THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Zhejiang Tengy Environmental Technology Co., Ltd, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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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)

MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF PROPERTIES AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

RAINBOW CAPITAL (HK) LIMITED
滾 博 資 本 有 限 公 司

A letter from the Board is set out on pages 4 to 12 of this circular and a letter from the Independent Board Committee is set out on pages 13 to 14 of this circular. A letter from Rainbow Capital (HK) Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 30 of this circular.

A notice convening the extraordinary general meeting of the Company ("**EGM**") to be held at conference room, TENGY Industrial Park, Paitou Town, Zhuji City, Zhejiang Province, the People's Republic of China at 10 a.m. on Monday, 28 February 2022, is set out on pages EGM-1 to EGM-2 of this circular.

Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the applicable proxy form in accordance with the instructions printed thereon. The proxy form must be signed by you or your attorney duly authorized in writing or, in case of a legal person, must either be executed under its seal or under the hand of its director or other attorney duly authorised to sign the same. If the proxy form is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign, or other document of authorisation, must be notarised.

In the case of joint holders of shares of the Company, only the holder whose name appears first in the register of members of the Company shall alone be entitled to vote at the EGM either in person or by proxy in respect of such shares.

For H Shareholders, please return the proxy form together with any documents of authority to Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible, and in any event not later than 24 hours before the time appointed for holding the EGM. For Domestic Shareholders, please return the proxy form together with any documents of authority to the registered office of the Company in the PRC at TENGY Industrial Park, Paitou Town, Zhuji City, Zhejiang Province, the PRC as soon as possible, and in any event not later than 24 hours before the time appointed for holding the EGM. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

8 February 2022

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In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

"Acquisition"	the acquisition of the Properties by the Purchaser from the Vendor
"Agreement"	the agreement dated 7 January 2022 entered into between the Vendor and the Purchaser in relation to the Acquisition
"Associates"	has the meaning as ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday, Sunday and public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"Company"	Zhejiang Tengy Environmental Technology Co., Ltd（浙江天潔環境科技股份有限公司）, a joint stock limited liability company established under the laws of the PRC on 28 December 2009, the issued H Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1527)
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Agreement
"Completion Date"	the date falling within the three (3) Business Days after the fulfilment (or waiver, as the case may be) of all conditions precedent under the Agreement
"Consideration"	the total consideration for the Acquisition in the amount of RMB25,900,000
"controlling shareholder(s)"	has the meaning as ascribed thereto under the Listing Rules
"Directors"	directors of the Company
"Domestic Share(s)"	ordinary share(s) issued by the Company in the PRC with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in RMB
"Domestic Shareholder(s)"	the holder(s) of the Domestic Share(s)

"EGM"	an extraordinary general meeting of the Company to be convened and held for the purposes of, among other matters, considering and, if thought fit, approving the Agreement and the transactions contemplated thereunder
"Group"	the Company and its subsidiaries from time to time
"H Share(s)"	overseas-listed foreign invested ordinary share(s) with a nominal value of RMB1.00 each in the share capital of the Company, which is/are listed on the Stock Exchange and traded in HK$
"H Share Registrar"	Tricor Investor Services Limited
"H Shareholder(s)"	the holder(s) of the H Share(s)
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company comprising all independent non-executive Directors to advise the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder
"Independent Financial Adviser" or "Rainbow Capital"	Rainbow Capital (HK) Limited, the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Agreement and the transactions contemplated thereunder, and a corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
"Independent Shareholders"	Shareholders who are not required to abstain from voting at the EGM to approve the Agreement and the transactions contemplated thereunder
"Latest Practicable Date"	4 February 2022
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China

"Properties"	the properties (i.e. the Land and the Plant) to be acquired by the Purchaser from the Vendor pursuant to the terms and conditions of the Agreement
"Purchaser"	浙江天潔環境工程有限公司 (Zhejiang Tianjie Environmental Engineering Company Limited*), a company established in the PRC with limited liability
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shares"	the Domestic Share(s) and the H Share(s) of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Vendor" or "TGL"	天潔集團有限公司 (Tengy Group Limited, also known as Tianjie Group Co., Ltd.*), a company established in the PRC with limited liability and is a controlling shareholder of the Company holding approximately 47.84% interest in the Company as at the Latest Practicable Date
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"sq.m."	square metre
"%"	per cent.

* *In this circular, the English names of certain PRC entities are translation or transliteration of their Chinese names, and are included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.*

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)

Executive Directors:
Mr. BIAN Yu *(Chairman)*
Mr. BIAN Weican
Ms. BIAN Shu

Non-executive Directors:
Mr. BIAN Jianguang
Mr. CHEN Jiancheng
Mr. ZHU Xian Bo

Independent Non-executive Directors:
Mr. FUNG Kui Kei
Mr. ZHANG Bing
Mr. LI Jiannan

Registered office and principal place of business in the PRC:
TENGY Industrial Park
Paitou Town
Zhuji City
Zhejiang Province
The PRC

Principal place of business in Hong Kong:
Room 1201, 12th Floor
Chung Ying Building
20 Connaught Road West
Sheung Wan
Hong Kong

8 February 2022

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF PROPERTIES

Reference is made to the announcement of the Company dated 7 January 2022. The purpose of this circular is to provide you with information on the Agreement and the transactions contemplated thereunder and the notice of EGM.

THE AGREEMENT

On 7 January 2022 (after trading hours of the Stock Exchange), the Purchaser entered into the Agreement with the Vendor, pursuant to which the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell the Properties for the consideration of RMB25,900,000.

The principal terms of the Agreement are as follows:

Date: 7 January 2022 (after trading hours of the Stock Exchange)

Parties: (1) The Purchaser (as the purchaser)

(2) The Vendor (as the vendor)

The Purchaser is a wholly owned subsidiary of the Company and is principally engaged in manufacture and sale of electronic products in the PRC.

The Vendor is principally engaged in the business of, amongst other things, manufacturing and sale of machineries and spare parts, sale of steel, building materials and other chemical products and scrap metals recycling and construction. As at the Latest Practicable Date, (i) the Vendor is owned as to approximately 64.08%, 22.81% and 13.11% by Mr. Bian Yu, Mr. Bian Jianguang and Ms. Bian Shu respectively; and (ii) the Vendor is the controlling shareholder of the Company, holding approximately 47.84% of the Company's issued share capital. Therefore, the Vendor is a connected person of the Company under Chapter 14A of the Listing Rules.

Assets to be acquired

Pursuant to the Agreement, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Properties which comprise the following:

(1) the land-use rights to a state-owned land parcel (the "**Land**") situated at East Red Tea Plantation, Paitou Town, Zhuji City, Zhejiang Province, the PRC with (a) the rights certificate number of 浙(2020)諸暨市不動產權第0010649號 (Zhe (2020) Zhuji City Immovable Assets number 0010649*); (b) land-use rights area of 24,118.6 sq.m.; and (c) designated purpose of industrial use; and

(2) a plant erected on the Land and situated at East Red Tea Plantation, Paitou Town, Zhuji City, Zhejiang Province, the PRC with building area of 11,809.26 sq.m. (the "**Plant**").

The aggregate original acquisition cost of the Properties paid by the Vendor was approximately RMB11.4 million and the book value of the Properties as at 30 November 2021 was approximately RMB700,000.

As at the Latest Practicable Date, the Properties are charged by the Vendor in favour of China Minsheng Bank, Shaoxing branch to secure a loan provided by the bank to the Vendor in the outstanding principal amount of approximately RMB19,980,000 (the "**Charge**"). Under the Agreement, the Vendor undertakes to the Purchaser to arrange for release of the Charge before Completion and on or before 28 February 2022 and the Vendor warrants to the Purchaser that all consequences, liabilities and losses caused by the Vendor's failure to release the Charge within the above time period shall be borne by the Vendor.

Other warranties provided by the Vendor

Under the Agreement, the Vendor further warrants to the Purchaser, among others, that if there is any violation of PRC laws and regulations (including but not limited to administrative penalties, fines, forced demolition or being held accountable by PRC authorities) in relation to the Properties or any circumstances that may result in the land use rights or the Properties being affected, the Vendor warrants to fully compensate the Purchaser all losses.

Consideration

The total Consideration for the Acquisition shall be RMB25,900,000, which shall be satisfied by the Purchaser in the following manner:

(1) within three Business Days of entering into the Agreement, the Purchaser paid part of the Consideration in the amount of RMB20,000,000 in cash to the Vendor (the "**First Part Payment**"); and

(2) within three Business Days of the Completion, the Purchaser shall pay the remaining part of the Consideration in the amount of RMB5,900,000 in cash to the Vendor.

The Consideration was determined after arm's length negotiations between the parties with reference to, among other things, the preliminary valuation of the Properties as at 30 November 2021 by way of market approach for the valuation of the Land and cost approach for the valuation of the Plant at RMB25,900,000, conducted by Masterpiece Valuation Advisory Limited, an independent professional valuer engaged by the Company.

Independence and competence of the valuer

Masterpiece Valuation Advisory Limited, the valuer, confirms that it is independent of and not connected with the Company, any Director, or any member of the management, executive officer or employee of the Company. The valuer and its employees do not or will not hold any Shares or beneficial interest in the Company, do not have any financial relationship with the Company (save for being entitled to the service fee for conducting the valuation of the Properties), do not have any guarantees from the Company, and do not have any business relationship with the Company that would be reasonably considered to affect its independence in performing the valuation of the Properties. Based on the above, the Board considers the valuer as an independent expert for the purpose of conducting the valuation of the Properties.

Mr. Oswald W Y Au ("**Mr. Au**"), who is the Managing Director of Masterpiece Valuation Advisory Limited, is a member of the Hong Kong Institute of Surveyors (General Practice), an Associate Member of Australian Property Institute and a Registered Professional Surveyor (General Practice) registered with the Surveyors Registration Board. He has over 10 years of experience in financial valuation, property valuation and business consulting in Hong Kong, the PRC, the United States of America and the Asia Pacific region.

Mr. Greivis Sze ("**Mr. Sze**") is the Associate Director of Masterpiece Valuation Advisory Limited. He has over 6 years of experience in property valuation and business consulting in Hong Kong and the PRC.

Taking into account the above qualifications and experience of Mr. Au and Mr. Sze, the Board considers the valuer as a competent expert in performing the valuation of the Properties.

Key assumptions and methodology of the valuation of the Properties

The key assumptions and the details and bases of the methodology adopted in the valuation of the Properties are set out in the paragraphs headed "Valuation Assumptions" and "Valuation Methodology" in Appendix II to this circular, respectively.

The Company has inquired Masterpiece Valuation Advisory Limited in respect of its experience in valuing similar properties in the PRC and the key assumptions and methodology adopted. The Company understands from the valuer that market approach has been selected in the valuation of the Land and cost approach has been selected in the valuation of the Plant, as there are appropriate comparable properties with the land parcel. Moreover, the level of uncertainty and significant assumptions of the market approach for the Land is relatively low and cost approach for the Plant is commonly adopted. The Company also noted from the valuer that key assumptions are commonly adopted in the valuation of properties and in line with industry practices and the Company considers it to be objective and appropriate to appraise the Properties with underlying key assumptions in the same way as valuation of other similar properties in the open market. As such, the Board considers the key assumptions and methodology adopted in the valuation of the Properties is fair and reasonable.

Conditions precedent

Completion is conditional upon and subject to the satisfaction (or waiver, as the case may be) of the following conditions:

(1) the passing by the Independent Shareholders at the EGM of the necessary resolution(s) to approve the Agreement and the transactions contemplated thereunder in accordance with the requirements under the Listing Rules;

(2) all necessary governmental, regulatory and other third parties' consents and approvals required to be obtained on the part of the Vendor in respect of the Agreement and the transactions contemplated thereunder having been obtained;

(3) all necessary governmental, regulatory and other third parties' consents and approvals required to be obtained on the part of the Purchaser in respect of the Agreement and the transactions contemplated thereunder having been obtained;

(4) the Purchaser being satisfied with the results of the due diligence review to be conducted in relation to the Properties;

(5) the obtaining of a PRC legal opinion (in form and substance satisfactory to the Purchaser) from a PRC legal adviser designated by the Purchase in relation to the Agreement and the transactions contemplated thereunder;

(6) the obtaining of a valuation report from the valuer designated by the Company confirming that the valuation of the Properties is not less than RMB25,900,000;

(7) the Charge having been released; and

(8) from the date of the Agreement and up to the Completion Date, the warranties and representations given by the Vendor in the Agreement remaining true and accurate and not misleading.

The Purchaser may at its absolute discretion at any time waive in writing any of the conditions (4) and (8) above and such waiver may be made subject to such terms and conditions as may be determined by the Purchaser. Other than conditions (4) and (8), all other conditions set out above are not waivable. If any of the conditions set out in the Agreement have not been satisfied (or as the case may be, waived) on or before 5:00 p.m. on 28 February 2022 (or such later date as may be agreed between the Vendor and the Purchaser in writing), the Agreement shall cease and determine and the Vendor shall within three Business Days refund the First Part Payment to the Purchaser in full, and thereafter none of the parties to the Agreement shall have any obligations and liabilities towards the other save for any antecedent breaches of the terms of the Agreement, and none of the parties to the Agreement shall claim or enforce any other damages or claims against the other.

As at the Latest Practicable Date, conditions (4) and (5) were fulfilled whereas all other conditions remained unfulfilled.

Completion

Completion shall take place within 3 Business Days after fulfilment (or waiver, as the case may be) of all the conditions precedent under the Agreement. Upon Completion, the Properties shall be owned by the Purchaser and registered under the name of the Purchaser with the relevant governmental authority and the Purchaser shall obtain the relevant rights certificates in relation to the Properties.

REASONS AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in design, development, manufacturing, installation and sale of environmental pollution prevention equipment and electronic products. The Company is owned as to approximately 47.84% and controlled by the Vendor as at the Latest Practicable Date.

Currently, the Group's main property and plant for the manufacturing of environmental pollution prevention equipment and electronic products are located on a state-owned land parcel at Xinle Village, Paitou Town, Zhuji City, Zhejiang Province, the PRC (the "**Current Land**"), the land-use right of which is owned by the Group with a land-use right area of approximately 129,577 sq.m. with a plant erected on the Current Land with building area of approximately 84,007 sq.m.. On 19 November 2021, the Zhuji City government issued the Implementation Measures for Further Standardizing the Organic Renewal of State-owned Industrial Land (for Trial Implementation)*(《進一步規範國有工業用地有機更新的實施辦法(試行)》) (http://www.zhuji.gov.cn/art/2021/11/23/art_1229074555_1850706.html), which provided the official guidelines for the resumption and redevelopment of state-owned industrial land in Zhuji City. The Company expects that the Current Land will be subject to resumption by the local authority of Zhuji City in 2022.

In anticipation of the resumption of the Current Land by the local authority of Zhuji City, the Company has been identifying a new suitable location for the manufacturing of environmental pollution prevention equipment and electronic products. The Properties are currently vacant. After acquiring the Properties, the Company will relocate its current production staff and the necessary production equipment to the Plant and the Land where the Company will continue its manufacturing of environmental pollution prevention equipment and electronic products. However, this will inevitably result in the Company incurring relocation costs and expenses for relocation of the production staff and equipment to the Properties.

The Company has visited and inspected the Land and the Plant and is of the view that they are in satisfactory condition and will be suitable for the Company's use for its manufacturing activities. Further, the Company is of the view that it will be able to maintain its current level of production scale and capacity after the proposed relocation.

Taking into consideration of the aforesaid, the Directors (including the independent non-executive Directors whose views are set out in the letter from the Independent Board Committee in this circular) consider that the terms and conditions of the Agreement are on normal commercial terms and are fair and reasonable and that the Acquisition is in the interests of the Company and the Shareholders as a whole. As the Vendor is owned as to approximately 64.08%, 22.81% and 13.11% by Mr. Bian Yu, Mr. Bian Jianguang and Ms. Bian Shu respectively and Mr. Bian Weican is the supervisor of the Vendor, each of Mr. Bian Yu, Mr. Bian Jianguang, Ms. Bian Shu and Mr. Bian Weican is interested in or deemed to be interested in the Agreement and the transactions contemplated thereunder and has abstained from voting in respect of the Board resolutions approving the Agreement and the transactions contemplated thereunder.

LISTING RULES IMPLICATIONS

The Vendor is the controlling shareholder of the Company, holding approximately 47.84% of the issued share capital of the Company as at the Latest Practicable Date. Therefore, the Vendor is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements thereunder.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition exceeds 25% but is less than 100%, the Acquisition also constitutes a major acquisition on the part of the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

GENERAL

An Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder. Rainbow Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this connection.

EGM

The notice of EGM is set out on pages EGM-1 to EGM-2 of this circular. At the EGM, an ordinary resolution will be proposed to the Independent Shareholders at the EGM to consider and, if thought fit, to approve, among other matters, the Agreement and the transactions contemplated thereunder.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www. tengy.com). Whether or not you intend to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person of the EGM or any adjournment thereof (as the case may be) should you so wish, and in such event, the instrument appointing a proxy shall be deemed to be revoked.

In accordance with Rule 13.39(4) of the Listing Rules, voting at the EGM will be conducted by poll. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder (other than the Vendor and its close associates) is required to abstain from voting on the resolution to be proposed at the EGM.

To the extent that the Directors are aware having made all reasonable enquiries, as at the Latest Practicable Date:

(i) there was no voting trust or other agreement or arrangement or understanding (other than an outright sale) entered into by or binding upon the Vendor;

(ii) the Vendor was not subject to any obligation or entitlement whereby it had or it might have temporarily or permanently passed control over the exercise of the voting right in respect of its shares in the Company to a third party, either generally or on a case-by-case basis; and

(iii) it was not expected that there would be any discrepancy between the Vendor's beneficial shareholding interest in the Company as disclosed in this circular and the number of shares in the Company in respect of which it would control or would be entitled to exercise control over the voting right at the EGM.

The resolution proposed to be approved at the EGM will be taken by poll and an announcement will be made by the Company after the EGM on the results of the EGM.

CLOSURE OF REGISTER OF MEMBERS

Shareholders whose names appear on the register of members of the Company as at the close of business on 28 February 2022 are entitled to attend and vote at the EGM. The register of members of the Company will be closed from 23 February 2022 to 28 February 2022, both days inclusive, during which no transfer of Shares will be effected. In order to be eligible to attend the EGM and to vote thereat as Shareholders, all transfers of H Shares together with the relevant share certificates must be delivered to the Company's H Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 22 February 2022.

RECOMMENDATION

The Directors (including the independent non-executive Directors whose views have been set out in this circular together with the advice of the Independent Financial Adviser) are of the view that the entering into of the Agreement and the resolution proposed for consideration and approval by the Shareholders at the EGM are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolution as set out in the notice of EGM.

MISCELLANEOUS

Unless otherwise stated herein, the English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

Your attention is drawn to the additional information set out in the appendices to this circular and the notice of the EGM.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

Yours faithfully,
For and on behalf of
Zhejiang Tengy Environmental Technology Co., Ltd
Mr. BIAN Yu
Chairman

Zhuji City, Zhejiang Province, the PRC 8 February 2022

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)

8 February 2022

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF PROPERTIES

We refer to the circular dated 8 February 2022 (the "**Circular**") issued by the Company to the Shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

The Independent Board Committee has been formed to advise the Independent Shareholders as to whether, in its opinion, the terms of the Agreement and the transactions contemplated thereunder are fair and reasonable, are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Rainbow Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder.

We wish to draw your attention to the letter from the Board, as set out on pages 4 to 12 of the Circular and the text of a letter of advice from Rainbow Capital, as set out on pages 15 to 30 of the Circular, both of which provide details of the Agreement and the transactions contemplated thereunder.

Having considered the (i) Agreement and the transactions contemplated thereunder; (ii) the advice of Rainbow Capital; and (iii) the relevant information contained in the letter from the Board, we are of the opinion that the terms of the Agreement and the transactions contemplated thereunder are on normal commercial terms, although not in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Agreement and the transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully,
For and on behalf of
The Independent Board Committee of
Zhejiang Tengy Environmental Technology Co., Ltd

Mr. FUNG Kui Kei	**Mr. ZHANG Bing**	**Mr. LI Jiannan**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

The following is the full text of a letter of advice from Rainbow Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, which has been prepared for the purpose of incorporation in this circular.

Rainbow Capital (HK) Limited

8 February 2022

To the Independent Board Committee and the Independent Shareholders

Room 1201, 12th Floor
Chung Ying Building
20 Connaught Road West
Sheung Wan
Hong Kong

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF PROPERTIES

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the "Letter from the Board" (the "**Letter from the Board**") contained in the circular issued by the Company to the Shareholders dated 8 February 2022 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 7 January 2022 (after trading hours of the Stock Exchange), the Purchaser, a wholly owned subsidiary of the Company, entered into the Agreement with the Vendor, pursuant to which the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell the Properties for the consideration of RMB25,900,000.

The Vendor is the controlling shareholder of the Company, holding approximately 47.84% of the issued share capital of the Company as at the Latest Practicable Date. Therefore, the Vendor is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements thereunder. As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition exceeds 25% but is less than 100%, the Acquisition also constitutes a major acquisition for the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. The Company will seek approval from the Independent Shareholders in respect of the Acquisition by way of a poll at the EGM. In view of the interest above, the Vendor and its associates are required to abstain from voting in respect of the ordinary resolution approving the Acquisition at the EGM.

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Mr. Zhang Bing, Mr. Fung Kui Kei and Mr. Li Jiannan, has been formed to advise the Independent Shareholders on whether (i) the Acquisition is in the ordinary and usual course of business of the Group; and (ii) the terms of the Agreement are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and advise the Independent Shareholders as to voting. We, Rainbow Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group and the Vendor that could reasonably be regarded as relevant to our independence. We have acted as the independent financial adviser to the independent board committee and the independent shareholders of the Company in relation to (i) the acquisition of 49% equity interest in 內蒙古國電和潔風能有限公司 (Inner Mongolia Guodian Hejie Wind Energy Co., Ltd.), details of which are set out in the circular of the Company dated 26 June 2020; and (ii) the acquisition of 40% equity interest in 浙江天潔磁性材料股份有限公司 (Zhejiang Tianjie Magnetic Materials Co., Ltd), details of which are set out in the circular of the Company dated 29 June 2021. Other than that, there was no engagement or connection between the Group or the Vendor and us in the last two years. Apart from normal professional fees paid or payable to us in connection with this appointment as the independent financial adviser, no arrangements exist whereby we had received any fees or benefits from the Group or the Vendor. Accordingly, we are qualified to give independent advice in respect of the Acquisition.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

We consider that we have reviewed sufficient information currently available and corroborated and substantiated any public information referred to in this letter to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group and the Vendor or their respective substantial shareholders, subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Agreement and the transaction contemplated thereunder are fair and reasonable, we have taken into account the principal factors and reasons set out below:

1. Background information of the Group

As an integrated atmospheric pollution control solution provider, the Group is principally engaged in (i) sales of environmental protection equipment, primarily three types of precipitators, i.e. electrostatic precipitators, bag filter precipitators and electrostatic-bag composite precipitators; (ii) sales of materials, including raw materials, spare parts and components and scrap materials; and (iii) provision of technology consultancy services, including repair and replacement, and on-site engineering and maintenance services for those projects which were not constructed by the Group.

The tables below set forth a summary of the consolidated financial information of the Group for the year ended 31 December 2019 ("**FY2019**"), the year ended 31 December 2020 ("**FY2020**"), the six months ended 30 June 2020 ("**2020H1**") and the six months ended 30 June 2021 ("**2021H1**") as extracted from the annual reports for the year ended 31 December 2020 ("**2020 Annual Report**") and the interim report for six months ended 30 June 2021 ("**2021 Interim Report**") of the Company:

(i) Financial performance

	2021H1	**2020H1**	**FY2020**	**FY2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	*(unaudited)*	*(audited)*	*(audited)*
Revenue	**165,696**	**239,055**	**607,078**	**726,647**
– Sales of environmental protection equipment	158,131	219,022	580,530	696,284
– Sale of materials	7,561	11,729	25,491	10,596
– Provision of technology consultancy services	4	8,304	1,057	19,767
Gross profit	**21,391**	**42,240**	**110,954**	**125,314**
Gross profit margin	12.9%	17.7%	18.3%	17.2%
Other income	15,916	1,617	11,445	11,333
Selling and distribution expenses	(5,274)	(4,996)	(14,017)	(20,922)
Administrative expenses	(29,875)	(31,375)	(102,688)	(63,455)
Other expenses	(133)	(109)	(124)	(247)
Profit from operations	**2,025**	**7,377**	**5,570**	**52,023**
Finance costs	(3,246)	(3,682)	(7,066)	(6,909)
Share of profits of an associate	–	–	1,999	–
(Loss)/profit before tax	**(1,221)**	**3,695**	**503**	**45,114**
Income tax credit/(expense)	2,738	(1,254)	3,986	(10,825)
Profit attributable to the Shareholders	**1,517**	**2,441**	**4,489**	**34,289**

Revenue of the Group decreased by approximately 16.5% from approximately RMB726.6 million for FY2019 to approximately RMB607.1 million for FY2020. Such decrease was primarily attributable to the outbreak of COVID-19 which limited the production activities of the Group for FY2020. Sales of environmental protection equipment amounted to approximately RMB696.3 million and RMB580.5 million, accounting for approximately 95.8% and 95.6% of the total revenue for FY2019 and FY2020, respectively.

Revenue of the Group decreased by approximately 30.7% from approximately RMB239.1 million for 2020H1 to approximately RMB165.7 million for 2021H1. Such decrease was mainly because some large-scale projects of the Group commenced in the first half of 2021, with the relevant revenue only recognised in the second half of 2021 or the first half of 2022. Sales of environmental protection equipment amounted to approximately RMB219.0 million and RMB158.1 million, accounting for approximately 91.6% and 95.4% of the total revenue for 2020H1 and 2021H1, respectively.

Gross profit of the Group also recorded a downward trend, decreasing from approximately RMB125.3 million for FY2019 to approximately RMB111.0 million for FY2020 and from approximately RMB42.2 million for 2020H1 to approximately RMB21.4 million for 2021H1, mainly attributable to the decrease in revenue and the fluctuation of the gross profit margin. The gross profit margin of the Group increased from approximately 17.2% for FY2019 to approximately 18.3% for FY2020 and decreased from approximately 17.7% for 2020H1 to approximately 12.9% for 2021H1, primarily due to the fluctuation of the raw material prices of the products produced by the Group.

The Group's profit from operations decreased by approximately 89.3% from approximately RMB52.0 million for FY2019 to approximately RMB5.6 million for FY2020, mainly attributable to (a) the decrease in revenue as mentioned above; and (b) the increase in administrative expenses by approximately 61.8% from approximately RMB63.5 million for FY2019 to approximately RMB102.7 million for FY2020 as a result of the increase in impairment losses for trade receivables and the increase in research and development expenses.

The Group's profit from operations decreased by 72.5% from approximately RMB7.4 million for 2020H1 to approximately RMB2.0 million for 2021H1. Such decrease was mainly attributable to the decrease in total revenue and gross profit as mentioned above, which was partially offset by the increase in other income as a result of the reversal of doubtful receivable amount of approximately RMB15.1 million for 2021H1 (2020H1: nil).

Profit attributable to the Shareholders amounted to approximately RMB4.5 million for FY2020, representing a decrease of approximately 86.9% from approximately RMB34.3 million for FY2019. Such decrease was primarily attributable to the decrease in profit from operations as mentioned above, which was partially offset by (a) the share of profits of an associate of approximately RMB2.0 million for FY2020; and (b) the income tax credit of approximately RMB4.0 million for FY2020 as compared to an income tax expense of approximately RMB10.8 million for FY2019.

Profit attributable to the Shareholders amounted to approximately RMB1.5 million for 2021H1, representing a decrease of approximately 37.9% from approximately RMB2.4 million for 2020H1. Such decrease was primarily attributable to the decrease in profit from operations as mentioned above, which was partially offset by the income tax credit of approximately RMB2.7 million for 2021H1 as compared to an income tax expense of approximately RMB1.3 million for 2020H1.

(ii) Financial position

	As at 30 June 2021	**As at 31 December 2020**	**2019**
	RMB'000 (unaudited)	*RMB'000 (audited)*	*RMB'000 (audited)*
Non-current assets, including:	**249,294**	**252,564**	**166,274**
– Property, plant and equipment	75,531	72,320	77,495
– Right-of-use assets	38,070	41,039	43,020
– Deferred tax assets	57,563	56,045	40,147
– Investment in an associate	75,782	75,499	–
Current assets, including:	**1,337,821**	**1,248,007**	**1,432,406**
– Inventories	413,554	226,636	325,135
– Trade and bills receivables	817,103	791,571	800,542
– Contract assets and contract costs	13,646	72,889	200,005
– Prepayments, deposits and other receivables	57,542	29,616	25,558
– Investments at fair value through profit or loss	–	13,464	1,077
– Bank and cash balance	16,397	104,548	39,307
Total assets	**1,587,115**	**1,500,571**	**1,598,680**

	As at 30 June 2021	As at 31 December 2020	2019
	RMB'000 (unaudited)	*RMB'000* (audited)	*RMB'000* (audited)
Current liabilities, including:	**825,594**	**740,567**	**843,165**
– Trade and bills payables	228,760	265,819	366,417
– Contract liabilities	393,256	247,049	233,103
– Other payables and accruals	96,868	95,358	106,944
– Bank loans	106,710	122,809	126,207
Net current assets	**512,227**	**507,440**	**589,241**
Total liabilities	**825,594**	**740,567**	**843,165**
Equity attributable to the Shareholders	**761,521**	**760,004**	**755,515**

Total non-current assets of the Group increased by approximately 49.9% from approximately RMB166.3 million as at 31 December 2019 to approximately RMB249.3 million as at 30 June 2021 which mainly included (a) property, plant and equipment of approximately RMB75.5 million, primarily consisting of buildings and plant and machinery; (b) right-of-use assets of approximately RMB38.1 million, representing the Group's land use rights; (c) deferred tax assets of approximately RMB57.6 million; and (d) investment in an associate of approximately RMB75.8 million.

Total current assets of the Group decreased by approximate 6.6% from approximately RMB1,432.4 million as at 31 December 2019 to approximately RMB1,337.8 million as at 30 June 2021 which mainly included (a) inventories of approximately RMB413.6 million; (b) trade and bills receivables of approximately RMB817.1 million; (c) contract assets and contract costs of approximately RMB13.6 million; (d) prepayment, deposits and other receivables of approximately RMB57.5 million; and (e) bank and cash balance of approximately RMB16.4 million.

Total liabilities of the Group decreased by approximately 2.1% from approximately RMB843.2 million as at 31 December 2019 to approximately RMB825.6 million as at 30 June 2021 which mainly included (a) trade and bills payables of approximately RMB228.8 million; (b) contract liabilities of approximately RMB393.3 million; (c) other payables and accruals of approximately RMB96.9 million; and (d) bank loans of approximately RMB106.7 million.

As at 30 June 2021, the Group had net current assets of approximately RMB512.2 million and equity attributable to the Shareholders of approximately RMB761.5 million.

(iii) Overall comment

Revenue of the Group recorded a downward trend in the recent years and periods, primarily affected by the COVID-19 outbreak and the project timetable. The financial performance of the Group is largely dependent on the sales of environmental protection equipment which accounted for over 95% of total revenue of the Group for FY2019, FY2020 and 2021H1. The Group is financially healthy given its net current assets and equity attributable to the Shareholders of approximately RMB512.2 million and RMB761.5 million as at 30 June 2021, respectively.

2. Information of the Properties

As stated in the Letter from the Board, the Properties comprise the following:

(i) the land-use rights to the Land situated at East Red Tea Plantation, Paitou Town, Zhuji City, Zhejiang Province, the PRC with (a) the rights certificate number of 浙(2020)諸暨市不動產權第0010649號 (Zhe (2020) Zhuji City Immovable Assets number 0010649*); (b) land-use rights area of 24,118.6 sq.m.; and (c) designated purpose of industrial use; and

(ii) the Plant erected on the Land and situated at East Red Tea Plantation, Paitou Town, Zhuji City, Zhejiang Province, the PRC with building area of 11,809.26 sq.m.

As at the Latest Practicable Date, the Properties are charged by the Vendor in favour of China Minsheng Bank, Shaoxing branch to secure a loan provided by the bank to the Vendor in the outstanding principal amount of approximately RMB19,980,000 (the "**Charge**"). Under the Agreement, the Vendor undertakes to the Purchaser to arrange for release of the Charge before Completion and on or before 28 February 2022 and the Vendor warrants to the Purchaser that all consequences, liabilities and losses caused by the Vendor's failure to release the Charge within the above time period shall be borne by the Vendor.

As stated in the Letter from the Board, the Company will relocate its current production staff and the necessary production equipment to the Plant and the Land where the Company will continue its manufacturing of environmental pollution prevention equipment and electronic products. The Company has visited and inspected the Land and the Plant and is of the view that they are in satisfactory condition and will be suitable for the Company's use for its manufacturing activities.

3. Reasons for and benefits of the Acquisition

As stated in the Letter from the Board, on 19 November 2021, the Zhuji City government issued the Implementation Measures for Further Standardising the Organic Renewal of State-owned Industrial Land (for Trial Implementation)(《進一步規範國有工業用地有機更新的實施辦法(試行)》), which provided the official guidelines for the resumption and redevelopment of state-owned industrial land in Zhuji City. Currently, the Group's main property and plant for the manufacturing of environmental pollution prevention equipment and electronic products are located on a state-owned land parcel at Xinle Village, Paitou Town, Zhuji City, Zhejiang Province, the PRC (the "**Current Land**"). The Company expects that the Current Land will be subject to resumption by the local authority of Zhuji City in 2022.

As stated in the section headed "1. Background information of the Group – (iii) Overall comment" above, the financial performance of the Group is largely dependent on the sales of the environmental protection equipment which accounted for over 95% of the total revenue of the Group for FY2019, FY2020 and 2021H1. Given the property and plant located on the Current Land are for the manufacturing of environmental pollution prevention equipment and electronic products, we are of the view that the potential resumption of the Current Land would have a material adverse impact on the operation of the Group.

As stated in the letter from the Board, the Properties are currently vacant and in satisfactory condition and will be suitable for the Company's use for its manufacturing activities. After acquiring the Properties, the Company could relocate its current production staff and the necessary production equipment to the Properties where the Company will continue its manufacturing of environmental protection equipment. Although the relocation will inevitably result in the Company incurring costs and expenses, the Directors consider these costs and expenses are acceptable as compared to the material adverse impact of the suspension of production due to the resumption of the Current Land.

The Directors are of the view that the Group would be able to maintain its current level of production scale and capacity after the proposed relocation.

Taking into account that (i) the Company expects that the Current Land will be subject to resumption by the local authority of Zhuji City in 2022; (ii) the potential resumption of the Current Land would have a material adverse impact on the operation of the Group; and (iii) the Acquisition allows the Company to relocate its production facilities to the Properties to reduce the disruption to the operation of the Group due to the potential resumption of the Current Land by the local authority of Zhuji City, we concur with the Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the Agreement

Set out below is a summary of the principal terms of the Agreement. Independent Shareholders are advised to read further details of the Agreement as disclosed in the Letter from the Board.

Date	:	7 January 2022 (after trading hours of the Stock Exchange)
Parties	:	(i) The Purchaser (as the purchaser) (ii) The Vendor (as the vendor)
Subject matter	:	The Properties, which comprise the Land and the Plant For details of the Properties, please refer to the section headed "2. Information of the Properties" above.
Warranties and undertaking	:	The Vendor warrants to the Purchaser, among others, that if there is any violation of PRC laws and regulations (including but not limited to administrative penalties, fines, forced demolition or being held accountable by PRC authorities) in relation to the Properties or any circumstances that may result in the land use rights or the Properties being affected, the Vendor warrants to fully compensate the Purchaser all losses. The Vendor also undertakes to the Purchaser to arrange for release of the Charge before Completion and on or before 28 February 2022 and the Vendor warrants to the Purchaser that all consequences, liabilities and losses caused by the Vendor's failure to release the Charge within the above time period shall be borne by the Vendor.
Consideration	:	The Consideration for the Acquisition shall be RMB25,900,000, which shall be satisfied by the Purchaser in the following manner: (i) within three Business Days of entering into the Agreement, the Purchaser shall pay part of the Consideration in the amount of RMB20,000,000 in cash to the Vendor (the "**First Part Payment**"); and (ii) within three Business Days of the Completion, the Purchaser shall pay the remaining part of the Consideration in the amount of RMB5,900,000 in cash to the Vendor.

As disclosed in the Letter from the Board, the Consideration was determined after arm's length negotiations between the parties with reference to, among other things, the valuation of the Properties as at 30 November 2021 by way of market approach for the valuation of the Land and cost approach for the valuation of the Plant at RMB25,900,000, conducted by Masterpiece Valuation Advisory Limited (the "**Valuer**"), an independent valuer engaged by the Company.

Conditions precedent : Completion is conditional upon and subject to the satisfaction (or waiver, as the case may be) of the following conditions:

(i) the passing by the Independent Shareholders at the EGM of the necessary resolution(s) to approve the Agreement and the transactions contemplated thereunder in accordance with the requirements under the Listing Rules;

(ii) all necessary governmental, regulatory and other third parties' consents and approvals required to be obtained on the part of the Vendor in respect of the Agreement and the transactions contemplated thereunder having been obtained;

(iii) all necessary governmental, regulatory and other third parties' consents and approvals required to be obtained on the part of the Purchaser in respect of the Agreement and the transactions contemplated thereunder having been obtained;

(iv) the Purchaser being satisfied with the results of the due diligence review to be conducted in relation to the Properties;

(v) the obtaining of a PRC legal opinion (in form and substance satisfactory to the Purchaser) from a PRC legal adviser designated by the Purchase in relation to the Agreement and the transactions contemplated thereunder;

(vi) the obtaining of a valuation report from the valuer designated by the Company confirming that the valuation of the Properties is not less than RMB25,900,000;

(vii) the Charge having been released; and

(viii) from the date of the Agreement and up to the Completion Date, the warranties and representations given by the Vendor in the Agreement remaining true and accurate and not misleading.

The Purchaser may at its absolute discretion at any time waive in writing any of the conditions (iv) and (viii) above and such waiver may be made subject to such terms and conditions as may be determined by the Purchaser. Other than conditions (iv) and (viii), all other conditions set out above are not waivable. If any of the conditions set out in the Agreement have not been satisfied (or as the case may be, waived) on or before 5:00 p.m. on 28 February 2022 (or such later date as may be agreed between the Vendor and the Purchaser in writing), the Agreement shall cease and determine and the Vendor shall within three Business Days refund the First Part Payment to the Purchaser in full, and thereafter none of the parties to the Agreement shall have any obligations and liabilities towards the other save for any antecedent breaches of the terms of the Agreement, and none of the parties to the Agreement shall claim or enforce any other damages or claims against the other.

As at the Latest Practicable Date, conditions (iv) and (v) were fulfilled whereas all other conditions remained unfulfilled.

Completion : Completion shall take place within 3 Business Days after fulfilment (or waiver, as the case may be) of all the conditions precedent under the Agreement. Upon Completion, the Properties shall be owned by the Purchaser and registered under the name of the Purchaser with the relevant governmental authority and the Purchaser shall obtain the relevant rights certificates in relation to the Properties.

5. Valuation of the Properties and the Consideration

The Consideration was determined after arm's length negotiations between the parties with reference to, among other things, the valuation of the Properties as at 30 November 2021 by way of market approach for the valuation of the Land and cost approach for the valuation of the Plant at RMB25,900,000 (the "**Valuation**"), conducted by the Valuer. The full text of the valuation report and certificate dated 8 February 2022 (the "**Valuation Report**") is set out in Appendix II to the Circular, and Independent Shareholders are recommended to read in full.

We have conducted an interview with the Valuer to enquire his experience in valuing similar properties in the PRC and its independence. We have also reviewed the terms of engagement of the Valuer, in particular to its scope of work. We noted that its scope of work is appropriate to form the opinion required to be given and there are no limitations on the scope of work which might adversely impact on the degree of assurance given by the Valuer in the Valuation Report. We have also performed work as required under note (1)(d) to the Listing Rule 13.80 in relation to the Valuer and its work as regards the Valuation.

The Valuer has assessed the conditions of the Properties and no material defects were noted. We have reviewed the Valuation Report and discussed with the Valuer the methodology, bases and assumptions they have adopted in arriving at the Valuation. As disclosed in the Valuation Report, the Properties are valued on the basis of depreciated replacement cost which is based on (i) the market value for the existing use of the land (i.e. the Land); and (ii) the current cost of replacement (reproduction) of the improvements (i.e. the Plant), less deductions for physical deterioration and all relevant forms of obsolescence and optimization, meaning that the Valuer adopted the market approach for the valuation of the Land and the cost approach for the valuation of the Plant.

Set out below is the valuation methodology adopted for each of the Land and the Plant and their respective market values as at 30 November 2021:

Properties	**Valuation methodology**	**Market value**
The Land	Market approach	RMB14,700,000
The Plant	Cost approach	RMB11,200,000
	Total	**RMB25,900,000**

In relation to the Land

When arriving at the market value of the Land, the Valuer has adopted the market approach by making reference to comparable sales transactions (the "**Comparable Transactions**") as available in the relevant market, subject to appropriate adjustments including time, location, size and other relevant factors (the "**Adjustments**").

As advised by the Valuer, the Comparable Transactions are selected based on the following criteria: (i) the transacted lands are located in Zhuji City, Zhejiang Province, the PRC and for industrial use; (ii) the areas of the transacted lands are within the range of approximately 20,000 to 60,000 sq.m.; and (iii) the sales transactions occurred within one year prior to the valuation date (i.e. 30 November 2021).

We consider the Comparable Transactions to be fair and representative given (i) the subject lands (the "**Subject Lands**") in the Comparable Transactions are situated in the same city as the Properties do; (ii) both the Land and the Subject Lands are for industrial use; (iii) the Subject Lands are selected with reference to the area of the Land (i.e. 24,118.6 sq.m.); and (iv) the Comparable Transactions occurred in the most recent period which can provide a reference to the prevailing market prices of the lands located in the vicinity. Moreover, as disclosed in the Valuation Report, given the similarity between the Land and the Subject Lands from the perspectives of time, location and size, the Valuer has not made any Adjustments to the sales prices of the Subject Lands, which we consider to be fair and reasonable.

After taking into account (i) the market approach does not require significant level of judgements and assumptions to be made to arrive at the valuation as compared to the income approach; (ii) the Comparable Transactions could provide an objective reference to the prevailing market prices of the lands which are considered to be comparable to the Land; and (iii) the Comparable Transactions are fair and representative given the similarity between the Subject Lands and the Land, we consider that the methodologies, bases and assumptions adopted by the Valuer in determining the market value of the Land are appropriate.

In relation to the Plant

When arriving at the market value of the Plant, the Valuer has tried to research comparable transactions for the Plant with the following criteria: (i) the subject plants shall be located in Zhuji City; (ii) the subject plants shall be used for manufacturing of environmental pollution prevention equipment and electronic products; and (iii) the subject plants shall have building areas of 10,000 to 25,000 sq.m. and land area of 20,000 to 60,000 sq.m. However, no such comparable transactions can be identified. As a result, given no market sales comparables are readily available, the Valuer has adopted the cost approach due to the nature and structure of the Plant.

In the absence of a known market on comparable sales, the market approach cannot be used for the valuation. In using the cost approach to value the Plant, the Valuer has taken into account the current cost of replacement of the improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The Valuer has determined the replacement costs based on market research on recent construction costs of industrial buildings with nature and structure similar to the Plant incurred in bringing the subject assets to usable conditions. The Valuer has made reference to the market data published on www.gldzb.com（廣聯達指標網）(the "**Website**"), a website operated by Glodon Company Limited (the shares of which are listed on the Shenzhen Stock Exchange with stock code: 002410) which is a China-based software company engaged in engineering cost business, engineering construction business, engineering information business and overseas business.

As advised by the Valuer, the replacement cost of a building is subject to various factors, including but not limited to the structure and usage of the buildings. Based on the market data published on the Website, the Valuer identified two industrial buildings in China (the "**Subject Plants**"), the structure and usage of which are similar to those of the Plant. With reference to the construction cost per square meter of the Subject Plants published on the Website, the current replacement cost of the Plant is estimated to be RMB11,200,000.

As part of our due diligence, we have reviewed the working paper of the Valuer and noted that (i) the structure and usage of the Subject Plants are similar to those of the Plant; and (ii) the estimated construction cost per square meter of the Plant is closed to average and within the range of those of the Subject Plants. We have also checked the data on the working paper against the Website. We have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the methodologies used by the Valuer in arriving at the valuation of the Plant.

After taking into account (i) the income approach requires significant level of judgements and assumptions to be made to arrive at the valuation; (ii) the market approach is not available given no market sales comparables are readily available as stated above; and (iii) the replacement costs of the Plant are based on recent construction costs of similar industrial buildings, we consider that the methodologies, bases and assumptions adopted by the Valuer in determining the market value of the Plant are appropriate.

In addition, as stated in the Valuation Report, the Valuation is conducted in compliance with Chapter 5 and Practice Note 12 of the Listing Rules, the HKIS Valuation Standards (2020 Edition) published by the Hong Kong Institute of Surveyors and the International Valuation Standards published from time to time by the International Valuation Standards Council.

Based on the above, we consider that the methodology, bases and assumptions adopted by the Valuer in determining the market value of the Properties are appropriate and the Valuation is fair and reasonable so far as the Independent Shareholders are concerned.

Taking into account (i) the methodology, bases and assumptions adopted by the Valuer in determining the market value of the Properties are appropriate; (ii) the Consideration is in line with the Valuation; and (iii) the reasons for and benefits of the Acquisition as set out above, we consider that the Consideration and the terms of the Agreement (including the Consideration) are fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

6. Financial effects of the Acquisition

Upon Completion, the Properties will be recognised as non-current assets of the Company with original book value of approximately RMB26.5 million (being the aggregate of Consideration in the amount of RMB25.9 million and total expenses incurred by the Company for the Acquisition in the amount of approximately RMB0.6 million) and the Company will settle the Consideration and total expenses incurred by the Company for the Acquisition in the aggregate amount of approximately RMB26.5 million in cash shortly after Completion. Therefore, it is expected that the Acquisition would not have any material effect on the amount of total assets and net assets of the Group upon Completion.

Other than the depreciation and amortisation of the Properties, the Acquisition would not have material impact on the earnings of the Group. Given the Consideration shall be funded by the Group's internal resources, the Acquisition will reduce the cash resources of the Group which will in turn reduce the net current assets and increase the gearing ratio of the Group, assuming other things remain unchanged.

As set out in Appendix I to the Circular, the Directors are of the opinion that, taking into account the effect of the transactions contemplated under the Agreement, the Group will have sufficient working capital to satisfy its present requirements for the next twelve months from the date of this circular in the absence of unforeseen circumstances.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial performance and position of the Group will be upon Completion.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the terms of the Agreement (including the Consideration) are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the Agreement, while not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Agreement.

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited
Larry Choi
Managing Director

Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry.

FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three financial years ended 31 December 2018, 2019 and 2020 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (www.tengy.com):

- annual report of the Group for the year ended 31 December 2018 published on 15 April 2019 (pages 80 to 147), available on https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0415/ltn20190415231.pdf

- annual report of the Group for the year ended 31 December 2019 published on 11 May 2020 (pages 85 to 159), available on https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0511/2020051101287.pdf

- annual report of the Group for the year ended 31 December 2020 published on 28 April 2021 (pages 81 to 159), available on https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0428/2021042800615.pdf

STATEMENT OF INDEBTEDNESS

As at the close of business on 31 December 2021, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the total indebtedness of the Group was as follows:

(a) Borrowings

The Group had outstanding secured borrowings of (i) RMB46,500,000, which were secured by the Group's building situated in the PRC; and (ii) in aggregate of RMB60,000,000, which were secured by buildings situated in the PRC held by the subsidiaries of the controlling shareholder of the Company and corporate guarantee under controlling shareholder of the Company.

(b) Contingent liabilities

The Group did not have any significant contingent liabilities.

(c) Finance lease obligation

The Group did not have any significant finance lease obligation.

Disclaimer

Save as aforesaid or as otherwise disclosed herein, as at the close of business on 31 December 2021, and apart from intra-group liabilities, the Group did not have any loan capital issued and outstanding or agreed to be issued, or any outstanding bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save for the decrease in net profit of the Group as disclosed in the profit warning announcement of the Company dated 29 July 2021, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, the date to which the latest published audited financial statements of the Group were made up.

WORKING CAPITAL SUFFICIENCY

The Directors after due and careful enquiry are of the opinion that, taking into account the financial resources including internally generated fund, the banking facilities available to the Group as well as effect of the transactions contemplated under the Agreement, the Group will have sufficient working capital to satisfy its present requirements for the next twelve months from the date of this circular in the absence of unforeseen circumstances.

As at the Latest Practicable Date, the Company has obtained the confirmation as required under Rule 14.66(12) of the Listing Rules from the auditors of the Company that (a) the above statement has been made by the Directors after due and careful enquiry; and (b) the persons or institutions providing finance have confirmed in writing that such facilities exist.

FINANCIAL AND TRADING PROSPECTS

Following the Completion, the Company intends to continue the operation of its existing businesses (i.e. the sales of environmental protection equipment, sales of materials and rendering of services) and has no intention to scale down or introduce any changes to the existing businesses of the Group. The Company currently does not have any plan or intention, nor has it entered into any agreement, arrangement, understanding or negotiation (whether formal or informal, expressed or implied), to acquire any new businesses or dispose of any of its existing business in the next twelve months.

Set out below is the management discussion and analysis of performance and other information of the Group for the year ended 31 December 2020 principally extracted from the annual report of the Company for the year ended 31 December 2020. Unless the context otherwise requires, capitalised terms used herein shall have the same meanings as those defined in the Company's annual report for the year ended 31 December 2020.

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 ended 31 December 2020 (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 the 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 the urban air quality checklist management system and the continuous 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 precipitators 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	
	RMB'000	*%*	*RMB'000*	*%*
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	607,078	100	726,647	100

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	
	RMB'000	*%*	*RMB'000*	*%*
Environmental protection equipment				
Ash removal and transfers				
– Electrostatic precipitator	271,097	47	458,886	66
– Electrostatic-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 NOx emission reduction (desulfurisation and denitrification devices)	165,554	28	53,157	7
	580,530	100	696,284	100

The Group's revenue for the Year was mainly generated from sales of electrostatic precipitator and SO_2 and NOx 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 SO_2 and NOx 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	
	RMB'000	*%*	*RMB'000*	*%*
Revenue				
Newly installed	475,044	82	570,106	82
Upgrading/modication	105,486	18	126,178	18
	580,530	100	696,284	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 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 *(RMB'000)*	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 14.4 million or approximately 11.5% 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; and

(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 RMB21.1 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 an agreement with 浙江天潔新能源股份有限公司 (Zhejiang Tianjie New Energy Company Limited) ("**Tianjie New Energy**"), pursuant to which the Company conditionally agreed to acquire and Tianjie New Energy 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 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.

FINANCIAL EFFECTS OF THE ACQUISITION

As at 30 June 2021, the unaudited total assets of the Group amounted to approximately RMB1,531 million. Upon completion of the Acquisition, the Properties will be recognised as non-current assets of the Company with original book value of approximately RMB26.5 million (being the aggregate of Consideration in the amount of RMB25.9 million and total expenses incurred by the Company for the Acquisition in the amount of approximately RMB0.6 million) and the Company will settle the Consideration and total expenses incurred by the Company for the Acquisition in the aggregate amount of approximately RMB26.5 million in cash shortly after Completion. Therefore, it is expected that the Acquisition would not have any effect on the amount of total assets of the Group upon Completion.

As the Company will settle the Consideration and total expenses incurred by the Company for the Acquisition by cash and shortly after Completion, it is expected that the Acquisition would not have any effect on each of the earnings and liabilities of the Company.

The following is the text of a letter and a valuation certificate prepared for the purpose of incorporation in this circular received from Masterpiece Valuation Advisory Limited, an independent valuer, in connection with its valuation as at 30 November 2021 of the property interests.

Masterpiece Valuation
睿力評估咨詢

Room 1105, 93-103 Wing Lok Street,
Sheung Wan, Hong Kong

TEL : (852) 5172 2228
WEB : www.mpval.com

8 February 2022

The Board of Directors
Zhejiang Tengy Environmental Technology Co., Ltd.
TENGY Industrial Park, Paitou Town, Zhuji City, Zhejiang Province, The PRC

Dear Sirs/Madams,

INSTRUCTIONS

In accordance with the instructions of Zhejiang Tengy Environmental Technology Co., Ltd. (the "**Company**") and its subsidiaries (hereinafter together referred to as the "**Group**") for us to carry out the valuation of the property interests located in East Red Tea Plantation, Paitou Town, Zhuji City, Zhejiang Province, the People's Republic of China (the "**PRC**") held by the Tengy Group Limited (the "**Target Company**"). We confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the Market Value of the property interests as at 30 November 2021 (the "**Valuation Date**").

VALUATION STANDARDS

In valuing the property interests, we have complied with all the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), the HKIS Valuation Standards (2020 Edition) published by the Hong Kong Institute of Surveyors and the International Valuation Standards published from time to time by the International Valuation Standards Council.

BASIS OF VALUATION

Our valuation is carried out on a Market Value basis, which is defined as "*the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*".

VALUATION ASSUMPTIONS

Our valuation of the property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value or costs of sale and purchase or offset for any associated taxes.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In the course of our valuation of the property in the PRC, we have assumed that transferable land use rights in respect of the property for a specific term at nominal annual land use fees have been granted and that any premium has already been fully settled. We have relied on the advice given by the Group regarding the title to the property. For the purpose of our valuation, we have assumed that the grantee has an enforceable title to the property.

In valuing the property in the PRC, we have assumed that the grantees or the users of the property have free and uninterrupted rights to use or to assign the property for the whole of the unexpired term as granted.

Unless noted in the report, vacant possession is assumed for the property concerned.

Moreover, we have assumed that the design and construction of the properties are/will be in compliance with the local planning regulations and requirements and had been/would have been duly examined and approved by the relevant authorities.

Continued uses assumes the properties will be used for the purposes for which the properties are designed and built, or to which they are currently adapted. The valuation on the property in continued uses does not represent the amount that might be realised from piecemeal disposition of the property in the open market.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed. Moreover, it is assumed that all required licences, consents or other legislative or administrative authority from any local, provincial or national government or private entity or organisation either have been or can be obtained or renewed for any use which the report covers.

It is also assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined and considered in the valuation report. In addition, it is assumed that the utilisation of the land and improvements are within the boundaries of the properties described and that no encroachment or trespass exists, unless noted in the report.

We have further assumed that the properties were not transferred or involved in any contentious or non-contentious dispute as at the valuation date. We have also assumed that there was not any material change of the properties in between dates of our inspection and the valuation date.

VALUATION METHODOLOGY

In the course of our valuation, unless otherwise stated, we have valued the properties in their designated uses with the understanding that the properties will be used as such (hereafter referred to as "continued uses").

In valuing the property interests, due to the nature of the buildings and structures of the property interests, there are no suitable market sales comparables readily available, we have valued a property on the basis of its depreciated replacement cost. Depreciated replacement cost is defined as "*the current cost of replacing an asset with its modern equivalent asset less deduction for physical deterioration and all relevant forms of obsolescence and optimization*". It is based on an estimation of the market value for the existing use of the land by market approach which is making reference to comparable sales transactions as available in the relevant market, subject to appropriate adjustments including time, location, size and other relevant factors, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interests is subject to adequate potential profitability of the concerned business. When arriving at the market value of the building, we have tried to research comparable transactions for the building subject to various criteria including location, usage, size and the business nature. However, no such comparable transactions can be identified. As a result, given no suitable market sales comparables are readily available, we have adopted the cost approach due to the nature and structure of the building.

TITLE INVESTIGATION

We have been provided with copies of documents in relation to the title of the property interests in the PRC. Where possible, we have examined the original documents to verify the existing title to the property interest in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. All documents have been used for reference only and all dimensions, measurements and areas are approximate. In the course of our valuation, we have relied considerably on the legal opinion given by the Company's PRC legal adviser – Shang Hai Yu Ben Law Firm, concerning the validity of title of the property interests in the PRC.

SITE INVESTIGATION

In face of the undesirable impact brought by the coronavirus epidemic and the resulting restrictions on travelling in Zhuji City, Zhejiang Province, The PRC, site inspection of the properties has not been arranged. To better understand the conditions of the property, we have taken alternative procedure, by seeking assistance from the Group and obtaining video records or photos or live stream of those property by Greivis Sze (Associate Director of Masterpiece Valuation Advisory Limited) on 26 November 2021.

Our inspections of the valuation of the property have been based on the alternative procedure mentioned above. To replace onsite inspection by the alternative procedure, the Company's employees have been trained by video calls and telephone calls. The information provided by the Company, information available through general internet search and in our existing databases were analysed to ensure an accurate understanding of the properties conditions. Such alternative procedure complies with HKIS Valuation Standard 2020, VS.7.1.5 and VS.7.1.8, and we are of the view that our valuation of the Group's property is not materially influenced by the alternative procedure taken. Based on the adoption of the alternative procedure, we do not expect any material discrepancies.

Moreover, no structural surveys have been undertaken, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the Property is free of rot, infestation or any other structural defects. No tests were carried out on any of the utility services.

SOURCE OF INFORMATION

Unless otherwise stated, we shall rely to a considerable extent on the information provided to us by the Company or the legal or other professional advisers on such matters as statutory notices, planning approvals, zoning, easements, tenures, completion date of buildings, development proposal, identification of properties, particulars of occupation, site areas, floor areas, matters relating to tenure, tenancies and all other relevant matters.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view and we have no reason to suspect that any material information has been withheld.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

LIMITING CONDITION

Wherever the content of this report is extracted and translated from the relevant documents supplied in Chinese context and there are discrepancies in wordings, those parts of the original documents will take prevalent.

CURRENCY

Unless otherwise stated, all monetary amounts stated in this report are in Renminbi (RMB).

Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,
For and on behalf of
Masterpiece Valuation Advisory Limited
Sr Oswald W Y Au
MHKIS(GP) AAPI MSc(RE)
Registered Professional Surveyor (GP)
Managing Director

Note: Mr. Oswald W Y Au holds a Master's Degree of Science in Real Estate from the University of Hong Kong. He is also a member of Hong Kong Institute of Surveyors (General Practice) and Associate Member of Australian Property Institute. In addition, he is a Registered Professional Surveyor (General Practice) registered with Surveyors Registration Board. He has over 15 years' experience in the valuation of properties including Hong Kong, the PRC, the U.S., Canada, East and Southeast Asia including Singapore, Japan and Korea.

VALUATION CERTIFICATE

Property interests held by the Target Company in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 November 2021 *RMB*
1.	An industrial property Located at East Red Tea Plantation, Paitou Town, Zhuji City, Zhejiang Province, the PRC	The property comprises 1 parcel of land with a total site area of approximately 24,118.6 sq.m. and include an industrial building erected thereon and was completed on 2003. The building has a total gross floor area of approximately 11,809.26 sq.m.. The ancillary structures mainly included enclosure wall and road. The property is located at Paitou Town, Zhuji City, near the TENGY Industrial Park, with approximately 22km to Zhuji Train station and 85km to Hangzhou International Airport. The land use rights of the property have been granted for a term expiring on 30 December 2046 and 4 July 2050 for industrial use respectively.	The property is currently occupied by Target Company for industrial use.	25,900,000 (100% interest attributable to the Target Company: 25,900,000)

Notes:

i. Pursuant to the Real Estate Ownership Certificate – Zhe (2020) Zhu Ji Shi Bu Dong Chan Quan Di No. 0010649 dated 17 April 2020 with a total site area of approximately 24,118.6 sq.m. and a building area of approximately 11,809.26 sq.m. has been vested to Tengy Group Limited, the Vendor, portion of the land use right with a site area of approximately 14,061.96 sq.m. have been granted for a term expiring on 30 December 2046 and the remaining portion of the land use right with a site area of approximately 10,056.64 sq.m. have been granted for a term expiring on 4 July 2050 for industrial use respectively.

ii. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers – Shang Hai Yu Ben Law Firm, which contains, *inter alia*, the following:

a. Target Company has legally obtained both land use right and building ownership of the property;

b. The Target Company warrants to fully compensate all losses in relation to the Property or any circumstances that may result in the land use rights or the Property being affected; and

c. The property was pledged.

iii. The selection criteria of the transaction and/or asking price references of the land comparable references are stated as below:

a. The comparable references are located in Zhuji City, Zhejiang Province, the PRC;

b. The comparable references are for industrial use;

c. The site area of the comparable references are within the range of approximately 20,000 to 60,000 sq.m.

d. The transaction date of the comparable references are occurred within one year prior to the valuation date (i.e. 30 November 2021.)

The comparable references are exhaustive based on the above selection criteria.

iv. Comparable list:

Address:	**Site Area**	**Usage**	**Consideration**	**Unit Rate** *(sq.m.)*
Huandong Street, Taihe Village, Zhuji City, Zhejiang Province, the PRC	38,617.20	Industrial	28,970,000	750.18
Yaojiang Town, Yaogongbu Village, Zhuji City, Zhejiang Province, the PRC	31,615.90	Industrial	23,720,000	750.26
Northwest side of Jiefanghuzonger Road and Erhao Road, Diankou Town, Zhuji City, Zhejiang Province, the PRC	51,024.00	Industrial	38,270,000	750.04

v. We have adopted the comparable references by considering time, size, usage and locality and no adjustments have been adopted.

vi. We have taken into account the current cost of replacement of the improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. Based on market research from www.gldzb.com（廣聯達指標網）on recent two construction cases of similar industrial buildings with similar structure in the PRC, we have adopted the range of unit cost between RMB1,600 to 1,800 per sq.m., time factor has been considered in arriving the replacement cost and we have adopted RMB1,700 as the replacement cost of the subject building.

vii. The market value of the land and buildings:

Description:	**Formula:**	**Market Value** *(RMB)*
Land	**Land Value = A*B** *Where:* *A = Adopted unit rate of the land* Land lease term correction factor (Land lease term correction factor is a factor to reflect the remaining land tenure of the subject land parcel as the land use right has been granted from 1996.) – RMB750*0.81 = RMB607.5* B = Land area (sq.m.) – 24,118.60 sq.m.	14,700,000
Buildings	**Building Value = C*D*E** *Where:* *C = Adopted replacement cost of the building – RMB1,700* *D = Building area (sq.m.) – 11,809.26 sq.m.* *E = Newness Rate (%)* (Newness rate is a factor to reflect the depreciation of the subject building, as RMB1,700 is the replacement cost of the subject building and it was completed in 2003.) – 56%	11,200,000

viii. In our valuation, we have made reference to some transaction price references of land comparables in the subject and nearby development. We have adopted the range of unit rates between RMB 700 to RMB 800 per sq.m. The unit rates assumed by us are consistent with the said price reference. Due adjustments to the unit rates of those price reference have been considered to reflect factors including but not limited to time, location and size in arriving at the key assumptions.

ix. A summary of major certificates/licenses is shown as follows:

a.	Real Estate Ownership Certificate	Yes

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects, not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors adopted by the Company ("**Model Code**"), to be notified to the Company and the Stock Exchange, were as follows:

1. Long position in respect of domestic shares of the Company ("Domestic Shares") as at the Latest Practicable Date:

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	13,671,000	13.67	10.13
	Interest in a controlled corporation *(Note)*	64,579,500	64.58	47.84
Mr. Bian Jianguang	Beneficial owner	6,843,000	6.84	5.07
	Interest in a controlled corporation *(Note)*	64,579,500	64.58	47.84
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)*	64,579,500	64.58	47.84
Mr. Chen Jiancheng	Beneficial owner	1,851,000	1.85	1.37

Notes: According to the disclosure of interest filings, these 64,579,500 Domestic Shares 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.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at the Latest Practicable Date, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Interests of Substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, each of the following persons and entities (other than a Director or chief executive of the Company) had or was deemed to have interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

1. Long position in respect of Domestic Shares

Name	Capacity/Nature of interest	Number of Domestic Shares	Approximate % of total issued Domestic Shares	Approximate % of Company's share capital
The Vendor *(Note 1)*	Beneficial owner	64,579,500	64.58	47.84
Ms. Bao Guo *(Note 2)*	Family interest of spouse	78,250,500	78.25	57.96
Ms. Xu You *(Note 3)*	Family interest of spouse	71,422,500	71.42	52.91
Mr. Zhang Yuan Yuan *(Note 4)*	Family interest of spouse	68,512,500	68.51	50.75

Notes:

1. The Vendor 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.

4. Mr. Zhang Yuan Yuan, 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

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 *(Note)*	Interest in a controlled corporation	5,504,400	15.73	4.08

Note: 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.

Save as disclosed above, as at the Latest Practicable Date, the Company has not been notified by any person or entity who had or was deemed to have interests or short positions in the shares or underlying shares of the Company.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, all Directors have entered into letters of appointment or service contracts with the Company. None of the Directors had entered, or proposed to enter into a service contract with any member of the Group which does not expire or is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

4. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENT SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date:

(a) save for (i) the Acquisition; (ii) the acquisition of equipment pursuant to the equipment purchase agreement dated 28 December 2021 and entered into between the Purchaser and Tianjie New Energy; (iii) the acquisition of 40% equity interest in 浙江天潔磁性材料股份有限公司 (Zhejiang Tianjie Magnetic Materials Co., Ltd.*) pursuant to the agreement dated 8 June 2021 and entered into between the Company and TGL; and (iv) the acquisition of equipment pursuant to the equipment purchase agreement dated 27 January 2021 and entered into between the Company and 浙江天潔通用機械有限公司 (Zhejiang Tianjie General Machinery Co., Ltd.*, "**Tianjie General Machinery**"), the details of which were set out in the announcements of the Company dated 7 January 2022, 28 December 2021, 8 June 2021 and 27 January 2021 respectively, none of the Directors had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2020, being the date to which the latest published audited accounts of the Company were made up; and

(b) save for (i) the continuing connected transactions pursuant to the agreement (the "**Tianjie New Material Agreement**") dated 1 April 2020 and entered into between the Company and 浙江天潔新材料有限公司 (Zhejiang Tianjie New Material Co., Ltd.*) in relation to the provision of processing services of rock wool to the Company; and (ii) the continuing connected transactions pursuant to the agreement (the "**Tianjie General Machinery Agreement**") dated 4 January 2021 and entered into between the Company and Tianjie General Machinery in relation to the provision of services of processing mechanical parts and semi-finished products of environmental protection equipment to the Company, the details of which were set out in the announcements of the Company dated 1 April 2020 and 4 January 2021 respectively, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and was significant in relation to the business of the Group.

5. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective associates had any direct or indirect interest in a business which competes or may compete with the business of the Group.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save for the decrease in net profit of the Group as disclosed in the profit warning announcement of the Company dated 29 July 2021, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Company were made up.

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

8. MATERIAL CONTRACTS

Save for (i) the Agreement; (ii) the equipment purchase agreement dated 28 December 2021 entered into between Zhejiang Tianjie Environmental Engineering Co., Ltd.*（浙江天潔環境工程有限公司）as purchaser and Tianjie New Energy as vendor pursuant to which the purchaser agreed to acquire one 1.2 MW photovoltaic power plant with model specification 165mm x 100mm for the consideration of RMB8,289,000 in cash, further details of which are set out in the announcement of the Company dated 28 December 2021; (iii) the agreement dated 8 June 2021 entered into between the Company and TGL pursuant to which the Company agreed to acquire 40% equity interest in 浙江天潔磁性材料股份有限公司 (Zhejiang Tianjie Magnetic Materials Co., Ltd*) for the consideration of RMB68,000,000 (subject to downward adjustment) in cash, further details of which are set out in the circular of the Company dated 29 June 2021; (iv) the equipment purchase agreement dated 27 January 2021 entered into between the Company and Tianjie General Machinery as 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 for the consideration of RMB5,626,252 in cash, further details of which are set out in the announcement of the Company dated 27 January 2021; and (v) the agreement dated 1 June 2020 entered into between the Company and Tianjie New Energy, pursuant to which the Company agreed to acquire from Tianjie New Energy 49% equity interest in 內蒙古國電和潔風能有限公司 (Inner Mongolia Guodian Hejie Wind Energy Co., Ltd.*) for a total consideration of RMB73,500,000 (subject to downward adjustment) in cash, further details of which are set out in the circular of the Company dated 26 June 2020, no contract (not being contract in the ordinary course of business), which is or may be material, has been entered into by the Company or any of its subsidiaries within the two years immediately preceding the Latest Practicable Date.

9. QUALIFICATIONS AND CONSENTS OF EXPERTS

The following are the qualifications of the experts who had given its opinion and advice which are contained in this circular:

Name	Qualification
Rainbow Capital	A licensed corporation under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO
Masterpiece Valuation Advisory Limited	Independent Qualified Valuer

(a) as at the Latest Practicable Date, each of the experts above had no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;

(b) each of the experts above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or reports and references to its name in the form and context in which they are included;

(c) as at the Latest Practicable Date, each of the experts above did not have any direct or indirect interest in any assets which have been, since 31 December 2020 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group; and

(d) each of (i) the letter from Rainbow Capital; and (ii) the valuation report on the Properties from Masterpiece Valuation Advisory Limited set out in Appendix II, is given as of the date of this circular for incorporation herein.

10. GENERAL

(a) the joint company secretaries of the Company are Mr. Wong Shum Wai (formerly known as Mr. Wong Hon Kit) and Ms. Shen Qiong. Mr. Wong Shum Wai (formerly known as Mr. Wong Hon Kit) is currently a member of the Hong Kong Institute of Certified Public Accountants;

(b) the registered office of the Company is at TENGY Industrial Park, Paitou Town, Zhuji City, Zhejiang Province, The PRC;

(c) the Hong Kong principal office of the Company is at Room 1201, 12th Floor, Chung Ying Building, 20 Connaught Road West, Sheung Wan, Hong Kong;

(d) the address of the Company's H share registrar in Hong Kong is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong; and

(e) in the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.tengy.com) from the date of this circular up to and including the date of the EGM (being not less than 14 days):

(a) the material contracts referred to in the paragraph headed "8. Material Contracts" in this appendix;

(b) the Tianjie General Machinery Agreement;

(c) the Tianjie New Material Agreement;

(d) the articles of association of the Company;

(e) the annual reports of the Company for each of the three years ended 31 December 2018, 2019 and 2020;

(f) the interim report of the Company for the six months ended 30 June 2021;

(g) the letter from the Board to the Shareholders, the text of which is set out from pages 4 to 12 of this circular;

(h) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular;

(i) the letter from Rainbow Capital, the text of which is set out in the section headed "Letter from the Independent Financial adviser" of this circular;

(j) the valuation report on the Target Company issued by Masterpiece Valuation Advisory Limited as set out in Appendix II to this circular;

(k) the letters of consent from the experts referred to under the section headed "Qualifications and Consents of Experts" in this appendix; and

(l) this circular.

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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Zhejiang Tengy Environmental Technology Co., Ltd (the "**Company**") will be held at the Company's conference room, TENGY Industrial Park, Paitou Town, Zhuji City, Zhejiang Province, the People's Republic of China (the "**PRC**") on Monday, 28 February 2022 at 10:00 a.m. for the purposes of considering and, if thought fit, passing with or without amendments the following resolution:

ORDINARY RESOLUTION

"**THAT**:

(A) the agreement dated 7 January 2022 entered into between 浙江天潔環境工程有限公司 (for transliteration purpose only, Zhejiang Tianjie Environmental Engineering Company Limited) as purchaser and 天潔集團有限公司 (for transliteration purpose only, Tengy Group Limited) as vendor in relation to the acquisition of (i) the land-use rights to a state-owned land parcel (the "**Land**") situated at East Red Tea Plantation, Paitou Town, Zhuji City, Zhejiang Province, the PRC with the rights certificate number of 浙(2020)諸暨市不動產權第0010649號 (for transliteration purpose only, Zhe (2020) Zhuji City Immovable Assets number 0010649) and land-use rights area of 24,118.6 sq.m.; and (ii) a plant erected on the Land and situated at East Red Tea Plantation, Paitou Town, Zhuji City, Zhejiang Province, the PRC with building area of 11,809.26 sq.m. for the total consideration of RMB25,900,000 upon and subject to the terms and conditions as set out therein (the "**Agreement**") (a copy of which is tabled at the meeting and marked "A" and initialed by the chairman of the meeting for identification purpose) and the transactions contemplated thereunder and the implementation thereof be and are hereby approved, confirmed and ratified; and

(B) any one or more director(s) of the Company be and is (are) hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Agreement and the transactions contemplated thereunder and the implementation thereof."

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

Zhuji City, Zhejiang Province, the PRC, 8 February 2022

Notes:

(i) A member of the Company ("**Member**") entitled to attend and vote at the Meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a Member. A form of proxy for use at the Meeting is enclosed herewith. In the case of joint holders of any domestic share(s) ("**Domestic Share(s)**") or H share(s) ("**H Share(s)**") of the Company (collectively, "**Share(s)**"), only the person whose name appears first in the register of members shall be entitled to receive this notice, to attend and exercise all the voting powers attached to such Share(s) at the Meeting, and this notice shall be deemed to be given to all joint holders of such Share(s).

(ii) To be valid, the form of proxy together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Company's H share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, and in case of holders of domestic shares of the Company, to the Company's mailing address at TENGY Industrial Park, Paitou Town, Zhuji City, Zhejiang Province, the PRC, not later than 24 hours before the time appointed for holding the Meeting or any adjournment thereof or the time appointed for passing the resolution. Delivery of the form of proxy shall not preclude a Member from attending and voting in person at the Meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

(iii) The H Share register of members of the Company in Hong Kong will be closed from Wednesday, 23 February 2022 to Monday, 28 February 2022, both days inclusive, during which period no transfer of H shares of the Company will be effected. For the identification of Shareholders eligible to attend and vote at the Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 22 February 2022.

As at the date of this notice, the executive directors of the Company are Mr. BIAN Yu, Mr. BIAN Weican and Ms. BIAN Shu; the non-executive directors of the Company are Mr. BIAN Jianguang, Mr. CHEN Jiancheng and Mr. ZHU Xian Bo; and the independent non-executive directors of the Company are Mr. ZHANG Bing, Mr. FUNG Kui Kei and Mr. LI Jiannan.