45,472</u>	<u>1,543</u>	<u>5,901</u>	<u>1,422</u>	<u>56,045</u>

17. SHARE CAPITAL

Shares

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Issued and fully paid:		
135,000,000 (2019: 135,000,000) ordinary shares	<u>135,000</u>	<u>135,000</u>

No changes in the Company's share capital for the Year.

18. 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

As one of the largest economies in the world, China has introduced numerous environmental protection policies. The introduction of China's "14th Five-Year" Plan for Ecological and Environmental Protection" (《國家「十四五」生態環境保護計劃》) and the Summary of the "14th Five-Year" Plan for Provincial National Economic and Social Development" (《省國民經濟和社會發展第十四個五年規劃綱要》) has continuously deepened the revolution in environmental protection industry, making the environmental protection industry to be one of China's key strategic emerging industries with boundless prospects for development.

China is committed to improving the green and low-carbon production mode and lifestyle, and substantially reducing the total amount of major pollutants discharged by 2025, so as to ensure the overall improvement in the ecological and environmental quality and the adaption of ecological civilization construction to the building of a moderately prosperous society in all respects.

As one of China's key strategic industries, governments at all levels throughout the country also attach great importance to the environmental protection industry in provinces and cities by actively taking measures to promote energy saving, emission reduction and environmental governance, including the implementation of urban air quality checklist management system and the continuously carrying out of the "Provincial Blue Sky Project Action Plan" (《省藍天工程行動計劃》), aiming to significantly lower the number of days of serious pollution; as well as the deepening of industrial pollution treatment by implementing cleaner production technology transformation in key industries such as steel, building materials, coking, non-ferrous metals, etc.

Up to now, almost all provinces and cities in China have promulgated relevant policies, financial support or project management plans for ecological environment protection, providing strong support for China's comprehensive promotion of the environmental protection industry.

Meanwhile, China has been implementing a large number of infrastructure projects and telecommunications engineering projects in recent years, where the related projects need the support of the power generation industry, which has increased the demand for the Group's environmental protection equipment.

In addition, in view of China being committed to developing clean energy to improve green and low-carbon levels, the Group acquired 49% equity interest of 內蒙古國電和潔風能有限公司 (Inner Mongolia Guodian Hejie Wind Energy Co., Ltd.) from the controlling shareholder of the Group on 1 June 2020. The Group believes that the acquisition will lay a foundation for the Group to enter the wind power market in China, and will also broaden the Group's source of income, further improve the value of the Group, and maximize the returns to the shareholders.

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 successively begun to execute orders in respect of mega-sized recipitators related works for different state-owned and private enterprises in the second half of 2020. This laid a solid foundation for the Group to secure orders in 2021.

For the Year, the revenue and total comprehensive income of the Group amounted to approximately RMB607.1 million and approximately 4.5 million respectively. During the Year, the Group's gross profit amounted to approximately RMB111.0 million, representing a decrease of approximately 11.4% as compared with approximately RMB125.3 million of the corresponding period of last year; while the Group's gross margin increased by approximately 1.1% from last year to approximately 18.3%. The increase in the gross margin for the Year of the Group was mainly attributable to the decrease in the price of raw materials of the products produced by the Group 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 RMB345 million. As at 31 December 2020, 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 RMB2,199.7 million.

The Group's profit before tax for the Year decreased to approximately RMB0.5 million while profits attributable to owners of the Company decreased to approximately RMB4.5 million, representing a year-on-year decrease of approximately 98.9% and decrease of approximately 86.9% respectively. The aforesaid decrease in profits attributable to owners of the Company is mainly due to the increase in the loss allowance for trade receivables during the Year to approximately RMB42.1 million and due to the decrease in the revenue during the Year to approximately RMB607.1 million.

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 2020, the Group had 47 registered patents (including 3 invention patents and 44 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 6MW to over 1,240MW. 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 2020, the Group maintained a total of 501 full-time employees (2019: 550). 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 RMB607.1 million for the Year representing a decrease of approximately 16.5% from approximately RMB726.6 million of the corresponding period of last year. The decrease was mainly due to the outbreak of the novel coronavirus disease (COVID-19) epidemic (the “**Epidemic**”) which limited the production activities of the Group 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			
	2020		2019	
	<i>RMB’000</i>	<i>%</i>	<i>RMB’000</i>	<i>%</i>
Revenue				
Sales of environmental protection equipment	580,530	95	696,284	96
Sales of materials	25,491	4	10,596	1
Rendering of services	1,057	1	19,767	3
Total	<u>607,078</u>	<u>100</u>	<u>726,647</u>	<u>100</u>

Revenue generated from sales of environmental protection equipment of the Group amounted to over 95% 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			
	2020		2019	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Environmental protection equipment				
Ash removal and transfers				
– Electrostatic precipitator	271,097	47	458,886	66
– Electronstatic-bag composite precipitator	53,077	9	78,916	11
– Bag filter precipitator	52,038	9	101,844	15
– Others (e.g. Pneumatic ash conveying system)	38,764	7	3,481	1
– SO ₂ and NO _x emission reduction (desulfurisation and denitrification devices)	165,554	28	53,157	7
	<u>580,530</u>	<u>100</u>	<u>696,284</u>	<u>100</u>

The Group's revenue for the Year was mainly generated from sales of electrostatic precipitator and SO₂ and NO_x emission reduction (desulfurisation and denitrification devices). During the Year, as compared with the corresponding period of last year, the revenue derived from sales of electrostatic precipitator and bag filter precipitator were decreased by approximately RMB187.8 million and approximately RMB49.8 million respectively while the revenue derived from sales of SO₂ and NO_x emission reduction (desulfurisation and denitrification devices) were increased by approximately RMB112.4 million.

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			
	2020		2019	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Revenue				
Newly installed	475,044	82	570,106	82
Upgrading/modification	105,486	18	126,178	18
	<u>580,530</u>	<u>100</u>	<u>696,284</u>	<u>100</u>

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 RMB496.1 million for the Year representing a decrease of approximately 17.5% from approximately RMB601.3 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	
	2020	2019
Gross profit (<i>RMB'000</i>)	110,954	125,314
Gross margin (%)	18.3%	17.2%

The Group's gross profit of the Year amounted to approximately RMB111.0 million, representing a decrease of approximately 14.3 million or approximately 11.4% as compared with approximately RMB125.3 million of the corresponding period of last year. The gross margin of the Group increased to approximately 18.3% for the Year. The increase in gross margin of the Group was attributable to the decrease in the price of raw materials of the products produced by the Group during the Year.

Other income and gains

Other income and gains of the Group during the Year increased to approximately RMB11.4 million, representing an increase of approximately 0.9% from approximately RMB11.3 million of the corresponding period of last year. The other income and gains of the Group are mainly comprised of bank interest income and government grants amounting to approximately RMB1.0 million and approximately RMB9.7 million respectively.

Selling and distribution expenses

The Group's selling and distribution expenses of the Year amounted to approximately RMB14.0 million, representing a decrease of approximately RMB6.9 million as compared with approximately RMB20.9 million of the corresponding period of last year.

- (i) The business hospitality expenses in 2020 decreased by approximately RMB3.75 million, or approximately 41.2%, to approximately RMB5.36 million as compared with approximately RMB9.11 million of the corresponding of last year.
- (ii) The staff salaries expenses in 2020 was approximately RMB1.8 million. Compared with the corresponding period of last year, the amount for the Year decreased by approximately RMB1.6 million, or approximately 47.1%, from approximately RMB3.4 million.

Administrative expenses

The administrative expenses of the Group for the Year amounted to approximately RMB102.7 million, representing an increase of approximately 61.7% as compared with approximately RMB63.5 million of the corresponding period of last year, mainly due to:

- (i) the impairment losses for trade receivables in 2020 increased to approximately RMB42.1 million; and
- (ii) the research and development expenses in 2020 increased by approximately RMB21.3 million from 2019 to approximately RMB23.3 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 RMB7.1 million, representing an increase of 2.9% as compared with approximately RMB6.9 million of the corresponding period of last year.

Income tax credit/(expense)

The Group's income tax credit of the Year amounted to approximately RMB4.0 million, representing an increase of 137% as compared with the income tax expenses approximately RMB10.8 million of the corresponding period of last year.

Trade and bills receivables

As at 31 December 2020, the trade and bills receivables of the Group were approximately RMB791.6 million, decreased by approximately RMB8.9 million as compared to approximately RMB800.5 million of the corresponding period of last year. The increase in trade receivables by approximately RMB52.3 million as compared with the corresponding period of the last year is mainly due to the increase in the number of on-progress projects while the decrease in bill receivables by approximately RMB61.3 million as compared with the corresponding period of last year is mainly due to the fact that more bill receivables are used for the settlement of trade payables during the Year.

Inventories

As at 31 December 2020, the Group experienced a decrease of inventories by approximately RMB98.5 million to approximately RMB226.6 million when compared to approximately RMB325.1 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 2020, the cash and cash equivalents of the Group increased by approximately RMB65.2 million to approximately RMB104.5 million when compared to approximately RMB39.3 million of the corresponding period of last year, which was mainly due to:

- (i) the net cash outflow of approximately RMB18.6 million generated from financing activities, which mainly consists of the cash outflow of approximately RMB18.6 million on proceeds from bank borrowings and repayments of bank borrowings;
- (ii) the net cash outflow of approximately RMB44.9 million used in investing activities of the Group in the Year, which mainly consists of the cash outflow of approximately RMB73.5 million on acquisition of the 49% of the equity interest of 內蒙古國電和潔風能有限公司 (Inner Mongolia Guodian Hejie Wind Energy Co., Ltd.); and
- (iii) the net cash inflow of approximately RMB129.5 million generated from the operation of the Group in the Year.

Indebtedness

As at 31 December 2020, the Group incurred outstanding bank loans of approximately RMB106.5 million.

Net current assets

As at 31 December 2020, the net current assets of the Group (the difference between total current assets and current liabilities) decreased by approximately 13.9% from approximately RMB589.2 million of the corresponding period of last year to approximately 507.4 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 2.7% (2019: 3.4%) 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

On 1 June 2020, the Company entered into the agreement with 浙江天潔新能源股份有限公司 (Zhejiang Tengy New Energy Company Limited) (the “**Vendor**”), pursuant to which the Company conditionally agreed to acquire and the Vendor conditionally agreed to sell 49% of the equity interest of 內蒙古國電和潔風能有限公司 (Inner Mongolia Guodian Hejie Wind Energy Co., Ltd.) for the consideration of RMB73,500,000. For details, please refer to the announcement of the Company dated 1 June 2020 and the circular of the Company dated 26 June 2020. Save as above, the Group did not have any other material acquisition and disposal of subsidiaries, associates and joint ventures 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 2020, the Group did not have any material contingent liabilities or guarantees.

PROSPECTS

In order to cooperate with the relevant environmental protection policies in PRC, the Group will devote time and resource to enhance its research and development capabilities, develop new technologies and expand our product portfolio (such as ash conveyers) to fight the atmospheric pollution control battle for our country, protect our country's blue sky and water, and give back to the society.

Besides, the Group will continue to actively seek appropriate acquisition projects to expand its capabilities of research and development, manufacturing and sales, as well as to access new domestic and international markets.

The Group hopes to capture the growing opportunities in the atmospheric pollution control solution industry in the PRC through internal research and development and external expansion to consolidate the Group's existing business, and enhance the Group's national and international brand recognition in order to expand the its domestic and international market share.

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 enable it to become the leading player in the atmospheric pollution control solution industry.

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 31 March 2021.

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 2020, 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:

- Long position in respect of domestic shares of the Company (“**Domestic Shares**”) as at 31 December 2020:

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 (<i>Note 1</i>)	58,852,300	58.85	43.59
Mr. Bian Jianguang	Beneficial owner	6,843,000	6.84	5.07
	Interest in a controlled corporation (<i>Note 1</i>)	58,852,300	58.85	43.59
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 (<i>Note 1</i>)	58,852,300	58.85	43.59
Mr. Chen Jiancheng	Beneficial owner	1,851,000	1.85	1.37

Notes:

- According to the disclosure of interest filings, these 58,852,300 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.

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

According to 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 2020, 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 2020:

Name	Capacity/ Nature of interest	Number of Domestic Shares	Approximate % of total issued Domestic Shares	Approximate % of Company's share capital
TGL (<i>Note 1</i>)	Beneficial owner	58,852,300	58.85	43.59
Ms. Bao Guo (<i>Note 2</i>)	Family interest of spouse	72,118,332	72.12	53.42
Ms. Xu You (<i>Note 3</i>)	Family interest of spouse	65,695,300	65.70	48.66
Mr. Zhang Yuanyuan (<i>Note 4</i>)	Family interest of spouse	62,785,300	62.79	46.51
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

Notes:

1. TGL is directly interested in approximately 43.59% 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.
4. Mr. Zhang Yuanyuan, the spouse of Ms. Bian Shu, is deemed to be interested in Ms. Bian Shu'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 2020:

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	5,504,400	15.73	4.08
Zhao Kaiyuan (<i>Note 1</i>)	Interest in a controlled corporation	5,504,400	15.73	4.08

Notes:

1. 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 2020, 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 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.

Events of material impact

On 27 January 2021, the Company entered into an equipment purchase agreement with the vendor pursuant to which the Company agreed to acquire two radial drilling machines, one gantry milling machine, one planer type horizontal boring and milling machine, one digital display planer type boring and milling machine and one machining center from the vendor at a total consideration of RMB5,626,252. The vendor is a wholly owned subsidiary of TGL and hence the above transaction constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. For more details of the above transaction, please refer to the announcement of the Company dated 27 January 2021.

Save as disclosed above, from the end of the Year to the date of this announcement, no important events (other than those in the ordinary and usual course of business of the Company) had been occurred in a way of affecting the Company and any of its subsidiaries.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

The audited 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

31 March 2021

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. CHEN Jiancheng and Mr. ZHU Xian Bo; and the independent non-executive Directors are Mr. ZHANG Bing, Mr. FUNG Kui Kei and Mr. Li Jiannan.