
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 TRANSACTION
ACQUISITION OF LAND USE RIGHT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

A letter from the Board is set out on pages 4 to 11 of this circular.

A notice convening the extraordinary general meeting of the Company (“EGM”) to be held at Conference Room, 23rd Floor, Tianjie Building, No. 251 Huancheng East Road, Zhuji City, Zhejiang Province, the People’s Republic of China at 10:00 a.m. on Monday, 17 July 2023, 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 17/F, Far East Finance Centre, 16 Harcourt Road, 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 TENG Y 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.

23 June 2023

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DEFINITIONS

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

“Acquisition”	the acquisition of the land use right of the Target Land through the Process
“Board”	the board of Directors
“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
“Directors”	directors of the Company
“Domestic Shares”	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 Acquisition 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
“Latest Practicable Date”	16 June 2023
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“PRC”	the People’s Republic of China
“Process”	the process of bidding invitation, auction or listing* (招拍掛) for land use right of the Target Land, as required under the laws and regulations of the PRC
“Sale Confirmation”	sale confirmation (成交確認書) to be entered into between Changshan County Natural Resources and Planning Bureau (常山縣自然資源和規劃局) as seller to the land use right of the Target Land and the Company confirming, among other things, the successful bid for the land use right of the Target Land through the auction to be held on 20 June 2023
“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)”	the shareholders of the Company
“State-owned Construction Land Use Right Transfer Contract”	State-owned construction land use right transfer contract (國有建設用地使用權出讓合同) to be entered into between Changshan County Natural Resources and Planning Bureau (常山縣自然資源和規劃局) as seller to the land use right of the Target Land and the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“sq.m.”	square metre, unit of area
“Target Land”	a piece of land situated at Xindu area, Changshan Economic Development Zone, Changshang County, Zhejiang (i.e. No. 15, Innovation South Road, Jinchuan Street, Changshang County, the PRC) with plot number A2023-2 (浙江常山經濟開發區新都片區A2023-2號地塊) with a total area of 52,187 sq.m.
“20th National Congress Report”	report entitled “Hold High the Great Banner of Socialism with Chinese Characteristics and Strive in Unity to Build a Modern Socialist Country in All Respects” delivered by President Xi Jinping at the 20th National Congress of the Communist Party of China held on 16 October 2022

DEFINITIONS

“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	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.

LETTER FROM THE BOARD

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 (*Vice-chairman*)
Ms. BIAN Shu
Mr. ZHANG Yuanyuan

Non-executive Directors:

Mr. ZHU Xian Bo (*Chairman*)
Mr. CHEN Jiancheng
Mr. LAN Lei

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

23 June 2023

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION
ACQUISITION OF LAND USE RIGHT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

Reference is made to the announcements of the Company dated 2 May 2023 and 1 June 2023 respectively in relation to the Acquisition. The purpose of this circular is to provide you with further information on the Acquisition and the notice of EGM.

THE ACQUISITION

The Company intends to acquire the land use right of the Target Land through the Process.

LETTER FROM THE BOARD

Information of the Target Land

The Target Land is a piece of land situated at Xindu area, Changshan Economic Development Zone, Changshang County, Zhejiang (i.e. No. 15, Innovation South Road, Jinchuan Street, Changshang County, the PRC) with plot number A2023-2 (浙江常山經濟開發區新都片區A2023-2號地塊) with a total area of 52,187 sq.m. and can be used for industrial purpose for a term of 50 years.

The Target Land, upon successfully acquired by the Company through the Process, will be developed and utilised by the Company as a plant for the production of environmental pollution prevention equipment and electronic products.

Consideration

The consideration of the Target Land is subject to the result of the auction. The starting bid price of the land use right of the Target Land is RMB14.1 million. The existing buildings with total gross floor area of approximately 25,216.07 sq.m., structures and attachments thereon at the Target Land with assessed value of approximately RMB32.9 million will be transferred together with the land use right of the Target Land and will be payable to Changshan County Economic Development Zone Management Committee (常山縣經濟開發區管理委員會).

Assuming that the Company will win the auction at the bid price of RMB14.1 million, the total consideration payable by the Company for the Acquisition will be approximately RMB47 million. The consideration for the Acquisition will be funded by the Company's internal resources.

The Process

The Process has commenced on 30 May 2023 and is listed on the Zhejiang province land use right online trading system (浙江省土地使用權網上交易系統) and the details of which are as follows:–

- (i) the Target Land is a piece of land situated at Xindu area, Changshan Economic Development Zone, Changshang County, Zhejiang (i.e. No. 15, Innovation South Road, Jinchuan Street, Changshang County, the PRC) with plot number A2023-2 (浙江常山經濟開發區新都片區A2023-2號地塊) with a total area of 52,187 sq.m. and can be used for industrial purpose for a term of 50 years;
- (ii) as approved by Changshan Country People's Government (常山縣人民政府), the land use right of the Target Land will be available for sale by way of auction and the seller is Changshan County Natural Resources and Planning Bureau (常山縣自然資源和規劃局), a third party independent of the Group and its connected persons (as defined in the Listing Rules);

LETTER FROM THE BOARD

- (iii) the registration for the auction has commenced at 4 p.m. on 30 May 2023 and will expire at 4 p.m. on 19 June 2023. The participation of the auction requires a bid deposit in the amount of RMB2.82 million and will be payable by 4 p.m. on 19 June 2023. The bid deposit will be returned to the bidder in full (without interest) if the bidder fails to win the auction. The auction of the land use right of the Target Land will commence at 9:30 a.m. on 20 June 2023. The starting bid price of the land use right of the Target Land is RMB14.1 million;
- (iv) the existing buildings with total gross floor area of approximately 25,216.07 sq.m., structures and attachments thereon at the Target Land with assessed value of approximately RMB32.9 million will be transferred together with the land use right of the Target Land and will be payable to Changshan County Economic Development Zone Management Committee (常山縣經濟開發區管理委員會);
- (v) the bidder with the highest bid will be the winner of the auction and will enter into a Sale Confirmation (成交確認書) and State-owned Construction Land Use Right Transfer Contract (國有建設用地使用權出讓合同) with Changshan County Natural Resources and Planning Bureau (常山縣自然資源和規劃局);
- (vi) Changshan County Natural Resources and Planning Bureau (常山縣自然資源和規劃局) will announce the results of the auction on the China Land Market Network (中國土地市場網) within 5 working days after the end of the auction; and
- (vii) completion will take place within 30 days after the bidder pays all the land transfer price and other expenses and the Local People's Government (Development Zone Management Committee)(屬地人民政府(開發區管委會)) and Changshan County Natural Resources and Planning Bureau (常山縣自然資源和規劃局) will be responsible for the delivery of the land.

As at the Latest Practicable Date, the Company has already registered for the auction and made payment of the bid deposit.

The auction of the land use right of the Target Land will commence at 9:30 a.m. on 20 June 2023 and the bidder with the highest bid will be the winner of the auction and will enter into a sale confirmation (成交確認書) and State-owned Construction Land Use Right Transfer Contract (國有建設用地使用權出讓合同) with Changshan County Natural Resources and Planning Bureau (常山縣自然資源和規劃局).

LETTER FROM THE BOARD

MAJOR TERMS OF THE SALE CONFIRMATION

- Parties:
- (1) Changshan County Natural Resources and Planning Bureau (常山縣自然資源和規劃局) as seller of the land use right of the Target Company; and
 - (2) the Company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Changshan County Natural Resources and Planning Bureau (常山縣自然資源和規劃局) is a third party independent of the Group and its connected persons (as defined in the Listing Rules).

It will be confirmed in the Sale Confirmation, among others, that (i) the bidder has successfully won the auction to acquire the land use right of the Target Land; (ii) the total consideration for the Target Land; (iii) the bid deposit made by the successful bidder will be applied for payment of part of the total consideration for the Target Land; and (iv) the successful bidder will enter into the State-owned Construction Land Use Right Transfer Contract (國有建設用地使用權出讓合同) with Changshan County Natural Resources and Planning Bureau (常山縣自然資源和規劃局).

MAJOR TERMS OF THE STATE-OWNED CONSTRUCTION LAND USE RIGHT TRANSFER CONTRACT

- Parties:
- (1) Changshan County Natural Resources and Planning Bureau (常山縣自然資源和規劃局) as seller of the land use right of the Target Company; and
 - (2) the Company.

Payment terms of the consideration

The consideration shall be payable in full within 30 days from the date of the State-owned Construction Land Use Right Transfer Contract (the bid deposit of RMB2.82 million will be applied to set off part of the payment).

The payment of the consideration will be funded by internal resources of the Group.

Completion

Completion will take place within 30 days after all the land transfer price and other expenses have been settled and the Local People's Government (Development Zone Management Committee)(屬地人民政府(開發區管委會)) and Changshan County Natural Resources and Planning Bureau (常山縣自然資源和規劃局) will be responsible for the delivery of the land.

LETTER FROM THE BOARD

VALUATION OF THE TARGET LAND

The Target Land is valued at RMB48,700,000 as at 30 April 2023 based on the valuation of the Target Land conducted by an independent professional valuer by market approach. Further details of the valuation report is set out in Appendix II to this circular.

REASONS FOR AND BENEFITS OF THE ACQUISITION

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) rendering of services, including repair and replacement, and on-site engineering and maintenance services for those projects which were not constructed by the Group.

There has been a trend in central governmental policies and regulations to encourage and enforce environmental protection in the PRC. In particular, the 20th National Congress Report made strategic arrangements for the construction of ecological civilization in the future, such as coordinately promoting carbon reduction, pollution reduction, green expansion and growth and promoting ecological priority, conservation and intensiveness, green and low carbon development, so as to form a mutually reinforcing relationship between environment and development. In view of (i) the environmental friendliness nature of the Group's business; and (ii) the potential job opportunities and economic benefits to be brought by the Group to the Changshan County, the Changshan People's Government has been very supportive of the Group's business and has solicited the Company to participate in the Process. The Board believes that the Acquisition, when materialised, will allow the Company to increase its production capacity by approximately 50%, from approximately 80,000 tonnes per annum to approximately 120,000 tonnes per annum and expand its geographic reach by increasing its presence in Changshan County, particularly with the support of the local government. During the periods from 1 January 2022 to 31 December 2022 and from 1 January 2023 to 31 May 2023, the Company had entered into sales contracts of environmental protection products in the total amount of approximately RMB660 million and RMB790 million, respectively. Given that the total sales contract amount for the first five months of 2023 has already exceeded the total sales contracts amount for the financial year of 2022, the Board believes that the demand and growth potential of the environmental protection sector of the PRC will continue to grow. The Board also believes that through the Acquisition, the Group can meet its business development strategy to capture the opportunities in the environmental protection sector of the PRC and eventually, enhance the value of the Group and maximise the returns to the Shareholders.

Taking into consideration of the aforesaid, the Directors consider that the terms and conditions of the Acquisition 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.

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE ACQUISITION

Immediately upon completion of the Acquisition and as the consideration will be financed by the Group's existing internal resources, the financial effects upon the Group are: (i) an increase of non-current asset of approximately RMB47 million of the Group; (ii) a decrease of the Group's net cash position by approximately RMB47 million; (iii) an immaterial effect on the net assets of the Group; and (iv) an immaterial effect on the earnings of the Group.

LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Acquisition based on the valuation of the Target Land exceeds 25% but is less than 100%, the Acquisition constitutes a major acquisition under Chapter 14 of the Listing Rules and is therefore subject to the requirements of announcement, reporting and Shareholders' approval under Chapter 14 of the Listing Rules.

The Company has obtained the written approval from each of Mr. Bian Yu, Ms. Bian Shu, Mr. Bian Jianguang, Mr. Chen Jiancheng, 天潔集團有限公司 (for transliteration purpose only, Tengy Group Limited) and Guoxi Equity Investment, who holds approximately 5.7%, 2.03%, 2.85%, 1.37%, 30% and 29% (collectively approximately 70.95%) of the issued share capital of the Company respectively as at the Latest Practicable Date, that they approve the Acquisition and will vote for the resolution(s) to be proposed at the EGM in relation to the Acquisition and the transactions contemplated thereunder.

EGM

The notice of EGM is set out on pages EGM-1 to EGM-2 of this circular. At the EGM, ordinary resolution will be proposed to the Shareholders at the EGM to consider and, if thought fit, to approve, confirm and ratify the Acquisition 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 the EGM.

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 is required to abstain from voting on the resolution to be proposed at the EGM.

LETTER FROM THE BOARD

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 any Shareholder;
- (ii) no Shareholder was subject to any obligation or entitlement whereby it/he/she had or it/he/she might have temporarily or permanently passed control over the exercise of the voting right in respect of its/his/her 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 any Shareholder'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/he/she 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 11 July 2023 are entitled to attend and vote at the EGM. The register of members of the Company will be closed from 12 July 2023 to 17 July 2023, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on 11 July 2023.

RECOMMENDATION

All the Directors are of the view that the Acquisition, although not in the ordinary and usual course of business of the Company, and the resolution proposed for consideration and approval by the Shareholders at the EGM is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the 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 EGM.

LETTER FROM THE BOARD

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. ZHU Xian Bo

Chairman and non-executive Director

Zhuji City, Zhejiang Province, the PRC 23 June 2023

FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three financial years ended 31 December 2020, 2021 and 2022 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 2020 published on 28 April 2021 (pages 81 to 159);
- annual report of the Group for the year ended 31 December 2021 published on 27 April 2022 (pages 85 to 159); and
- annual report of the Group for the year ended 31 December 2022 published on 28 April 2023 (pages 80 to 155).

STATEMENT OF INDEBTEDNESS

As at the close of business on 30 April 2023, 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 RMB55,000,000, which were secured by corporate guarantee.

(b) Contingent liabilities

The Group did not have any significant contingent liabilities.

(c) Operating lease obligation

The Group did not have any significant operating lease obligation.

Disclaimer

Save as aforesaid or as otherwise disclosed herein, as at the close of business on 30 April 2023, 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.

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.

As mentioned in the annual report of the Company for the year ended 31 December 2022, the Company will continue to actively search for appropriate acquisition targets to expedite its development, enhance its competitiveness and capture the opportunities in the pollution control sector of the PRC. New materials, which are considered to be more environmentally friendly compared with traditional materials, matches the mission and vision of the Group.

The Board is of the view that the Acquisition will enable the Group to diversity its business portfolio by entering into the new materials market in the PRC, which will in turn strengthen and expand the revenue and the asset base of the Group and maximise the Shareholders' interests in the long run.

Set out below is the management discussion and analysis of performance and other information of the Group for the year ended 31 December 2022 principally extracted from the annual report of the Company for the year ended 31 December 2022. 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 2022.

MANAGEMENT DISCUSSION AND ANALYSIS**Overview**

The Group is a first-class manufacturer of environmental protection products in China specializing in the design, manufacture, installation and servicing of environmental protection products as well as a general contractor for air pollution control projects such as precipitators and flue gas desulfurisation and denitrification devices in China, 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 a record of continual innovation in industrial technologies.

The Group has formed an all-round technology research and development system comprising technical scheme design, engineering design centers and technical transformation project improvement. The Group has an R&D center in Hangzhou and employs more than 10 professional engineers, whose fields of expertise are environmental engineering, civil engineering and mechanical and electrical engineering. In addition, the Group's design center also employs a number of professionals. The Group has become a municipal R&D center and technology center in Shaoxing.

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

The Group's sales of environmental protection equipment represented tailor-made and integrated atmospheric pollution control solutions offered by the Group to its customers, comprising engineering design, equipment procurement and manufacturing, supervision of installation and commissioning, customer training, and repair and maintenance services provided to its customers on a project basis.

During the Year, the Group mainly offered three types of precipitators: electrostatic precipitators, bag filter precipitator and SO₂ and NO_x emission reduction (desulfurisation and denitrification devices).

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

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

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

BUSINESS REVIEW

The 20th National Congress of the Communist Party of China was held on 16 October 2022 at the Great Hall of the People in Beijing. On behalf of the 19th Central Committee, President Xi Jinping delivered a report to the congress entitled “Hold High the Great Banner of Socialism with Chinese Characteristics and Strive in Unity to Build a Modern Socialist Country in All Respects” (the “**20th National Congress Report**”).

When summarizing the achievements of ecological civilization construction in the past decade, the 20th National Congress Report pointed out that “this has led to historic, transformative, and comprehensive changes in ecological and environmental protection and has brought us bluer skies, greener mountains, and cleaner waters”. It also clarified that the construction of ecological civilization has a fundamental and strategic position in the central tasks of the Communist Party of China in the new era and new journey, including promoting green development and promoting the harmonious coexistence of mankind and nature which has become one of the core elements of the new development concept.

China’s ecological civilization construction has established a strategic direction focusing on carbon reduction and promoting synergies between pollution reduction and carbon reduction. The 20th National Congress Report made strategic arrangements for the construction of ecological civilization in the future, such as coordinately promoting carbon reduction, pollution reduction, green expansion and growth and promoting ecological priority, conservation and intensiveness, green and low-carbon development, so as to form a mutually reinforcing relationship between environment and development.

Based on the concept of “promoting green development and harmonious coexistence between mankind and nature” proposed by the 20th National Congress Report, coupled with the 14th Five-Year Comprehensive Work Plan for Energy Conservation and Emission Reduction (“**14th Five-Year Work Plan**”) issued by the State Council of the PRC, energy conservation and emission reduction projects will become one of the priorities for accelerating the comprehensive green transformation of economic and social development and further achieving carbon peaking and carbon neutrality. Therefore, the environmental protection and emission reduction industry continues to be one of the important strategic industries in China with great development prospects.

According to the 14th Five-Year Work Plan, by 2025, China's total emissions of chemical oxygen demand, ammonia nitrogen, nitrogen oxides and volatile organic compounds must be reduced by 8%, 8%, more than 10% and more than 10%, respectively, compared with 2020, so that the emission control level of major pollutants in China's key industries will basically reach the internationally advanced level, so as to fully, accurately and comprehensively implement the statement of "respecting, adapting to, and protecting nature is essential for building China into a modern socialist country in all respects" as indicated in the 20th National Congress Report. We must firmly establish and practice the concept of "lucid waters and lush mountains are invaluable assets", and seek development from the perspective of "harmonious coexistence between mankind and nature".

In addition, the 14th Five-Year Work Plan also proposed to deploy ten key projects for energy conservation and emission reduction, among which, the green upgrade project in key industries, the pollutant emission reduction project in key regions, the clean and efficient coal utilization project and the comprehensive volatile organic compound treatment project are all within the scope of the Group's professional fields.

Therefore, the Group believes that the governments at all levels in China will more actively promote energy conservation, emission reduction and environmental governance, and formulate more policies, financial support or project management plans for ecological environment protection. With previous design and manufacturing experience and advanced technology, coupled with our strong R&D team, the Group believes that it can seize the business opportunities brought about by the 20th National Congress Report and the 14th Five-Year Work Plan to expand the Group's domestic market share.

The sporadic outbreak of the novel coronavirus disease (COVID-19) (the "**Epidemic**") in China at the end of 2022 resulted in a slowdown in economic activities and transportation difficulties in China. As a result, the Group's new tenders were delayed and customers' orders were affected. In response to the Epidemic, the Chinese government had issued a series of policies to provide relief in different aspects such as taxation and social security. The Chinese government also continued to streamline government administrative procedures, support new methods and models of business operations, increase investment in infrastructure and expand domestic demand, which contributed to a rapid recovery of the market and businesses.

In 2023, various uncertainties will affect the prospects of the Group's business. However, the Group will continue to work together to combat the Epidemic and seek business opportunities to expand revenue streams, enhance the Group's value and maximize the returns of the Shareholders.

For the Year, the revenue and total comprehensive income of the Group amounted to approximately RMB472.5 million and approximately RMB53.6 million respectively. During the Year, the Group's gross profit amounted to approximately RMB67.4 million, representing a decrease of approximately 39.2% as compared with approximately RMB111.0 million of the corresponding period of last year; while the Group's gross margin decreased by approximately 0.2% from last year to approximately 14.3%. The decrease was attributable to the completion of certain small-scale projects, which were with lower gross margin, 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 RMB671.8 million. As at 31 December 2022, 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 RMB2,063.7 million.

The Group's profit before tax for the Year increased to approximately RMB75.8 million while profits attributable to owners of the Company increased to approximately RMB53.6 million, representing a year-on-year increase of approximately 194.5% and increase of approximately 160.1% respectively. The aforesaid increase in profits attributable to owners of the Company is mainly due to the one-off gain on disposal of land in the amount of approximately RMB116.3 million; and the increase in the profits attributable to owners of the Company is partially offset by the decrease in gross profit due to the completion of certain small-scale projects, which were with lower gross margin, during the Year.

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 2022, the Group had 51 registered patents (including 3 invention patents and 48 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 2022, the Group maintained a total of 446 full-time employees (2021: 484). 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 RMB472.5 million for the Year representing a decrease of approximately 38.1% from approximately RMB763.2 million of the corresponding period of last year. The decrease was mainly due to more completion of the small-scale projects and fewer completion of the large-scale projects which result in the decrease in the scale of business.

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			
	2022		2021	
	RMB'000	%	RMB'000	%
Revenue				
Sales of environmental protection equipment	442,739	93	744,011	97
Sales of materials	29,549	6	18,878	2
Rendering of services	183	1	276	1
Total	472,471	100	763,165	100

Revenue generated from sales of environmental protection equipment of the Group amounted to over 93% 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			
	2022		2021	
	RMB'000	%	RMB'000	%
Environmental protection equipment				
Ash removal and transfers				
– Electrostatic precipitator	326,480	74	446,681	60
– Electrostatic-bag composite precipitator	10,393	2	39,809	5
– Bag filter precipitator	63,836	14	28,751	4
– Others (e.g. Pneumatic ash conveying system)	31,003	7	46,402	6
– SO ₂ and NO _x emission reduction (desulfurisation and denitrification devices)	<u>11,027</u>	<u>3</u>	<u>182,368</u>	<u>25</u>
Total	<u><u>442,739</u></u>	<u><u>100</u></u>	<u><u>744,011</u></u>	<u><u>100</u></u>

The Group's revenue for the Year was mainly generated from sales of electrostatic precipitator and bag filter precipitator. During the Year, as compared with the corresponding period of last year, the revenue derived from sales of electrostatic precipitator and SO₂ and NO_x emission reduction (desulfurisation and denitrification devices) were decreased by approximately RMB120.2 million and approximately RMB171.3 million respectively while the revenue derived from sales of bag filter precipitator was increased by approximately RMB35.1 million respectively.

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

	Year ended 31 December			
	2022		2021	
	RMB'000	%	RMB'000	%
Revenue				
Newly installed	426,693	96	721,754	97
Upgrading/modification	<u>16,046</u>	<u>4</u>	<u>22,257</u>	<u>3</u>
Total	<u>442,739</u>	<u>100</u>	<u>744,011</u>	<u>100</u>

Cost of sales

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

The cost of sales of the Group amounted to approximately RMB405.0 million for the Year representing a decrease of approximately 37.9% from approximately RMB652.2 million of the corresponding period of last year.

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	
	2022	2021
Gross profit (RMB'000)	67,439	110,990
Gross margin (%)	14.3%	14.5%

The Group's gross profit of the Year amounted to approximately RMB67.4 million, representing a significant decrease of approximately RMB43.6 million or approximately 39.2% as compared with approximately RMB111.0 million of the corresponding period of last year. The gross margin of the Group decreased to approximately 14.3% for the Year. The decrease was attributable to the completion of certain small-scale projects, which were with lower gross margin, during the Year.

Other income and gains

Other income and gains of the Group during the Year increased to approximately RMB120.8 million, representing a significant increase of approximately 780.8% from approximately RMB13.7 million of the corresponding period of last year. The other income and gains of the Group are mainly derived from gain on disposal of property, plant and equipment and right-of-use assets amounting to approximately RMB116.3 million.

Selling and distribution expenses

The Group's selling and distribution expenses of the Year amounted to approximately RMB15.8 million, representing an increase of approximately RMB1.7 million as compared with approximately RMB14.1 million of the corresponding period of last year. The selling and distribution expenses of the Group are mainly comprised of salaries and travelling expenses amounting to approximately RMB4.8 million and approximately RMB3.4 million respectively.

Administrative expenses

The administrative expenses of the Group for the Year amounted to approximately RMB63.3 million, representing a decrease of approximately 15.2% as compared with approximately RMB74.6 million of the corresponding period of last year, mainly due to: (i) the loss on disposal of investment at fair value through profit or loss in 2021 changed to gain in 2022, which decreased by approximately RMB10.2 million; and (ii) the research and development expenses in 2022 decreased by approximately RMB3.2 million from 2021 to approximately RMB12.2 million, mainly due to the decrease in the number of technicians employed by the Group and the related efforts in research and development during the Year.

Finance costs

The finance costs of the Year amounted to approximately RMB7.7 million, representing an increase of 19.0% as compared with approximately RMB6.4 million of the corresponding period of last year.

Income tax expenses

The Group's income tax expenses of the Year amounted to approximately RMB22.2 million, as compared with the income tax expenses approximately RMB5.1 million of the corresponding period of last year.

Trade and bills receivables

As at 31 December 2022, the trade and bills receivables of the Group were approximately RMB700.9 million, decreased by approximately RMB95.2 million as compared to approximately RMB796.1 million of the corresponding period of last year. The decrease in trade receivables before provision for loss allowance by approximately RMB105.4 million as compared with the corresponding period of the last year is mainly due to the decrease in the number of on-progress projects while the decrease in bill receivables before provision for loss allowance by approximately RMB29.1 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 2022, the Group experienced a decrease of inventories by approximately RMB30.1 million to approximately RMB291.3 million when compared to approximately RMB321.4 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 2022, the cash and cash equivalents of the Group increased by approximately RMB231.6 million to approximately RMB241.0 million when compared to approximately RMB9.4 million of the corresponding period of last year, which was mainly due to:

- (i) the net cash inflow of approximately RMB215.3 million generated from investing activities of the Group in the Year, which mainly consists of the cash inflow of approximately RMB205.7 million on proceeds from disposal of property, plant and equipment and right-of-use assets;
- (ii) the net cash inflow of approximately RMB67.2 million generated from the operation of the Group in the Year; and
- (iii) the net cash outflow of approximately RMB51.5 million used in financing activities, which mainly consists of the cash outflow of approximately RMB51.5 million on proceeds from bank borrowings and repayment of bank borrowings.

Indebtedness

As at 31 December 2022, the Group incurred outstanding bank loans (excluding margin loans) of approximately RMB55.0 million.

Net current assets

As at 31 December 2022, the net current assets of the Group (being the difference between total current assets and current liabilities) increased by approximately 39.8% from approximately RMB456.2 million of the corresponding period of last year to approximately RMB637.9 million for the Year.

Capital expenditure

No capital expenditures of the Group were used for the purchase of property, plant and equipment in the Year.

Exchange risk

The Group has transactional currency exposures. Such exposures arise from sales by operating units in currencies other than the functional currencies adopted by the units. Approximately 0% (2021: 0.2%) 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 7 January 2022, a wholly owned subsidiary of the Company, 浙江天潔環境工程有限公司 (Zhejiang Tianjie Environmental Engineering Company Limited*) (“**Tianjie Environmental**”), as the purchaser entered into an agreement (the “**Agreement**”) with TGL as the vendor, pursuant to which Tianjie Environmental conditionally agreed to acquire and TGL conditionally agreed to sell the land-use rights to a state-owned land parcel (the “**Land**”) and a plant erected on the Land for the consideration of RMB25,900,000 (the “**Acquisition**”). TGL was a controlling shareholder of the Company and hence the above transaction constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. On 14 April 2022, Tianjie Environmental and TGL entered into a termination deed, pursuant to which they agreed to terminate the Agreement and the Acquisition was terminated. For details, please refer to the announcements of the Company dated 7 January 2022 and 14 April 2022 and the circular of the Company dated 8 February 2022.

Save as disclosed 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 2022, the Group did not have any material contingent liabilities or guarantees.

PROSPECTS

In line with the new development concepts proposed by President Xi Jinping in the 20th National Congress Report, including the promotion of green development and the harmonious coexistence between mankind and nature, the Group will devote time and resources to enhance its research and development capabilities, develop new technologies and expand our portfolio of environmental protection equipment (such as precipitators, conveyers and desulfurisation and denitrification devices), so as to make strategic deployments for China's future construction of ecological civilization and realization of carbon peaking and carbon neutrality.

Besides, the Group will continue to actively seek appropriate acquisition projects to enter more different environmental protection and emission reduction industries, new materials and new energy fields.

The Group hopes to capture the opportunities arising from the 20th National Congress Report and the 14th Five-Year Work Plan through internal research and development and external expansion to consolidate the Group's existing business and promote the diversification of the Group's business, thereby expanding the Group's domestic and international market share.

The Group believes that its established customer base in the PRC and its years of experience in the overseas market 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 environmental protection and emission reduction industry.

APPENDIX II VALUATION REPORT ON THE TARGET 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 April 2023 of the property interests.



Suite 403, 93-103 Wing Lok Street,
Sheung Wan, Hong Kong

WEB: www.mpval.com

23 June 2023

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 Xindu area, Changshan Economic Development Zone, Changshan County, Quzhou City, Zhejiang Province, the People’s Republic of China (the “**PRC**”). 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 April 2023 (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.

APPENDIX II VALUATION REPORT ON THE TARGET COMPANY

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, we have valued by market approach which is generally by comparing recent market evidence of similar properties located in the neighbourhood area of the property. Adjustments are considered to reflect the differences in various aspects including market conditions, size, location, time, age, quality, and any other relevant factors when comparing such sales against the property. This approach is commonly used to value properties where reliable market evidence is available.

TITLE INVESTIGATION

We have been provided with copies of documents in relation to the property interests in the PRC. 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 information provided by the Company and shown in Zhejiang Province Land Use Right Online Trading System.

SITE INVESTIGATION

We have inspected the exteriors and, where possible, the interior of the Property. The site inspection was carried out on 17 May 2032 by Mr. Will Xu (holder of Master Degree in Business and Management, University of Glasgow and an Analyst of Masterpiece Valuation Advisory Limited). However, we have not carried out an investigation on site to determine the suitability of ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. We have further assumed that there is no significant pollution or contamination in the locality which may affect any future developments.

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 and shown in Zhejiang Province Land Use Right Online Trading System 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.

APPENDIX II VALUATION REPORT ON THE TARGET COMPANY

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 is a member of Hong Kong Institute of Surveyors (General Practice), Associate Member of Australian Property Institute and a Registered Professional Surveyor (General Practice) registered with Surveyors Registration Board. He has over 19 years' experience in financial valuation and property valuation in Hong Kong, the PRC, the U.S., and Asia Pacific region.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 April 2023 RMB
1.	Various Industrial Buildings and Land parcel No. A2023-2 Located at Xindu area, Changshan Economic Development Zone, Changshang County, Quzhou City, Zhejiang Province, the PRC	<p>The property comprises a parcel of land with a site area of approximately 52,187 sq.m. and includes various industrial buildings erected thereon.</p> <p>The building has a total gross floor area of approximately 25,216.07 sq.m..</p> <p>The property is located at Changshan County, Quzhou City, with approximately 56km to Quzhou Train station and 50km to Quzhou Airport.</p> <p>The land use rights of the property have been granted for a term of 50 years for industrial use.</p>	The property was vacant as of the valuation date.	<p>48,700,000</p> <p>(100% interest attributable to the Target Company: 48,700,000)</p>

Notes:

- i. Pursuant to the Auction of State-owned Land Use Rights Announcement – Chang Zi Ran Zi Gui Gao Zi (2023) No. 14 dated 30 May 2023 issued by Changshan County Natural Resources and Planning Bureau, the site area of the land parcel is 52,187 sq.m..

As revealed from the aforesaid Auction of State-owned Land Use Rights Announcement, the land parcel is subject to the following material development conditions:

Permitted Usage:	Industrial
Plot Ratio:	≥0.8
Site Coverage:	≤20%
Land tenure	50 years

- ii. Pursuant to Chang Shan (FJ) Gui Tiao Zi (2023) No.5 (B) dated 25 May 2023 issued by Changshan County Natural Resources and Planning Bureau, the total gross floor area of the buildings is 25,216.07 sq.m..

APPENDIX II VALUATION REPORT ON THE TARGET COMPANY

- iii. The property sales comparable are selected as they have characteristics comparable to the subject property. The price range of the comparable from RMB1,700 to RMB2,300 per sq.m. on gross floor area. The unit rate adopted in the valuation is consistent with the unit rate of the relevant comparable after considered various adjustments including size, location, time and any other relevant factors when comparing such sales against the subject property. In the course of our valuation, we have adopted the average unit rate of the comparable of RMB1,931 per sq.m. on gross floor area.

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

- a. The usage of the comparable references, which is industrial;
- b. The location of the comparable references, which are located in Quzhou City; and
- c. The size of the comparable references, which are above 6,000 sq.m.

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 and 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 the 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	7,693,250	7.69	5.70
	Interest in a controlled corporation (<i>Note 1</i>)	40,500,350	40.5	30.00
Ms. Bian Shu	Beneficial owner	2,739,750	2.74	2.03
Mr. Zhang Yuanyuan	Interest of spouse (<i>Note 2</i>)	2,739,750	2.74	2.03
Mr. Chen Jiancheng	Beneficial owner	1,851,000	1.85	1.37

Notes:

1. According to the disclosure of interest filings, these 40,500,350 Domestic Shares in the Company are beneficially owned by TGL which is in turn approximately 64.08% owned by Mr. Bian Yu. Pursuant to Part XV of the SFO, Mr. Bian Yu is deemed to be interested in TGL's interest in the Company.
2. Mr. Zhang Yuanyuan, the spouse of Ms. Bian Shu, is deemed to be interested in Ms. Bian Shu's interests in the Company by virtue of the SFO.

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 as at the Latest Practicable Date

Name	Capacity/Nature of interest	Number of Domestic Shares	Approximate % of total issued Domestic Shares	Approximate % of Company's share capital
天潔集團有限公司 ("TGL")	Beneficial owner	40,500,350	40.50	30.00
常山縣國熙股權投資有限公司 ("Guoxi Equity Investment")	Beneficial owner	39,150,000	39.15	29.00
諸暨市科源企業管理有限公司("Keyuan Enterprise")	Interest in a controlled corporation (<i>Note 1</i>)	40,500,350	40.50	30.00

Notes:

1. According to the disclosure of interest filings, these 40,500,350 Domestic Shares in the Company are beneficially owned by TGL which is in turn approximately 35.92% owned by Keyuan Enterprise. Pursuant to Part XV of the SFO, Keyuan Enterprise is deemed to be interested in TGL's interest in the Company.

2. Long position in respect of H Shares as at the Latest Practicable Date

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

Note 1: Mr. Zhao Kaiyuan, the controlling shareholder of Hong Kong Joint Financial Investment Ltd, is deemed to be interested in Hong Kong Joint Financial Investment Ltd's interests in the Company by virtue of the SFO.

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 the proposed major and connected transaction as detailed in the announcement of the Company dated 25 May 2023, 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 2022, being the date to which the latest published audited accounts of the Company were made up; and

- (b) save for the continuing connected transactions (i) pursuant to the agreement dated 14 April 2023 and entered into between the Company and TGL for the leasing of plant and equipment; (ii) pursuant to the agreement dated 1 January 2023 and entered into between the Company and Zhuji City Tianyu Industry Investment Ltd* (“**Tianyu Industry**”) for the leasing of office premises; (iii) pursuant to the agreement dated 1 July 2022 and entered into between the Company and Tianyu Industry for the leasing of office premises; and (iv) 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, 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, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2022, 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 dated 30 March 2023 entered into between 海越能源集團股份有限公司 (Haiyue Energy Group Company Limited*) as TGL and the Company in relation to the acquisition of 5% equity interest in 浙江天潔磁性材料股份有限公司 (Zhejiang Tianjie Magnetic Materials Co., Ltd*) for a consideration of RMB6,421,165; (ii) the land resumption agreement dated 3 November 2022 entered into by the Company with Zhuji Municipal Bureau of Natural Resources and Planning and Paitou Town People's Government in respect of resumption of the land use rights of a land together with all buildings, structures and attachments thereat for a total consideration of RMB202,622,000; (iii) the termination deed dated 14 April 2022 entered into between TGL as the vendor and the 浙江天潔環境工程有限公司 (Zhejiang Tianjie Environmental Engineering Company Limited*) as the purchaser in relation to the termination of the acquisition of the relevant properties; (iv) the agreement dated 7 January 2022 entered into between TGL as the vendor and Zhejiang Tianjie Environmental Engineering Company Limited* (浙江天潔環境工程有限公司) as the purchaser the in relation to the acquisition of the relevant properties; (v) the equipment purchase agreement dated 28 December 2021 entered into between Zhejiang Tianjie Environmental Engineering Co., Ltd.* 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; and (vi) 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 Zhejiang Tianjie Magnetic Materials Co., Ltd* for the consideration of RMB68,000,000 (subject to downward adjustment) in cash, 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. QUALIFICATION AND CONSENT OF EXPERT

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

Name	Qualification
Masterpiece Valuation Advisory Limited	Independent Qualified Valuer

- (a) as at the Latest Practicable Date, Masterpiece Valuation Advisory Limited 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) Masterpiece Valuation Advisory Limited 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, Masterpiece Valuation Advisory Limited did not have any direct or indirect interest in any assets which have been, since 31 December 2022 (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 upon Completion; and
- (d) the valuation report from Masterpiece Valuation Advisory Limited set out in Appendix II to this circular 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 and Ms. Shen Qiong. Mr. Wong Shum Wai is currently a member of the Hong Kong Institute of Certified Public Accountants;
- (b) the registered office of the Company is at TENG Y 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 branch share registrar in Hong Kong is Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, 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 AVAILABLE FOR INSPECTION

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 valuation report issued by Masterpiece Valuation Advisory Limited as set out in Appendix II to this circular; and
- (b) the letter of consent from Masterpiece Valuation Advisory Limited referred to under the section headed "Qualification and Consent of Expert" in this appendix.

NOTICE OF EGM

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 Conference Room, 23rd Floor, Tianjie Building, No. 251 Huancheng East Road, Zhuji City, Zhejiang Province, the People's Republic of China (the “**PRC**”) on Monday, 17 July 2023 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 acquisition of the land use right of a target land situated at Xindu area, Changshan Economic Development Zone, Changshang County, Zhejiang (i.e. No. 15, Innovation South Road, Jinchuan Street, Changshang County, the PRC) with plot number A2023-2 (浙江常山經濟開發區新都片區A2023-2號地塊) with a total area of 52,187 sq.m. through the process of bidding invitation, auction or listing as required under the laws and regulations of the People's Republic of China (the “**Acquisition**”) and the transactions contemplated thereunder and the implementation thereof be and are hereby approved, confirmed and ratified; and
- (B) any one director of the Company (or any two directors of the Company or one director and the secretary of the Company, in the case of execution of documents under seal) be and is 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 under the Acquisition and the transactions contemplated thereunder and the implementation thereof including the affixing of seal thereon.”

By order of the Board

Zhejiang Tengy Environmental Technology Co., Ltd

Mr. ZHU Xian Bo

Chairman and non-executive Director

Zhuji City, Zhejiang Province, the PRC, 23 June 2023

NOTICE OF EGM

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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, and in case of holders of domestic shares of the Company, to the Company’s mailing address TENG Y 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 register of members in Hong Kong will be closed from Wednesday, 12 July 2023 to Monday, 17 July 2023, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Tuesday, 11 July 2023.

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