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).

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 AND NOTICE OF EXTRAORDINARY GENERAL MEETING

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

RAINBOW.

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

A letter from the Board is set out on pages 5 to 16 of this circular and a letter from the Independent Board Committee is set out on pages 17 to 18 of this circular. A letter from Rainbow Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 49 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 Friday, 11 August 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 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.

7 July 2023

CONTENTS

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

"Acquisition"	the acquisition of the Sale Capital by the Company from the Vendor
"Agreement"	the agreement dated 25 May 2023 entered into between the Vendor and the Company in relation to the Acquisition
"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
"China Accounting Standards for Business Enterprises"	financial reporting standards and interpretations for business enterprises issued by the China Accounting Standards Committee of the China Ministry of Finance
"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
"Completion"	completion of the Acquisition in accordance with the terms of the Agreement
"Completion Date"	the date falling within the 15 Business Days after the fulfilment (or waiver as the case may be) of all conditions precedent under the Agreement
"Controlling shareholder"	has the meaning as ascribed under the Listing Rules
"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 Agreement and the transactions contemplated thereunder
"Enlarged Group"	collectively, the Group and the Target Company

"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 6 regulated activity (advising on corporate finance)
"Independent Shareholders"	Shareholders who are not required to abstain from voting at the EGM to approve the Agreement and the transactions contemplated thereunder
"Keyuan Enterprise"	諸暨市科源企業管理有限公司 (Zhuji Keyuan Enterprise Management Co., Ltd.*), a company established in the PRC with limited liability
"Latest Practicable Date"	3 July 2023
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"MWp"	Megawatt peak, a unit of measurement for the output of power from solar
"PRC"	the People's Republic of China

"Sale Capital"	95% equity interest in the Target Company held by the Vendor
"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
"Target Company"	浙江天潔新能源股份有限公司 (Zhejiang Tianjie New Energy Co., Ltd.*), a company established in the PRC with limited liability
"Valuation Benchmark Date"	31 March 2023
"Valuer"	Roma Appraisals Limited, an independent professional valuer
"Valuation Report"	the valuation report in respect of the market value of the 100% equity interest in the Target Company as at the Valuation Benchmark Date, which was issued by the Valuer
"Vendor"	天潔集團有限公司 (Tengy Group Limited*), a company established in the PRC with limited liability and is a controlling shareholder of the Company holding approximately 30% of the issued share capital of the Company as at the Latest Practicable Date
"Warranties"	the warranties and representations given by the Vendor in the Agreement
"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.

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

7 July 2023

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

Reference is made to the announcement of the Company dated 25 May 2023. The purpose of this circular is to provide you with (i) further information on the Agreement and the transactions contemplated thereunder; (ii) letter from the Independent Board Committee; (iii) letter from Rainbow Capital; (iv) a notice of EGM; and (v) other information required under the Listing Rules.

THE AGREEMENT

On 25 May 2023 (after trading hours of the Stock Exchange), the Company entered into the Agreement with the Vendor, pursuant to which the Company conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Capital for the consideration of RMB51.2 million (subject to downward adjustment).

The principal terms of the Agreement are as follows:

Date: 25 May 2023 (after trading hours of the Stock Exchange)

Parties: (1) The Company (as the purchaser); and

(2) The Vendor.

The Vendor is principally engaged in the business of, amongst other things, manufacturing and sale of machineries and spare parts, the sale of steel, building materials and other chemical products and scrap metals recycling and the construction. As at the Latest Practicable Date, (i) the Vendor is owned as to approximately 64.08% and 35.92% by Mr. Bian Yu and Keyuan Enterprise respectively; and (ii) the Vendor is the controlling shareholder of the Company, holding approximately 30% of the Company's issued share capital. Therefore, the Vendor is a connected person of the Company under Chapter 14A of the Listing Rules.

To the best knowledge and information available to the Company, Keyuan Enterprise is owned as to 25%, 25%, 25% and 25% by Ms. Xu Shujiao（徐淑嬌）, Ms. Shou Kexia（壽可霞）, Mr. Zhang Yuanyuan（章袁遠）(who is an executive Director) and Mr. Zhu Xianbo（祝賢波）(who is a non-executive Director), respectively.

Assets to be acquired

Pursuant to the Agreement, the Company has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Capital, representing 95% of the equity interest in the Target Company.

Consideration

The total consideration for the Acquisition shall be RMB51.2 million (subject to downward adjustment). Prior to entering into the Agreement, the Company and the Vendor has entered into a memorandum of understanding in relation to the Acquisition, pursuant to which the Company has paid to the Vendor an amount of RMB3 million as refundable earnest money, which shall be applied for payment for part of the consideration upon Completion. Pursuant to the Agreement, the Company will pay the Vendor part of the consideration in the amount of RMB27 million in cash within five Business Days from the date of Completion and the remaining consideration in the amount of RMB21.2 million shall be payable by the Company in cash to the Vendor within one year after the Completion. The consideration will be financed by the internal resources of the Company.

The consideration for the Acquisition will be adjusted downward in the following circumstances:

(a) if upon Completion there is any liabilities not disclosed in the management accounts of the Target Company or not approved in advance by the Company, the Company is entitled to deduct the relevant amount from the total consideration for the Acquisition or if the total consideration of the Acquisition has already been paid, the Vendor shall pay the relevant amount to the Company within 1 month upon notification from the Company;

(b) if the account receivables of the Target Company have remained overdue for more than twelve months, such account receivables will be considered as bad debts of the Target Company and the Company is entitled to deduct the relevant amount from the total consideration for the Acquisition or if the total consideration for the Acquisition has already been paid, the Vendor shall pay the relevant amount to the Company within 1 month upon notification from the Company;

(c) all account payables, costs and expenses and/or financial loss incurred by the Target Company due to any payment, litigation, arbitration, administrative penalty or other legal proceedings resulting from any non-compliance incidents of the Target Company that occurred before the Completion Date will be borne by the Vendor and the Company is entitled to deduct the relevant amount from the total consideration for the Acquisition or if the total consideration for the Acquisition has already been paid, the Vendor shall pay the relevant amount of the Company within 1 month upon notification from the Company; and

(d) the Vendor will be responsible for timely and full payment of taxes incurred with respect or the transactions contemplated under the Agreement in accordance with the relevant PRC laws, regulations and the other regulatory documents. If the Company or the Target Company suffers any loss due to the above tax obligation, the Company is entitled to deduct the relevant amount from the total consideration for the Acquisition or if the total consideration of the Acquisition has already been paid, the Vendor shall pay the relevant amount to the Company within 1 month upon notification from the Company.

There is no determination date or time limit for the consideration adjustment.

The consideration was determined after arms' length negotiations between the parties with reference to, among other things, the valuation of 100% equity interest in the Target Company as at the Valuation Benchmark Date at RMB53.9 million, conducted by Roma Appraisals Limited, the Valuer. The Valuer adopted the income-based approach with the use of the discounted cash flow method in arriving at the conclusion on the valuation of the market value of 100% equity interest in the Target Company as at the Valuation Benchmark Date, which constitutes a profit forecast under Rule 14.61 of the Listing Rules. The full text of the Valuation Report is set out in Appendix V to this circular.

The principal assumptions adopted by the Valuer in the Valuation Report are set out in the section headed "Valuation Assumptions" in the announcement of the Company dated 25 May 2023 and in this circular. McMillan Woods (Hong Kong) CPA Limited, the reporting accountants of the Company, has reported on the arithmetic accuracy of the calculations of the discounted cash flow forecast underlying the valuation. The full text of McMillan Woods (Hong Kong) CPA Limited's letter is set out in the announcement of the Company dated 25 May 2023 and Appendix VII to this circular. A letter from the Board in relation to the discounted cash flow forecast is also set out in the announcement of the Company dated 25 May 2023 and Appendix VII to this circular.

Having discussed with the Valuer and reviewed the assumptions based upon which the Valuation Report was prepared and having engaged McMillan Woods (Hong Kong) CPA Limited to report on the arithmetical accuracy of calculations of the forecast used in the Valuation Report and considered the letter from McMillan Woods (Hong Kong) CPA Limited as set out in Appendix VII to this circular, the Board considered the key assumptions and inputs used in the profit forecast and the Valuation Report to be fair and reasonable.

Conditions precedent

The 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 and the Target Company 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 Company in respect of the Agreement and the transactions contemplated thereunder having been obtained;

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

(5) the obtaining of a valuation report from the valuer designated by the Company confirming that the valuation of the 95% equity interest in the Target Company is not less than RMB51.2 million;

(6) from the date of the Agreement and up to the Completion Date, no events having occurred which may result in any material adverse effect on the Target Company; and

(7) from the date of the Agreement and up to the Completion Date, the Warranties remaining true and accurate and not misleading.

The Company may at its absolute discretion at any time waive in writing any of the conditions (4), (6) and (7) above and such waiver may be made subject to such terms and conditions as may be determined by the Company. Other than conditions (4), (6) and (7), all other conditions set out above are not waivable. If 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 31 July 2023 (or such later date as may be agreed between the Vendor and the Company in writing), the Agreement shall cease and determine, and the Vendor shall return the earnest money in the amount of RMB3 million to the Company within 3 Business Days. 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 partis to the Agreement shall claim or enforce any other damages or claims against the other.

As at the Latest Practicable Date, condition (5) was fulfilled whereas all other conditions remained unfulfilled.

Completion

Completion shall take place within fifteen Business Days after fulfilment (or waiver, as the case may be) of all the conditions precedent under the Agreement. After Completion, the Target Company shall be owned as to 95% and 5% by the Company and Mr. Yang Boming（楊波明）respectively. Upon Completion, the Target Company will be a subsidiary of the Company and the financial results of the Target Company will be consolidated into the financial accounts of the Company.

Profit Guarantee

From 1 January 2023 to 31 December 2027, the Vendor undertakes with the Company that the Target Company will meet the following profit guarantee in each of the five financial years as follows:

(i) the reviewed annual net profit after tax for the year ending 31 December 2023 shall be not less than RMB4,150,917;

(ii) the reviewed annual net profit after tax for the year ending 31 December 2024 shall be not less than RMB5,669,158;

(iii) the reviewed annual net profit after tax for the year ending 31 December 2025 shall be not less than RMB5,669,158;

(iv) the reviewed annual net profit after tax for the year ending 31 December 2026 shall be not less than RMB5,669,158; and

(v) the reviewed annual net profit after tax for the year ending 31 December 2027 shall be not less than RMB5,594,158.

An auditor appointed by the Company shall review the financial report prepared by the Target Company in accordance with the China Accounting Standards for Business Enterprises for the relevant periods and issue the review report within three months after the end of the relevant periods respectively, and such review reports shall then be final, conclusive and binding on the Vendor and the Company.

If the reviewed annual net profit of the Target Company for any of the above-mentioned financial year is lower than the corresponding annual guaranteed net profit as agreed, the Company shall be entitled to request the Vendor to fulfill its obligation to pay the full amount of compensation for the difference between the actual net profit of the Target Company and the guaranteed net profit for the relevant financial year within seven working days from the date of the review report for that financial year. If the Target Company records net loss for any of the above-mentioned financial year, the reviewed annual net profit of the Target Company for the financial year should be treated as zero and the Vendor is liable to pay the full amount of the guaranteed net profit for the relevant financial year in the same manner as detailed above. For the avoidance of doubt, in calculation of the net profit of the Target Company, all the extraordinary items shall be excluded.

Taking into account that (i) the amount of the guaranteed net profit is determined with reference to the projected net profit for the five years ending 31 December 2027 adopted in the Valuation; (ii) the Consideration of RMB51.2 million is determined with reference to the valuation of 100% equity interest of the Target Company of RMB53.9 million as at 31 March 2023 as appraised by the Valuer by way the income-based approach with the use of the discounted cash flow method and represents an equivalent amount to the Valuation after taking into account 95% of the entire equity interest in the Target Company to be acquired under the Acquisition; (iii) the compensation is calculated as the shortfall on dollars for dollars basis and will be paid each year; (iv) the risk profile of the Target Company is considerably low considering the profit-making position of the Target Company for the past two years; and (v) the growth potential and prospect of the Target Company in view of the favorable governmental policy in the environmental sector as detailed in the section headed "Reasons for and benefits of the Acquisition" and the annual report of the Company for the year ended 31 December 2022, the Directors are of the view that the aggregate profit guarantee provided by the Vendor amounting to approximately 53% of the consideration can sufficiently protect the interest of the Company and the Shareholders as a whole.

The Company will comply with the relevant disclosure requirements (including Rules 14.36B and 14A.63 of the Listing Rules) in the event that the actual performance of the profit guarantee as set out above fails to meet the relevant guarantee.

The Vendor is a company established in the PRC with limited liability and is principally engaged in the business of, among other things, manufacturing and sale of machineries and spare parts, the sale of steel, building materials and other chemical products and scrap metals recycling and the construction. The Board has obtained (i) the audited accounts of the Vendor for the financial years ended 31 December 2021 and 2022 and (ii) the unconsolidated management account of the Vendor as at 31 May 2023 which is certified by one of the directors of the Vendor in order to assess and verify the financial position of the Vendor. Based on the audited accounts of the Vendor prepared by certified public accountants in the PRC, as at 31 December 2021 and 31 December 2022, (i) the audited net current assets of the Vendor were approximately RMB2,852,374,000 and RMB2,059,687,000 respectively: and (ii) the audited net assets of the Vendor were approximately RMB6,442,764,000 and RMB3,941,022,000 respectively. Based on the unconsolidated management account of the Vendor as at 31 May 2023, the cash and cash equivalents balance of the Vendor was approximately RMB442,092,000. Having considered (i) the cash and cash equivalents balance of the Vendor is significantly higher than the aggregated amount of the profit guarantee (i.e. a sum of approximately RMB26.8 million); and (ii) the profit-making position of the Vendor in recent years, the Directors consider that the Vendor is capable to fulfill its obligation when it is asked to compensate for the shortfall under the profit guarantee.

VALUATION ASSUMPTIONS

The valuer adopted the income-based approach to arrive at the market value of 100% equity interest in the Target Company as at the Valuation Benchmark Date. Through the use of the income-based approach, the valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules. The principal assumptions are set out as follows:

- The unaudited financial statements of the Target Company as at 31 March 2023 could reasonably represent its financial position since the audited financial statements were not available;

- The valuation was mainly based on the projections of the future cash flows as confirmed by the management of the Company, the Target Company and/or their representative(s) (the "Management") as at the Valuation Benchmark Date. The projections outlined in the financial information provided are reasonable, reflecting market conditions and economic fundamentals, and will be materialized;

- The Target Company would be operated and developed as planned by the Management throughout the forecast period, and the development would be in line with the financial projection;

- As advised by the Management, RMB18,027,507 of the amount due to ultimate holding company would be waived with reference to the waiver letter provided by the Management dated 31 March 2023;

- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Target Company operates or intends to operate would be officially obtained and renewable upon expiry;

- There will be sufficient supply of technical staff in the industry in which the Target Company operates, and the Target Company will retain competent management, key personnel and technical staff to support its ongoing operations and developments;

- There will be no major change in the current taxation laws in the localities in which the Target Company operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

- There will be no major change in the political, legal, economic or financial conditions in the localities in which the Target Company operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Company; and

- Interest rates and exchange rates in the localities for the operation of the Target Company will not differ materially from those presently prevailing.

McMillan Woods (Hong Kong) CPA Limited confirms that it has reviewed the calculations for the discounted cash flow forecast underlying the valuation.

The letter from McMillan Woods (Hong Kong) CPA Limited and the letter from the Board in relation to the discounted cash flow forecast are set out in the announcement of the Company dated 25 May 2023 in accordance with Rule 14.62 of the Listing Rules and Appendix VII to this circular.

INFORMATION OF THE TARGET COMPANY

The Target Company is a company established in the PRC and is principally engaged in solar power generation business in the PRC. As at the Latest Practicable Date, the Target Company holds a 12 MWp distributed photovoltaic power generation project and has entered into a electricity sale contract with 國網浙江諸暨市供電有限公司 (State Grid Zhejiang Zhuji Power Supply Company Limited*), a stated owned enterprise, for a term of three years and automatically renewed for another term of three years expiring in December 2023.

As at the Latest Practicable Date, (i) the Target Company is owned as to 95% and 5% by the Vendor and Mr. Yang Boming (楊波明) respectively; and (ii) the Target Company has a registered capital of RMB20 million which has been fully paid up. The Vendor acquired its 95% equity interest in the Target Company at the original costs of RMB19 million.

Set out below are the net profits (both before and after taxation) of the Target Company based on the unaudited management accounts of the Target Company prepared in accordance with HKFRS, for the two financial years ended 31 December 2022 and 2021:

	For the year ended 31 December 2021 (unaudited) *(RMB'000)*	For the year ended 31 December 2022 (unaudited) *(RMB'000)*
Net profit before and after taxation	2,105	2,443

As at 31 December 2021 and 31 December 2022, the net liabilities of the Target Company was approximately RMB3,412,000 and RMB969,000, respectively, based on the unaudited management accounts of the Target Company prepared in accordance with HKFRS. The Board is of the opinion that the net liabilities position of the Target Company was primarily attributable to the net loss recorded by the Target Company before the reporting period as a result of an impairment loss on an investment in a subsidiary which was subsequently wound up and such net loss was not related to its solar power generation business. As at 31 March 2023, the net asset of the Target Company was approximately RMB16,795,000 based on the unaudited management accounts of the Target Company prepared in accordance with HKFRS. For further financial information of the Target Company, please refer to the accountants' report on the Target Company set out in Appendix II to this circular.

REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENT

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. The Company is owned as to approximately 30% by the Vendor as at the Latest Practicable Date.

Revenue of the Group fluctuated in recent years, primarily affected by the timetable and the scale of the projects undertaken by the Group. As disclosed in the annual reports of the Company for the years ended 31 December 2021 and 2022, the revenue of the Group recorded an increase of revenue from approximately RMB607,078,000 to approximately RMB763,165,000 from 2020 to 2021, followed by a significant decrease of revenue to approximately RMB472,471,000 for the year ended 31 December 2022. The financial performance of the Group is largely dependent on the sales of environmental protection equipment. Nevertheless, as the PRC government issued the 14th Five-Year Comprehensive Work Plan for Energy Conservation and Emission Reduction which made an overall deployment for energy conservation and emission reduction, the Company anticipates that there would be increasing demand for environmental protection products which would promote the development of the Group. As stated in the annual report of the Company for the year ended 31 December 2022, 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 Company currently has no plan to downsize, or cease the operation of the existing businesses of the Group.

Our executive Director, Mr. Zhang Yuan yuan, is a director of the Target Company and is responsible for the operational strategies of the Target Company. He has approximately 15 years of experience in the wind power and solar power business and will continue to manage the Target Company assisted by a competent team with extensive experience in the field of engineering and power generation if the Acquisition materialised.

The Board believes that the Acquisition will provide an investment opportunity for the Company to diversify its business portfolio by entering into the new energy market in the PRC. The Company has tapped into wind power market in the PRC in 2020. The Acquisition, if materialised, will allow the Company to tap into the solar power market in the PRC and further consolidate its position in the new energy market in the PRC. The Board believes that by entering into Agreement, the Group can meet its business development strategy to enhance its competitiveness and capture the opportunities in the environmental protection sector of the PRC.

Taking into consideration that (i) there has been a trend in governmental policies and regulations to encourage and enforce environmental protection (ii) the Acquisition is in line with the development strategy of the Group; and (iii) the positive market outlook of the solar power market in the PRC, the Acquisition represents an opportunity for the Group to diversify its business into the solar power industry with high growth potential, which could in turn generate return to its Shareholders the Directors are of the view that the Acquisition will provide a good investment opportunity for the Group to participate in the promising and growing new energy industry in the PRC. Based on the above, the Directors consider that the Acquisition can further enhance the value of the Group and maximise the returns to the Shareholders.

Taking into consideration of the aforesaid, 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) 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% by Mr. Bian Yu, each of Mr. Bian Yu, Ms. Bian Shu (sister of Mr. Bian Yu), Mr. Zhang Yuanyuan (spouse of Ms. Bian Shu) and Mr. Zhu Xian Bo (who is interested in 25% equity interest in Keyuan Enterprise) is interested or deemed to be interested in the Agreement and the transactions contemplated thereunder and has abstained from voting in respect of the Board resolution approving the Agreement and the transactions contemplated thereunder.

LISTING RULES IMPLICATIONS

The Vendor is the controlling shareholder of the Company, holding approximately 30% of the issued share capital of the Company as at 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, 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 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, (i) the Vendor who holds 30.0% of the Company's share capital and its close associates including each of Mr. Bian Yu, Ms. Bian Shu and Mr. Bian Jianguang who holds 5.70%, 2.03% and 2.85% of the Company's share capital, respectively, as at the Latest Practicable Date, are required to abstain from voting on the resolutions to be proposed at the EGM; and (ii) no other close associates of the Vendor or Shareholder 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 11 August 2023 are entitled to attend and vote at the EGM. The register of members of the Company will be closed from 8 August 2023 to 11 August 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 7 August 2023.

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, 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 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. ZHU Xian Bo
Chairman and non-executive Director

Zhuji City, Zhejiang Province, the PRC 7 July 2023

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)

7 July 2023

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

We refer to the circular dated 7 July 2023 (the "**Circular**") issued by the Company to the Shareholders of which this letter forms part. Capitalised 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 5 to 16 of the Circular and the text of a letter of advice from the Independent Financial Adviser, as set out on pages 19 to 49 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 although the Acquisition is not entered into in the ordinary and usual course of business of the Company, the terms of the Agreement and the transactions contemplated thereunder are on normal commercial terms, 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 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

7 July 2023

To the Independent Board Committee and the Independent Shareholders

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

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

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 7 July 2023 (the "**Circular**"), of which this letter forms a part of. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 25 May 2023 (after trading hours of the Stock Exchange), the Company entered into the Agreement with the Vendor, pursuant to which the Company conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Capital for the consideration of RMB51.2 million (subject to downward adjustment) (the "**Consideration**"). Prior to entering into the Agreement, the Company and the Vendor has entered into a memorandum of understanding (the "**Memorandum**") in relation to the Acquisition, pursuant to which the Company has paid to the Vendor an amount of RMB3 million as refundable earnest money, which shall be applied for payment for part of the Consideration upon Completion.

The Sale Capital represents 95% of the equity interest in the Target Company, which is principally engaged in solar power generation business in the PRC. Upon Completion, the Target Company shall become a subsidiary of the Company and the financial results of the Target Company shall be consolidated into the consolidated financial statements of the Company.

As at the Latest Practicable Date, the Vendor is the controlling shareholder (as defined under the Listing Rules) of the Company, holding approximately 30.0% of the issued share capital of the Company. As such, 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. 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 transaction for the Company under Chapter 14 of the Listing Rules. The Acquisition is therefore subject to the reporting, announcement and the Independent 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. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, (i) the Vendor who holds approximately 30.0% of the Company's share capital and its close associates including each of Mr. Bian Yu, Ms. Bian Shu and Mr. Bian Jianguang who holds approximately 5.70%, 2.03% and 2.85% of the Company's share capital, respectively, as at the Latest Practicable Date, are required to abstain from voting on the resolution to be proposed at the EGM; and (ii) no other close associates of the Vendor or Shareholder is required to abstain from voting on the resolution to be proposed 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 conducted 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 40% equity interest in Zhejiang Tianjie Magnetic Materials Co., Ltd, details of which are set out in the circular of the Company dated 29 June 2021; and (ii) the acquisition of properties, details of which are set out in the circular of the Company dated 8 February 2022. 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 on 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) rendering of 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 three years ended 31 December 2022 ("**FY2020**", "**FY2021**" and "**FY2022**", respectively) as extracted from the annual reports for FY2021 and FY2022 (the "**2022 Annual Report**") of the Company:

(i) Financial performance

	FY2022 *RMB'000* (Audited)	**FY2021** *RMB'000* (Audited)	**FY2020** *RMB'000* (Audited)
Revenue	**472,471**	**763,165**	**607,078**
– Sales of environmental protection equipment	442,739	744,011	580,530
– Sale of materials	29,549	18,878	25,491
– Rendering of services	183	276	1,057
Gross profit	**67,439**	**110,990**	**110,954**
Other income	120,820	13,717	11,445
Distribution and selling expenses	(15,834)	(14,109)	(14,017)
Administrative expenses	(63,279)	(74,643)	(102,688)
Other expenses	(3,814)	(904)	(124)
Profit from operations	**105,332**	**35,051**	**5,570**
Finance costs	(7,668)	(6,443)	(7,066)
Share of (loss)/profits of associates	(21,894)	(2,884)	1,999
Profit before tax	**75,770**	**25,724**	**503**
Income tax (expenses)/credit	(22,165)	(5,112)	3,986
Profit attributable to the Shareholders	**53,605**	**20,612**	**4,489**

FY2022 compared to FY2021

Revenue of the Group decreased by approximately 38.1% from approximately RMB763.2 million for FY2021 to approximately RMB472.5 million for FY2022. Such decrease was mainly due to more completion of the small-scale projects and fewer completion of the large-scale projects in FY2022 which result in the decrease in the scale of business. Sales of environmental protection equipment amounted to approximately RMB744.0 million and RMB442.7 million, accounting for approximately 97.5% and 93.7% of total revenue for FY2021 and FY2022, respectively.

In line with the decrease in revenue, gross profit of the Group decreased by approximately 39.2% from approximately RMB111.0 million for FY2021 to approximately RMB67.4 million for FY2022.

The Group's profit from operations increased significantly by approximately 200.5% from approximately RMB35.1 million for FY2021 to approximately RMB105.3 million for FY2022, primarily attributable to (a) the increase in other income by approximately RMB107.1 million deriving from the one-off gain on disposal of property, plant and equipment and right-of-use assets; and (b) the decrease in administrative expenses by approximately RMB11.4 million mainly due to (1) the turnaround from loss on disposal of investment at fair value through profit or loss in 2021 to gain in 2022; and (2) the decrease in the research and development expenses by approximately RMB3.2 million as a result of the decrease in the number of technicians employed by the Group and the related efforts in research and development during FY2022. Such increase was partially offset by the decrease in total revenue and gross profit as mentioned above.

Profit attributable to the Shareholders amounted to approximately RMB53.6 million for FY2022, representing an increase of approximately 160.1% from approximately RMB20.6 million for FY2021. Such increase was primarily attributable to the increase in profit from operations as mentioned above, which was partially offset by (a) the increase in share of loss of associates by approximately RMB19.0 million; and (b) the increase in income tax expenses by approximately RMB17.1 million.

FY2021 compared to FY2020

Revenue of the Group increased by approximately 25.7% from approximately RMB607.1 million for FY2020 to approximately RMB763.2 million for FY2021. Such increase was mainly due to the completion of certain large-scale projects during FY2021. Sales of environmental protection equipment amounted to approximately RMB580.5 million and RMB744.0 million, accounting for approximately 95.6% and 97.5% of total revenue for FY2020 and FY2021, respectively.

Gross profit of the Group remained stable at approximately RMB111.0 million for FY2020 and FY2021. The gross profit margin of the Group decreased from approximately 18.3% for FY2020 to approximately 14.5% for FY2021, primarily due to the increase in the price of steel, being one of the major raw materials of the products produced by the Group.

The Group's profit from operations increased significantly by approximately 529.3% from approximately RMB5.6 million for FY2020 to approximately RMB35.1 million for FY2021, mainly attributable to the decrease in administrative expenses by approximately RMB28.0 million as a result of (a) the decrease in impairment losses for trade receivables for FY2021; and (b) the decrease in research and development expenses by approximately RMB7.9 million as a result of the decrease in the number of technicians employed by the Group and the related efforts in research and development during FY2021.

Profit attributable to the Shareholders amounted to approximately RMB20.6 million for FY2021, representing an increase of approximately 359.2% from approximately RMB4.5 million for FY2020. Such increase was primarily attributable to the increase in profit from operations as mentioned above, which was partially offset by (a) the share of loss of associates of approximately RMB2.9 million for FY2021 as compared to the share of profits of associates of approximately RMB2.0 million for FY2020; and (b) the income tax expenses of approximately RMB5.1 million for FY2021 as compared to the income tax credit of approximately RMB4.0 million for FY2020.

(ii) Financial position

	As at 31 December		
	2022	**2021**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)
Non-current assets, including:	**196,297**	**324,423**	**252,564**
Property, plant and equipment	27,963	81,160	72,320
Deferred tax assets	43,878	52,102	56,045
Investment in associates	122,671	144,565	75,499
Current assets, including:	**1,339,429**	**1,263,918**	**1,248,007**
Inventories	291,288	321,372	226,636
Trade and bills receivables	700,899	796,124	791,571
Bank and cash balance	241,041	9,373	104,548
Total assets	**1,535,726**	**1,588,341**	**1,500,571**
Current liabilities, including:	**701,505**	**807,725**	**740,567**
Trade and bills payables	200,711	327,716	265,819
Contract liabilities	354,675	264,251	247,049
Bank loans	55,000	115,158	122,809
Net current assets	**637,924**	**456,193**	**507,440**
Total liabilities	**701,505**	**807,725**	**740,567**
Equity attributable to the Shareholders	**834,221**	**780,616**	**760,004**

Total non-current assets of the Group decreased by approximately 39.5% from approximately RMB324.4 million as at 31 December 2021 to approximately RMB196.3 million as at 31 December 2022, which mainly comprised (a) property, plant and equipment of approximately RMB28.0 million, primarily consisting of buildings and plant and machinery; (b) deferred tax assets of approximately RMB43.9 million; and (c) investment in associates of approximately RMB122.7 million.

Total current assets of the Group increased by approximately 6.0% from approximately RMB1,263.9 million as at 31 December 2021 to approximately RMB1,339.4 million as at 31 December 2022, which mainly comprised (a) inventories of approximately RMB291.3 million; (b) trade and bills receivables of approximately RMB700.9 million; and (c) bank and cash balance of approximately RMB241.0 million.

Total liabilities of the Group decreased by approximately 13.2% from approximately RMB807.7 million as at 31 December 2021 to approximately RMB701.5 million as at 31 December 2022, which mainly comprised (a) trade and bills payables of approximately RMB200.7 million; (b) contract liabilities of approximately RMB354.7 million; and (c) bank loans of approximately RMB55.0 million.

As at 31 December 2022, the Group had net current assets of approximately RMB637.9 million and equity attributable to the Shareholders of approximately RMB834.2 million.

(iii) Overall comment

Revenue of the Group fluctuated in recent years, primarily affected by the timetable and the scale of the projects undertaken by the Group. The financial performance of the Group is largely dependent on the sales of environmental protection equipment which accounted for over 90% of total revenue of the Group for FY2020, FY2021 and FY2022. Nevertheless, as the PRC government issued the 14th Five-Year Comprehensive Work Plan for Energy Conservation and Emission Reduction which made an overall deployment for energy conservation and emission reduction, the Company anticipates that there would be increasing demand for environmental protection products which would promote the development of the Group. Following the disposal of land in 2022, the financial position of the Group improved with the net proceeds, and recorded net current assets and bank and cash balance of approximately RMB637.9 million and RMB241.0 million as at 31 December 2022, respectively. As stated in the 2022 Annual Report, 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.

2. Information on the Target Company

(i) Business of the Target Company

The Target Company is a company established in the PRC and is principally engaged in solar power generation business in the PRC. As at the Latest Practicable Date, the Target Company holds a 12 MWp distributed photovoltaic power generation project and has entered into an electricity sale contract with 國網浙江諸暨市供電有限公司 (State Grid Zhejiang Zhuji Power Supply Company Limited*), a stated owned enterprise, for a term of three years and automatically renewed for another term of three years expiring in December 2023.

As at the Latest Practicable Date, (a) the Target Company is owned as to 95% by the Vendor and 5% by Mr. Yang Boming(楊波明); and (b) the Target Company has a registered capital of RMB20 million which has been fully paid up. The Vendor acquired its 95% equity interest in the Target Company at the original costs of RMB19 million.

(ii) Financial information of the Target Company

The following discussion of the financial performance and position of the Target Company is based upon and should be read in conjunction with the accountants' report on the Target Company set out in Appendix II to the Circular:

Financial performance

	Three months ended 31 March 2023	**Three months ended 31 March 2022**	**FY2022**	**FY2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Unaudited)	(Audited)	(Audited)
Revenue	**764**	**1,024**	**5,581**	**7,185**
Cost of sales	(750)	(660)	(2,703)	(2,662)
Gross profit	**14**	**364**	**2,878**	**4,523**
Other income, gains and losses, net	146	–	1,292	(42)
Administrative expenses	(79)	(9)	(104)	(71)
Finance costs	(344)	(462)	(1,623)	(2,305)
(Loss)/profit before tax	**(263)**	**(107)**	**2,443**	**2,105**
Income tax expenses	–	–	–	–
Net (loss)/profit	**(263)**	**(107)**	**2,443**	**2,105**

FY2022 compared to FY2021

Revenue of the Target Company is mainly derived from sales of electricity arising from the photovoltaic power generation project. The Target Company's revenue decreased by approximately 22.3% from approximately RMB7.2 million for FY2021 to approximately RMB5.6 million for FY2022. Such decrease was mainly due to the reduction of solar energy resources and utilisation hours of the solar panels arising from rainy days and decreased the operation time. Given that the supplier of the solar panels did not provide a detailed clean-up instruction, the existing operator did not regularly and properly maintain and cleanup the solar panels of the Target Company since its operation in 2018, leading to the existence of dust issue and low performance over time. In FY2022, the solar panel of the Target Company has been working in even lower capacity as there was construction work in the area beside the solar farm since 2022, which led to thick layer of dust covering the solar panels and worsened the dust issue, and thereby further affected the performance of transforming solar energy to power.

Cost of sales mainly represented the Target Company's depreciation charges on property, plant and machinery and right-of-use assets, which remained stable at approximately RMB2.7 million for FY2021 and FY2022.

In line with the decrease in revenue and the stable cost of sales, gross profit of the Target Company decreased by approximately 36.4% from approximately RMB4.5 million for FY2021 to approximately RMB2.9 million for FY2022.

Net other income and gains mainly represented the municipal government grants for photovoltaic power generation project and interest income from the cash balance, which amounted to approximately RMB1.3 million for FY2022 as compared to net other losses of approximately RMB0.04 million for FY2021, primarily attributable to the one-off unexpected assembling and dismantling costs incurred for equipment of approximately RMB1.7 million in FY2021, which was non-recurring in FY2022.

Administrative expenses mainly represented office expenses, service fee and equipment insurance expenses, which increased slightly from approximately RMB0.07 million for FY2021 to approximately RMB0.1 million FY2022.

Finance costs mainly represented interest on lease liabilities which decreased from approximately RMB2.3 million for FY2021 to approximately RMB1.6 million for FY2022, mainly due to the repayment of lease liabilities and reduction of accrued interest expenses.

Net profit of the Target Company increased from approximately RMB2.1 million for FY2021 to approximately RMB2.4 million for FY2022, primarily attributable to the increase in net other income and gains and the decrease in finance costs as mentioned above.

Three months ended 31 March 2023 ("3M2023") compared to three months ended 31 March 2022 ("3M2022")

Revenue of the Target Company decreased by approximately 25.4% from approximately RMB1.0 million for 3M2022 to approximately RMB0.8 million for 3M2023. Such decrease was mainly due to the fact that the state government subsidies have not yet been paid by the state government in 3M2023. The government grants received by the Target Company were from three levels, namely, state level, province level and municipal level, among which the government grants from state level and province level were recognised under revenue while the government grants from municipal level were recognised under other income. For 3M2022 and 3M2023, the Target Company received national and provincial subsidies of approximately RMB544,000 and RMB139,000, respectively.

Cost of sales increased slightly from approximately RMB0.7 million for 3M2022 to approximately RMB0.8 million for 3M2023, primarily attributable to the increase in depreciation of right-of-use assets arising from a new lease agreement entered into by the Target Company in November 2022.

In line with the decrease in revenue and the relatively stable cost of sales, gross profit of the Target Company decreased by approximately 96.2% from approximately RMB0.4 million for 3M2022 to approximately RMB14,000 for 3M2023.

Net other income and gains increased from nil for 3M2022 to approximately RMB0.1 million for 3M2023, primarily attributable to the fact that the government grants are in general paid irregularly which were not paid in 3M2022.

Administrative expenses increased from approximately RMB9,000 for 3M2022 to approximately RMB79,000 for 3M2023, primarily attributable to the cleaning expense, which categorised as repair and maintenance expenses, for power generation equipment incurred in 3M2023.

Finance costs decreased slightly from approximately RMB0.5 million for 3M2022 to approximately RMB0.3 million for 3M2023.

Net loss of the Target Company increased from approximately RMB107,000 for 3M2022 to approximately RMB263,000 for 3M2023, primarily attributable to the decrease in revenue and gross profit as mentioned above.

Financial position

	As at 31 March 2023	As at 31 December 2022	2021
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)
Non-current assets:	**46,279**	**47,029**	**46,123**
Property, plant and equipment	15,923	16,169	17,157
Right-of-use asset	30,356	30,860	28,966
Current assets:	**11,621**	**1,801**	**15,434**
Trade and other receivables	1,348	1,410	14,568
Pledged bank deposits	10,000	–	–
Bank and cash balance	273	391	866
Total assets	**57,900**	**48,830**	**61,557**
Current liabilities:	**35,870**	**43,190**	**55,579**
Other payables	18,093	35,177	47,857
Bank and other borrowings	9,900	–	–
Lease liabilities	7,877	8,013	7,722
Net current liabilities	**(24,249)**	**(41,389)**	**(40,145)**
Non-current liabilities:	**5,235**	**6,609**	**9,390**
Lease liabilities	5,235	6,609	9,390
Total liabilities	**41,105**	**49,799**	**64,969**
Net assets/(liabilities)	**16,795**	**(969)**	**(3,412)**

As at 31 March 2023, non-current assets of the Target Company amounted to approximately RMB46.3 million, mainly comprised the Target Company's plant and machinery in relation to solar power plant and right-of-use assets.

As at 31 March 2023, current assets of the Target Company amounted to approximately RMB11.6 million, mainly comprised (a) pledged bank deposits of approximately RMB10.0 million which was pledged to secure bank and other borrowings of the Target Company; and (b) bank and cash balance of approximately RMB0.3 million.

As at 31 March 2023, total liabilities of the Target Company amounted to approximately RMB41.1 million, mainly comprised (a) other payables of approximately RMB18.1 million, among which approximately RMB8.3 million were amount due to ultimate holding company; (b) bank and other borrowings of approximately RMB9.9 million which carried an effective interest rate of 3% per annum; and (c) lease liabilities of approximately RMB13.1 million.

Net current liabilities and net assets of the Target Company amounted to approximately RMB24.2 million and RMB16.8 million as at 31 March 2023, respectively.

3. Reasons for and benefits of the Acquisition

As disclosed in the Letter from the Board, the Board believes that the Acquisition will provide an investment opportunity for the Company to diversify its business portfolio by entering into the new energy market in the PRC. The Company has tapped into wind power market in the PRC in 2020. The Acquisition, if materialised, will allow the Company to tap into the solar power market in the PRC and further consolidate its position in the new energy market in the PRC. The Board believes that by entering into the Agreement, the Group can meet its business development strategy to enhance its competitiveness and capture the opportunities in the environmental protection sector of the PRC. Taking into consideration that there has been a trend in governmental policies and regulations to encourage and enforce environmental protection, the Directors are of the view that the Acquisition will provide a good investment opportunity for the Group to participate in the promising and growing new energy industry in the PRC and the Acquisition can further enhance the value of the Group and maximise returns to the Shareholders.

Following Completion, the Group is capable to manage the business of the Target Company in view of that, one of the executive Directors, namely Mr. Zhang Yuanyuan, is also a director of the Target Company and is responsible for the operational strategies of the Target Company. He has approximately 15 years of experience in the wind power and solar power business and will continue to manage the Target Company assisted by a competent team with extensive experience in the field of engineering and power generation if the Acquisition materialised.

Set out below are the gross domestic product ("**GDP**") and generation of solar power of the PRC during the period from 2018 to 2022:

	2018	**2019**	**2020**	**2021**	**2022**	**CAGR**
GDP *(RMB' billion)*	91,928	98,652	101,357	114,924	121,021	7.1%
Generation of solar power *(100 million kWh)*	894.5	1,172.2	1,421.0	1,836.6	2,290.0	26.5%

Source: National Bureau of Statistics of China

As shown in the table above, Chinese GDP has increased from approximately RMB91,928 billion in 2018 to approximately RMB121,021 billion in 2022 with a compound annual growth rate ("**CAGR**") of approximately 7.1%, indicating a solid economic foundation in the past 5 years. According to the "World Economic Outlook: A Rocky Recovery" released by International Monetary Fund in April 2023, China's economy will continue to grow with a projected GDP growth rate of approximately 5.2% and 4.5% in 2023 and 2024, respectively.

The generation of solar power in the PRC also recorded a booming upward trend after 2018, increasing from approximately 89.5 billion kWh in 2018 to approximately 229.0 billion kWh in 2022, representing a CAGR of approximately 26.5%. Such significant increase indicated the rapid development of the domestic solar power market in the recent years. As disclosed in the "14th Five-Year Plan on Renewable Energy Development"(十四五可再生能源發展規劃) released by the National Development and Reform Committee in June 2022, the Chinese government targets a 50 percent increase in renewable energy generation from 2020 to 2025 and directs that 50 percent of China's incremental electricity and energy consumption shall come from renewables over the period from 2021 to 2025. In addition, according to the "Notice on the promotion of synergistic development of the supply chain of the photovoltaic industry"(關於促進光伏產業鏈供應鏈協同發展的通知) jointly issued by the General Office of Ministry of Industry and Information Technology, the General Office of State Administration for Market Regulation and the General Administration Department of the National Energy Administration in August 2022, it emphasises the importance to support the optimisation of establishing a national photovoltaic market and the development of the photovoltaic supply chain market in the PRC, and thereby promote the development of high quality photovoltaic industry. With the promulgation of favourable government policies to support the development of the photovoltaic market in the PRC which drives strong potential demand on renewable energy, the solar power market in the PRC is expected to grow in a fast pace.

Taking into account that (i) the Acquisition is in line with the development strategy of the Group; and (ii) the positive market outlook of the solar power market in the PRC, the Acquisition represents an opportunity for the Group to diversify its business into the solar power industry with high growth potential, which could in turn generate return to its Shareholders. Accordingly, we concur with the Directors that although the Acquisition is not conducted in the ordinary and usual course of the Group, the Acquisition is fair and reasonable and in the interest of the Company and 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	:	25 May 2023 (after trading hours of the Stock Exchange)
Parties	:	(i) The Company, as the purchaser; and (ii) The Vender
Subject matter	:	The Sale Capital, representing 95% of the equity interest in the Target Company
Consideration	:	The Consideration shall be RMB51.2 million (subject to downward adjustment), of which: (i) RMB3 million has been paid to the Vendor as refundable earnest money pursuant to the Memorandum, which shall be applied for payment for part of the Consideration upon Completion; (ii) the RMB27 million shall be payable by the Company in cash to the Vendor within five Business Days from the date of Completion; and (iii) the remaining Consideration in the amount of RMB21.2 million shall be payable by the Company in cash to the Vendor within one year after the Completion. The Consideration will be financed by the internal resources of the Group. The Consideration will be adjusted downward in the following circumstances: (i) if upon Completion there is any liabilities not disclosed in the management accounts of the Target Company or not approved in advance by the Company, the Company is entitled to deduct the relevant amount from the total Consideration or if the total Consideration has already been paid, the Vendor shall pay the relevant amount to the Company within one month upon notification from the Company;

(ii) if the account receivables of the Target Company have remained overdue for more than twelve months, such account receivables will be considered as bad debts of the Target Company and the Company is entitled to deduct the relevant amount from the total Consideration or if the total Consideration has already been paid, the Vendor shall pay the relevant amount to the Company within one month upon notification from the Company;

(iii) all account payables, costs and expenses and/or financial loss incurred by the Target Company due to any payment, litigation, arbitration, administrative penalty or other legal proceedings resulting from any non-compliance incidents of the Target Company that occurred before the Completion Date will be borne by the Vendor and the Company is entitled to deduct the relevant amount from the total Consideration or if the total Consideration has already been paid, the Vendor shall pay the relevant amount of the Company within one month upon notification from the Company; and

(iv) the Vendor will be responsible for timely and full payment of taxes incurred with respect or the transactions contemplated under the Agreement in accordance with the relevant PRC laws, regulations and the other regulatory documents. If the Company or the Target Company suffers any loss due to the above tax obligation, the Company is entitled to deduct the relevant amount from the total Consideration or if the total Consideration has already been paid, the Vendor shall pay the relevant amount to the Company within one month upon notification from the Company.

There is no determination date or time limit for the Consideration adjustment.

		As disclosed in the Letter from the Board, the Consideration was determined after arms' length negotiations between the parties with reference to, among other things, the valuation of 100% equity interest in the Target Company of RMB53.9 million as at 31 March 2023 conducted by Roma Appraisals Limited, an independent professional valuer, by way of the income approach with the use of the discounted cash flow method (the "**Valuation**").
Conditions precedent	:	Completion is conditionally on, among other things, the passing by the Independent Shareholders at the EGM of the necessary relevant resolution(s) to approve the Agreement and the transactions contemplated thereunder in accordance with the requirements under the Listing Rules. For details of the other conditions precedent, please refer to the paragraph headed "Conditions precedent" in the Letter from the Board.
Completion	:	Completion shall take place within 15 Business Days after fulfilment (or waiver, as the case may be) of all the conditions precedent under the Agreement. After Completion, the Target Company shall be owned as to 95% by the Company and 5% by Mr. Yang Boming (楊波明). Upon Completion, the Target Company will become a subsidiary of the Company and the financial results of the Target Company will be consolidated into the financial accounts of the Company.
Profit guarantee	:	From 1 January 2023 to 31 December 2027, the Vendor undertakes with the Company that the Target Company will meet the following profit guarantee in each of the five financial years as follows: (i) the reviewed annual net profit after tax for the year ending 31 December 2023 shall be not less than RMB4,150,917; (ii) the reviewed annual net profit after tax for the year ending 31 December 2024 shall be not less than RMB5,669,158; (iii) the reviewed annual net profit after tax for the year ending 31 December 2025 shall be not less than RMB5,669,158;

(iv) the reviewed annual net profit after tax for the year ending 31 December 2026 shall be not less than RMB5,669,158; and

(v) the reviewed annual net profit after tax for the year ending 31 December 2027 shall be not less than RMB5,594,158.

An auditor appointed by the Company shall review the financial report prepared by the Target Company in accordance with the China Accounting Standards for Business Enterprises for the relevant periods and issue the review report within three months after the end of the relevant periods respectively, and such review reports shall then be final, conclusive and binding on the Vendor and the Company.

If the reviewed annual net profit of the Target Company for any of the above-mentioned financial year is lower than the corresponding annual guaranteed net profit as agreed, the Company shall be entitled to request the Vendor to fulfill its obligation to pay the full amount of compensation for the difference between the actual net profit of the Target Company and the guaranteed net profit for the relevant financial year within seven working days from the date of the review report for that financial year. If the Target Company records net loss for any of the above-mentioned financial year, the reviewed annual net profit of the Target Company for the financial year should be treated as zero and the Vendor is liable to pay the full amount of the guaranteed net profit for the relevant financial year in the same manner as detailed above. For the avoidance of doubt, in calculation of the net profit of the Target Company, all the extraordinary items shall be excluded.

The Company will comply with the relevant disclosure requirements (including Rules 14.36B and 14A.63 of the Listing Rules) in the event that the actual performance of the profit guarantee as set out above fails to meet the relevant guarantee.

As discussed above, the Vendor provides the profit guarantee in favour of the Company in respect of the annual net profit after tax from 1 January 2023 to 31 December 2027 and will compensate for the shortfall on dollars for dollars basis within seven working days from the date of the review report for each financial year. Although the profit guarantee in aggregate only represents approximately 52.3% of the Consideration, taking into account that (i) the amount of the guaranteed net profit is determined with reference to the projected net profit for the five years ending 31 December 2027 adopted in the Valuation; (ii) the Consideration of RMB51.2 million is determined with reference to the valuation of 100% equity interest of the Target Company of RMB53.9 million as at 31 March 2023 as appraised by the Valuer by way the income approach with the use of the discounted cash flow method and represents an equivalent amount to the Valuation after taking into account the 95% of the equity interest in the Target Company to be acquired under the Acquisition; (iii) based on our independent work performed on the Valuation with details discussed in the section headed "Valuation of the Target Company" below, the Valuation is considered to be carried out on a fair and reasonable basis by the Valuer; (iv) the provision of profit guarantee by the Vendor demonstrated its confidence in the Target Company's performance in the near future; (v) the risk profile of the Target Company is considerably low considering the profit-making position of the Target Company for the past two years; (vi) the growth potential and prospect of the Target Company in view of the favourable governmental policies to support the development of the photovoltaic market in the PRC and the reasons for and benefits of the Acquisition as discussed in the section headed "Reasons for and benefits of the Acquisition" above; and (vii) the Company would be able to secure a cash compensation from the Vendor if the profit guarantee cannot be achieved and the compensation is calculated as the shortfall on dollars for dollars basis and will be paid each year, we consider that the aggregated profit guarantee provided by the Vendor can sufficiently protect the interest of the Company and the Shareholders as a whole.

As disclosed in the Letter from the Board, the Vendor is a company established in the PRC with limited liability and is principally engaged in the business of, among other things, manufacturing and sale of machineries and spare parts, the sale of steel, building materials and other chemical products and scrap metals recycling and the construction. We have obtained and reviewed the audit reports of the Vendor for FY2021 and FY2022 and noted that for FY2021 and FY2022, the Vendor recorded revenue of approximately RMB10,703.6 million and RMB8,158.9 million, respectively and net profit attributable to the shareholders of approximately RMB183.6 million and RMB184.7 million, respectively. As at 31 December 2022, net current assets, equity attributable to the shareholders and cash and cash equivalents of the Vendor amounted to approximately RMB2,059.7 million, RMB3,001.2 million and RMB618.4 million, respectively. In addition, based on the management account of the Vendor as at 31 May 2023, the cash and cash equivalents balance of the Vendor was approximately RMB442.1 million. Having considered (i) the cash and cash equivalents balance of the Vendor is significantly higher than the aggregated amount of the profit guarantee (i.e. a sum of approximately RMB26.8 million); and (ii) the profit-making position of the Vendor in recent years, we consider that the Vendor is capable to fulfill its obligation when it is asked to compensate for the shortfall under the profit guarantee.

Taking into account (i) the reasons for and benefits of the Acquisition as stated above; (ii) the Consideration is determined with reference to the valuation of 100% equity interest of the Target Company of RMB53.9 million as at 31 March 2023 as appraised by the Valuer by way of the income approach with the use of the discounted cash flow method; (iii) the profit guarantee provided by the Vendor is in favour of the Company; and (iv) the financial performance and position of the Vendor which supported the Vendor's capability to fulfill its obligation under the profit guarantee, we consider that 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.

5. Valuation of the Target Company

As stated in the Letter from the Board, the Consideration is determined with reference to the valuation of 100% equity interest of the Target Company of RMB53.9 million as at 31 March 2023 as appraised by the Valuer by way of the income approach with the use of the discounted cash flow method. The full text of the valuation report (the "**Valuation Report**") is set out in Appendix V to the Circular, and the Independent Shareholders are recommended to read in full.

In assessing the fairness and reasonableness of the Valuation, we have taken into the following factors:

(i) The qualification and scope of work of the Valuer

We have conducted an interview with the Valuer to enquire to their qualification and experience in valuing similar energy companies in the PRC and their independence. From the mandate letter and other relevant information provided by the Valuer, we noted that the Valuer is a qualified valuation firm to perform valuation works complying with International Valuation Standard, and the responsible person of the Valuer is a charterholder of the Chartered Financial Analyst and international certified valuation specialist of International Association of Certified Valuation Specialists who possesses sufficient qualifications and experience in valuing similar companies in the PRC. We have also enquired with the Valuer as to their independence from the Group, the Vendor and the Target Company, and were given to understand that the Valuer is independent to the Group, the Vendor and the Target Company. The Valuer confirmed that apart from normal professional fees paid or payable to them in connection with their appointment as the Valuer, no arrangements exist whereby they will receive any fees or benefits from the Group, the Vendor and the Target Company. We have also reviewed the terms of engagement of the Valuer, in particular to their scope of work. We noted that their 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 Rule 13.80 of the Listing Rule in relation to the Valuer and its work as regards to the Valuation. Based on the above, we are satisfied with the terms of engagement of the Valuer as well as their qualification and experience for performing the Valuation, and we are of the view that the scope of work of the Valuer is appropriate. We therefore consider it is appropriate to rely on their work and opinion.

(ii) Valuation methodologies

We have discussed with the Valuer and understand that the Valuer has considered three generally accepted approaches, namely, market approach, income approach and asset-based approach. The Valuer adopted the discounted cash flow ("**DCF**") methodology of the income approach in the Valuation due to the following consideration:

(a) the selection of the valuation approach in valuing the Target Company is based on, among other criteria, the quantity and quality of the information provided, accessibility to available data, availability of relevant market information, professional judgment and technical expertise;

(b) income approach takes the future growth potential and firm-specific characteristics of the Target Company into consideration;

(c) the DCF method, which begins with an estimation of the annual cash flows that a market participant acquirer would expect the asset to generate over a discrete projection period, is appropriate because the purpose of purchasing and subscribing for shares in the Target Company is for the Company to benefit from the future income to be generated by the Target Company. Therefore, the prospect of future income-generating is the central factor to consider when it comes to gauging the value of the Target Company from the perspective of the Company;

(d) market approach is not considered because valuation multiples derived from comparable companies and transactions might not reflect the risk and return characteristics of the Target Company, and there is insufficient information on the important assumptions of the comparable transactions, such as discount or premium on the transaction prices or considerations. Further, the differences in location, sunlight durations, model of the sunlight board, operation and maintenance will affect the financial performance of the comparable companies and the consideration of the comparable transactions, and thus the valuation. Given that the details and information of these aforementioned factors are generally not publicly available, market approach was not adopted; and

(e) asset-based approach is not considered because information for the calculation of fair values of the assets and liabilities of the Target Company was insufficient. In addition, it could not capture the future earning potentials and thus market value of the Target Company.

Based on the factors above, we concur with the Valuer that the income approach was the most appropriate valuation methodology to conduct a fair and reasonable valuation.

(iii) Application of the DCF methodology

Under the income approach, the appraisal value of the Target Company represents the present worth of future economic benefits expected to be generated from the Target Company. The Valuer applied the DCF method to discount the free cash flow ("**FCF**") of the Target Company at a discount rate to calculate the fair market value of the Target Company.

In our assessment in the valuation, we have reviewed the following key quantitative assumptions:

(a) Forecasted revenue

In assessing the reasonableness of the forecasted revenue for the nine months ending 31 December 2023 and 19 years ending 31 December 2042 (the "**Forecast Period**"), we have discussed with the Valuer on the basis and assumptions underlying the projections and reviewed the detailed working documents, and noted that the projected revenue for the Forecast Period is derived by multiplying expected electricity generation amount each year with the unit electricity price for each of those that will be purchased by companies and/or factories located near the solar farm and those will be purchased by local electricity supply company, and the unit government subsidy.

In respect of the expected electricity generation amount of 9.5 million kWh each year during the Forecast Period, it is estimated based on (1) the historical electricity generation of approximately 9.5 million kWh, 9.0 million kWh and 9.0 million kWh in 2018, 2019 and 2020, respectively; (2) the estimated growth of the electricity generation capacity, which is determined based on Company's plan to optimise the operation of the Target Company's solar farm after completion of the Acquisition; and (3) the expected sunshine duration during the Forecast Period. As advised by the management of the Company, the relatively lower electricity generation of approximately 7.7 million kWh and 6.6 million kWh in FY2021 and FY2022 was primarily attributable to the construction work in the area beside the solar farm which led to thick layer of dust covering the solar panels and affected the performance of transforming solar energy to power and decreased the operation efficiency. The construction work in the area beside the solar farm was commenced in 2022 and is expected to complete in 2023 based on the recent communication between the management of the Target Company and the management of the factory. The electricity generation is expected to recover to the historical level of approximately 9.5 million kWh per annum after the construction work and regular and proper cleanup will be maintained. Upon Completion, the Company plans to optimise the operation of the Target Company's solar farm and improve the transformation rate of the solar panels during the Forecast Period through (1) increasing the frequency of regular cleaning and maintenance; (2) assigning its own engineers to closely monitor the daily operation of the solar farm; and (3) capital investment in an aggregate amount of RMB4.0 million during the Forecast Period for daily maintenance and repair of solar panels. As such, the electricity generation amount is expected to resume to a normal level similar to that in 2018 of approximately 9.5 million kWh per annum, which has been taken into account in the forecasted revenue.

Among the 9.5 million kWh electricity generation, it is expected that 90% of it will be purchased by companies and/or factories located near the solar farm and the remaining 10% will be purchased by local electricity supply company during the 19 years ending 31 December 2042. As advised by the management of the Company, there is one company principally engaged in the development, production and sales in non-metallic inorganic new materials which is constructing its new plant near the solar farm. That company had represented to the Target Company that it would constantly purchase electricity from the Target Company when its new plant commences operation as the unit electricity price of the Target Company is cheaper than market rate, especially during peak time. It is expected that the construction of the new plant will be completed by the end of 2023 and the new materials company will start to purchase electricity from the Target Company since 2024.

In respect of the unit electricity price, the unit price of electricity supplied to the local electricity supply company is estimated based on its historical average selling price from FY2020 to FY2022 which was a constant guideline price determined by the Price Bureau of Zhejiang Province under 浙江省物價局關於電價調整有關事項的通知（浙價資[2016]2號）(Notice of the Price Bureau of Zhejiang Province on matters related to the adjustment of electricity prices (Zhejizi [2016] No. 2*). On the other hand, the unit price of electricity supplied to nearby companies and/or factories is estimated based on its historical unit price from FY2020 to FY2022. Since the Target Company used to supply electricity to a related party with a 20% discount, the 20% discount is removed in determining the unit price of electricity supplied to nearby companies and/or factories during the Forecast Period as the Target Company will cease such discount arrangement and supply electricity at the same price to this related party and other independent third parties after Completion.

In respect of the unit government subsidy, it is estimated based on the historical unit government subsidies the Target Company received from FY2020 to FY2022, which was constant and determined by the National Development and Reform Commission. Such unit government subsidy remained constant in FY2023. With the favourable government policies trend to support the development of the photovoltaic market in the PRC, it is expected that such subsidy would continue to be available in the future.

(b) Forecasted cost of revenue

Cost of revenue mainly represents the Target Company's depreciation of property, plant and equipment. As advised by the management of the Company, the Target Company generally did not incur any raw material costs and direct staff costs in its daily operation and thus its cost of revenue would not fluctuate with revenue. In assessing the reasonableness of the forecasted cost of revenue for the Forecast Period, we have discussed with the Valuer on the basis and assumptions underlying the projections and reviewed the detailed working documents, and noted that the forecasted cost of revenue for the Forecast Period is estimated mainly based on the balance of the Target Company's property, plant and equipment as at 31 March 2023, the relevant accounting policies of the Target Company and the capital expenditure and maintenance schedule of the Target Company.

As advised by the management of the Company, there are only two staffs required for the daily operation of the Target Company, which comprised of an accounting staff and a mechanical staff. As the Group has employed certain experienced accounting staff and mechanical staff who have the experience, knowledge and ability to maintain the daily operation of the Target Company, the Company will not hire additional staff to operate the Target Company following Completion and these two staffs will be employed by the Group and be responsible for other responsibilities in the Group. As such, the staff costs will be borne by the Group rather than the Target Company during the Forecast Period. Taking into account that (1) the management of the Company has confirmed that the Group will pay the relevant staff costs; and (2) based on our review of the CVs of the mechanical staff of the Group who are shown to have the relevant experience and knowledge, we consider the forecasted cost of revenue to be fair and reasonable.

(c) Forecasted operating expenses

Operating expenses refer to office expenses, equipment insurance expenses and rental expenses. In assessing the reasonableness of the forecasted operating expenses for the Forecast Period, we have discussed with the Valuer on the basis and assumptions underlying the projections and reviewed the detailed working documents, and noted that the forecasted operating expenses for the Forecast Period is estimated as a proportion of forecasted revenue and the proportion is determined as the average of historical proportion of operating expenses in terms of historical revenue from FY2020 to FY2022.

In addition, based on the rental agreement entered into between the Target Company and the local government in respect of the rooftop area for solar panels used by the Target Company's solar farm, rental expenses are also included in the forecasted operating expenses.

(d) Forecasted tax expenses

As advised by the management of Company, as a solar power electricity generation company, the Target Company is eligible for a three-year exemption (i.e. from 2018 to 2020) and a three-year 50% reduction (i.e. from 2021 to 2023) in corporate income taxes. As such, a tax rate of 12.5% is applied for the nine months ending 31 December 2023 and a tax rate of 25% is applied for the 19 years ending 31 December 2042 in the Valuation.

(e) Forecasted capital expenditure and working capital requirement

Capital expenditures generally comprises of development and expansion capital expenditure, sustaining capital expenditure and rehabilitation capital expenditure. As advised by the management of the Company, although the Target Company is currently operating all necessary infrastructure in place, it is expected to increase the electricity generation capacity of the Target Company through capital investment in an aggregate amount of RMB4.0 million for daily maintenance and repair of solar panels during the Forecast Period. The projected amounts were RMB1.0 million each in 2023, 2027, 2032 and 2037. As such, the forecasted capital expenditure of RMB4.0 million is estimated primarily based on the budgeted sustaining and rehabilitation expenditures of the Company on the Target Company, which represents approximately 19.4% of the balance of the Target Company's plant and machinery of approximately RMB20.6 million as at 31 March 2023 as the majority of the solar panels shall be able to continue to work until 2042 (i.e. the end of its lifespan) and only require regular maintenance and clean-up. With the regular maintenance and clean-up and replacement of heavily broken or obsolete solar panels, the electricity generation capacity of the Target Company shall be resumed to a normal level similar to that in 2018, thus increasing the revenue and profit of the Target Company. The forecasted revenue and profit have taken into account this capital expenditure.

The forecasted working capital is determined with reference to the historical financial information, payment terms, the historical turnover days of the Target Company during FY2020 and FY2022 and the historical working capital needed for maintaining the operation of the Target Company.

(f) Discount rate

The Valuer has considered the followings in determining the discount rate:

(1) the risk-free rate of 2.858% is based on the implied yield rate of 10-year Chinese government bond as at 31 March 2023 as extracted from Bloomberg;

(2) the market risk premium of China of 12.38% is determined with reference to (i) the expected market return of 10-year Chinese government bond as at 31 March 2023 as extracted from Bloomberg; and (ii) the risk free rate of 2.858% as mentioned above;

(3) the levered beta coefficient of the Target Company of 0.77 is determined with reference to the median of the unlevered beta coefficient and debt-to-equity ratio of six comparable companies (the "**Comparable Companies**") which are also engaged in the business of solar power electricity generation in the PRC and publicly listed in stock exchanges in Hong Kong or the PRC for more than two years, with adjustment for differences in corporate tax rates and leverage compositions. We consider that the Valuer's selection criteria is appropriate and sufficient for the Valuation as (i) it enables the Valuer to identify companies with similar business (i.e. solar power electricity generation) in the same geographical region (i.e. the PRC) as the Target Company, with sufficient years of listing and publicly available data for it to conduct the Valuation; and (ii) it has covered the prevailing market conditions and sentiments in Hong Kong and the PRC. Based on the above criteria, we have, based on our search on Bloomberg and the website of the Stock Exchange, identified six comparable companies which are the same as those identified by the Valuer as set out in the Valuation Report. We consider that no other suitable comparable company is omitted as our independent research results are identical to those identified by the Valuer and thus the list of the Comparable Companies to be exhaustive. Based on our independent research on the Comparable Companies, we concur with the Valuer that the list of the Comparable Companies fit the selection criteria and are fair and representative samples;

(4) size premium for micro-cap of 3.05% is determined with reference to the size premium study in Duff & Phelps Cost of Capital Navigator 2022 published by Duff & Phelps, LLC, which is a multinational financial consultancy firm and a reputable and an often-cited source on equity valuations;

(5) other risk premium of 1.00% which is based on the professional judgement of the Valuer to reflect unsystematic risk such as forecast risk of the Target Company. As advised by the management of the Company, the operation of the Target Company only requires minimal active management involvement and the demand of electricity will be bounded by the terms and conditions as stated in the contract signed. The operation risk is relatively low and hence the Valuer considered that the other risk premium of 1.00% is suitable for accounting the forecast and business risk of the Target Company;

(6) the cost of equity of 16.44% based on (1), (2), (3), (4) and (5) above;

(7) the cost of debt after tax of 2.25% is determined with reference to (i) the actual bank borrowing rate of the Target Company as at 31 March 2023 with an effective interest rate of 3% per annum; and (ii) the corporate tax rate of 25%;

(8) the weight of equity (equity/(debt + equity)) of approximately 32.42% is determined with reference to median of those of the Comparable Companies; and

(9) the nominal weighted average cost of capital ("**WACC**") of approximately 6.85% based on the (6), (7) and (8) above.

As such, 6.85% was adopted as the discount rate.

(g) Forecast Period and equity value

The Valuer adopted the Forecast Period of approximately 20 years from 1 April 2023 to 31 December 2042 based on the advice of the management of the economic useful life of the Target Company given that the useful life of the solar panels were approximately 25 years which shall last from 2018 to 2042. According to the Solar Energy Industries Association (https://www.seia.org/initiatives/recycling-end-life-considerations-photovoltaics), founded in 1974, being a national non-profit trade association of the solar energy industry in the United States, we noted that the typical lifespan for solar panels is 20 to 30 years. As such, we consider the Forecast Period to be fair and reasonable. The Valuer calculated (1) the FCF during the Forecast Period with the assumptions stated above; and (2) the present value of the FCF during the Forecast Period with the discount rate of 6.85%. The equity value is then derived by adding the present values of FCF during the Forecast Period and adjusting cash, debt, lease liabilities and net non-operating assets/(liabilities) of the Target Company as at 31 March 2023.

(h) Discount for lack of marketability

Given the Target Company is not a privately held company and the value of a share in a privately held company is usually less than that in a publicly held company, the Valuer adopted a discount for lack of marketability which is a downward adjustment to the value of an investment to reflect its reduced level of marketability.

As stated in the Valuation Report, in determining the discount for lack of marketability of 9.0%, the Valuer has made reference to the result of the restricted stock study published in "Stout Restricted Stock Study 2022" by Stout Risius Ross, LLC, a reputable research company, which is designed to assist the valuation professional in determining discounts for lack of marketability. As advised by the Valuer, the discount for lack of marketability of 9.0% is the median discount for six transactions in respect of companies principally engaged in electricity services or other electricity power generation services.

(iv) Conclusion

Regarding the above assumptions used in the DCF methodology, especially on the forecasted revenue, we have, among others, (a) reviewed the historical financial information of the Target Company for the three years ended 31 December 2022 and the three months ended 31 March 2023; (b) reviewed the management accounts of the Target Company for the two years ended 31 December 2019 to understand the historical electricity generation capacity of the Target Company which amounted to approximately 9.5 million kWh and 9.0 million kWh in 2018 and 2019, respectively; (c) reviewed the historical electricity supply agreements entered between the Target Company and the local electricity supply company as well as its related party to ascertain the relevant pricing terms and noted that the Target Company had maintained a stable business relationship with the local electricity supply company and the unit price of electricity supplied to nearby companies and/or factories applied by the Valuer in the Valuation was consistent with the price stated in the duly signed electricity supply agreement entered with the Target Company's related party; (d) reviewed the government notices and documents regarding local unit electricity price, government subsidies on electricity and relevant tax policy, including but not limited to 浙江省物價局關於電價調整有關事項的通知(浙價資[2016]2號)(Notice of the Price Bureau of Zhejiang Province on matters related to the adjustment of electricity prices (Zhejizi [2016] No. 2*) and 紹興市人民政府辦公室關於推進紹興市家庭屋頂光伏工程建設的實施意見 (Implementation Opinion on of Shaoxing Municipal People's Government Office on Promoting the Construction of Household Roof Photovoltaic Projects in Shaoxing City*) and noted that the local unit electricity price and government subsidies on electricity applied by the Valuer in the Valuation were consistent with those relevant government notices and documents; (e) compared the forecasted operating expenses for the Forecast Period with the historical operating expenses for the three years ended 31 December 2022, and noted that the forecasted operating expenses is mainly determined with its historical proportion in total revenue; (f) reviewed the rental agreement entered by the Target Company as mentioned above and noted that the rental expenses estimated in the Valuation are consistent with the signed agreement; (g) cross-checked the key elements in discount rate and discount for lack of marketability with the Bloomberg, "2022 Valuation Handbook" and "Stout Restricted Stock Study 2022" screenshots provided by the Valuer and no variance is noted; (h) on a best effort basis, conducted our own research in Bloomberg to identify companies which are (1) publicly listed on stock exchanges in Hong Kong or the PRC for more than two years; and (2) principally engaged in the business of solar power electricity generation in the PRC, and identified six comparable companies which are the same as those identified by the Valuer as set out in the Valuation Report; and (i) discussed with the management of the Company on its business plan and future development of the Target Company, especially its plan to optimise the operation of the Target Company's solar farm, and relevant financial impact to the forecasted financial information during the Forecast Period. In particular, we have discussed with the management of the Company on the reasons for the relatively lower electricity generation capacity of the Target Company in 2021 and 2022 and the basis of the ability to restore the electricity generation capacity to the historical level of approximately 9.5 million kWh per annum as driven by its optimisation plan of the Target Company's operation.

After taking into account factors above, in particular, our independent work performed on the Valuation as set out above, we are of the view that (a) the key quantitative assumptions adopted by the Valuer in the Valuation were fair and reasonable; and (b) the calculation of FCF applied by the Valuer is appropriate and the DCF methodology has been reasonably applied in the Valuation.

In addition, having considered that (a) the independence, qualification and experience of the Valuer; and (b) the selection and application of the valuation methodology are reasonably prepared, we are of the view that the Valuation was carried out on a fair and reasonable basis by the Valuer.

In assessing the fairness of the Consideration, we have discussed with the Directors and understood that as illustrated in the table below, the Consideration of RMB51.2 million is determined by reference to the Valuation of 100% equity interest of the Target Company of RMB53.9 million. As the 95% of equity interest of the Target Company would be valued at approximately RMB51.2 million, the Consideration of RMB51.2 million represents an equivalent amount to the Valuation after taking into account the 95% of the equity interest in the Target Company to be acquired under the Acquisition.

The Consideration

The Valuation of 100% equity interest of the Target Company	RMB53.9 million *(A)*
The basis for calculating the Consideration	RMB53.9 million *(B)*
Sale Capital in the Target Company (95% of the total number of issued shares of the Target Company as at the date of the Agreement)	95% *(C)*
The Consideration	RMB51.2 million *(B*C)*
Discount to the Valuation	0.0% *(B/A-1)*

As such, having considered that (i) the Valuation Report has been reasonably prepared; (ii) the Consideration is determined by reference to the Valuation and is equivalent to the Valuation after taking into account the 95% of the equity interest in the Target Company to be acquired under the Acquisition; and (iii) the reasons for and benefits of the Acquisition, we are of the view that the Consideration are fair and reasonable.

6. Financial effect on the Group

Upon Completion, the Target Company shall become a subsidiary of the Company and the financial results of the Target Company will be consolidated into the consolidated financial statements of the Company. The unaudited pro forma financial information of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**") is set out in Appendix III to the Circular.

(i) Earnings

As disclosed in the sections headed "1. Background information on the Group" and "2. Information on the Target Company" above, the Group recorded profit attributable to the Shareholders of approximately RMB53.6 million while the Target Company recorded net profit of approximately RMB2.4 million for FY2022. As the Target Company has been generating revenue and profit in the last three financial years, the Acquisition is expected to contribute to the Group's results upon Completion.

(ii) Net assets

As set out in the Unaudited Pro Forma Financial Information, the pro forma consolidated net assets shall decrease slightly by approximately 0.06% to approximately RMB833.7 million after Completion as compared to that of approximately RMB834.2 million as at 31 December 2022. The pro forma net assets after Completion have taken into account, among other things, the recognition of the Target Company as a subsidiary and the settlement of the Consideration.

(iii) Working capital

Part of the Consideration shall be satisfied by cash payment within five Business Days after Completion which shall be funded by the Group's internal resources. Upon Completion, the net current assets would amount to approximately RMB561.1 million, representing a decrease of approximately 12.0% as compared to approximately RMB637.9 million as at 31 December 2022.

As set out in Appendix I to the Circular, 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 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 the 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 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 and the transactions contemplated thereunder.

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 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 NOx 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
– SO2 and NOx emission reduction (desulfurisation and denitrification devices)	11,027	3	182,368	25
Total	442,739	100	744,011	100

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 NOx 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	16,046	4	22,257	3
Total	442,739	100	744,011	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 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-ofuse 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.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target Company will become a subsidiary of the Company and the financial results of the Target Company will be consolidated into the accounts of the Company.

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, assuming completion of the Acquisition had taken place on 31 December 2022, the pro forma total assets of the Enlarged Group would have increased by approximately RMB42.0 million from approximately RMB1,535.7 million to approximately RMB1,577.7 million, and the total liabilities of the Enlarged Group would have increased by approximately RMB42.5 million from approximately RMB701.5 million to approximately RMB744.0 million.

It is expected that the impact of the Acquisition on the Group's earning will not be significant for the year ending 31 December 2023. In view of the future prospectus of the new materials market in the PRC, it is anticipated that the Acquisition will improve the Enlarged Group's trading prospects in the future and the Directors consider that the Acquisition will contribute to the revenue and earning of the Enlarged Group upon Completion but the quantification of such contribution will depend on the future performance of the Target Company.

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF 浙江天洁新能源有限公司 TO THE DIRECTORS OF ZHEJIANG TENGY ENVIRONMENTAL TECHNOLOGY COMPANY LIMITED

Introduction

We report on the historical financial information of 浙江天潔新能源有限公司 (the "**Target Company**") set out on pages II-4 to II-44, which comprises the statements of financial position as at 31 December 2020, 2021 and 2022 and 31 March 2023 and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for each of the periods then ended (the "**Relevant Periods**") and a summary of significant accounting policies and other explanatory information (together the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-44 forms an integral part of this report, which has been prepared for inclusion in the circular of Zhejiang Tengy Environmental Technology Co., Ltd (the "**Company**") dated 7 July 2023 (the "**Circular**") in connection with the proposed acquisition of 95% equity interest in the Target Company by the Company (the "**Proposed Acquisition**").

Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation and presentation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Company's financial position as at 31 December 2020, 2021 and 2022 and 31 March 2023 and of the Target Company's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Material uncertainty related to going concern

We draw attention to note 2.3 to the Historical Financial Information which states that as at 31 December 2020, 2021, and 2022 and 31 March 2023, the Target Company had net current liabilities of approximately RMB39,495,000, RMB40,145,000, RMB41,389,000 and RMB24,249,000, respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Target Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Review of stub period comparative historical financial information

We have reviewed the stub period comparative historical financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the three months ended 31 March 2022 and other explanatory information (together the "**Stub Period Comparative Historical Financial Information**"). The directors of the Target Company are responsible for the preparation of the Stub Period Comparative Historical Financial Information in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Historical Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Historical Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information and the Stub Period Comparative Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

Dividends

We refer to Note 9 to the Historical Financial Information which states no dividends have been paid by the Target Company in respect of the Relevant Periods.

McMillan Woods (Hong Kong) CPA Limited
Certified Public Accountants

Wong Ka Bo, Jimmy
Practising Certificate no. P07560

24/F., Siu On Centre, 188 Lockhart Road,
Wanchai, Hong Kong

7 July 2023

HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and were audited by McMillan Woods (Hong Kong) CPA Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Three months ended 31 March	
	Notes	**2020**	**2021**	**2022**	**2022**	**2023**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	*5*	8,318	7,185	5,581	1,024	764
Cost of sales		(2,662)	(2,662)	(2,703)	(660)	(750)
Gross profit		5,656	4,523	2,878	364	14
Other income, gains and losses, net	*6*	3,573	(42)	1,292	–	146
Loss on disposal of financial asset at fair value through profit or loss ("**FVTPL**")		(4,901)	–	–	–	–
Dividend income from financial asset at FVTPL		1,960	–	–	–	–
Administrative expenses		(121)	(71)	(104)	(9)	(79)
Profit from operations		6,167	4,410	4,066	355	81
Finance costs	*7*	(2,961)	(2,305)	(1,623)	(462)	(344)
Profit/(loss) before tax	*7*	3,206	2,105	2,443	(107)	(263)
Income tax expenses	*8*	–	–	–	–	–
Profit/(loss) after tax and total comprehensive income/(expense) for the year/period attributable to owners of the Target Company		3,206	2,105	2,443	(107)	(263)

STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 31 March
	Notes	2020	2021	2022	2023
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*13(a)*	18,164	17,157	16,169	15,923
Right-of-use assets	*13(b)*	30,621	28,966	30,860	30,356
		48,785	46,123	47,029	46,279
Current assets					
Trade and other receivables	*15*	9,786	14,568	1,410	1,348
Pledged bank deposits	*16*	–	–	–	10,000
Bank and cash balances	*16*	70	866	391	273
		9,856	15,434	1,801	11,621
Current liabilities					
Other payables	*17*	40,421	47,857	35,177	18,093
Bank and other borrowings	*18*	–	–	–	9,900
Lease liabilities	*14*	8,930	7,722	8,013	7,877
		49,351	55,579	43,190	35,870
Net current liabilities		(39,495)	(40,145)	(41,389)	(24,249)
Total assets less current liabilities		9,290	5,978	5,640	22,030
Non-current liabilities					
Lease liabilities	*14*	14,807	9,390	6,609	5,235
NET (LIABILITIES)/ASSETS		(5,517)	(3,412)	(969)	16,795
Capital and reserves					
Capital	*19*	20,000	20,000	20,000	20,000
Reserves		(25,517)	(23,412)	(20,969)	(3,205)
(CAPITAL DEFICIENCY)/TOTAL EQUITY		(5,517)	(3,412)	(969)	16,795

STATEMENTS OF CHANGES IN EQUITY

	Capital	Other reserve	Accumulated losses	(Capital deficiency)/ total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
		(note)		
At 1 January 2020	20,000	–	(28,723)	(28,723)
Profit and total comprehensive income for the year	–	–	3,206	3,206
At 31 December 2020	20,000	–	(25,517)	(5,517)
At 1 January 2021	20,000	–	(25,517)	(5,517)
Profit and total comprehensive income for the year	–	–	2,105	2,105
At 31 December 2021	20,000	–	(23,412)	(3,412)
At 1 January 2022	20,000	–	(23,412)	(3,412)
Profit and total comprehensive income for the year	–	–	2,443	2,443
At 31 December 2022	20,000	–	(20,969)	(969)
At 1 January 2023	20,000	–	(20,969)	(969)
Loss and total comprehensive expense for the period	–	–	(263)	(263)
Transfer to other reserve upon waiver of amount due to ultimate holding company	–	18,027	–	18,027
At 31 March 2023	20,000	18,027	(21,232)	16,795
At 1 January 2022 (audited)	20,000	–	(22,365)	(2,365)
Loss and total comprehensive expense for the period (unaudited)	–	–	(107)	(107)
At 31 March 2022 (unaudited)	20,000	–	(22,472)	(2,472)

Note: On 31 March 2023, the Target Company and the ultimate holding company entered into a debt waiver agreement whereby approximately RMB18,027,000 of debt due to the ultimate holding company was waived. The amount was charged to other reserve in equity.

STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December 2020 RMB'000	2021 RMB'000	2022 RMB'000	Three months ended 31 March 2022 RMB'000 (Unaudited)	2023 RMB'000
Operating activities						
Profit/(loss) before income tax expense		3,206	2,105	2,443	(107)	(263)
Adjustments for:						
Interest income	*6*	(3)	(2)	(3)	–	–
Finance costs	*7(a)*	2,961	2,305	1,623	462	344
Depreciation of right-of-use assets	*7(c)*	1,655	1,655	1,715	414	504
Depreciation of property, plant and equipment	*7(c)*	1,007	1,007	988	246	246
Loss on disposal of FVTPL		4,901	–	–	–	–
Operating profit before changes in working capital		13,727	7,070	6,766	1,015	831
(Increase)/decrease in trade and other receivables		(1,917)	3,507	5,869	72	62
(Decrease)/increase in other payables		(634)	7,508	179	–	35
Cash generated from operating activities		11,176	18,085	12,814	1,087	928
PRC income tax paid		–	–	–	–	–
Net cash generated from operating activities		11,176	18,085	12,814	1,087	928
Investing activities						
Interest received		3	2	3	–	–
(Advance to)/repayment from related parties		–	(8,289)	7,289	8,289	–
Proceeds from disposal of FVTPL		73,500	–	–	–	–
Dividend received from FVTPL		1,960	–	–	–	–
Placement of pledged deposits		–	–	–	–	(10,000)
Net cash generated from/(used in) investing activities		75,463	(8,287)	7,292	8,289	(10,000)
Financing activities						
Proceeds from bank and other borrowings		–	–	–	–	19,800
Repayments of bank and other borrowings		–	–	–	–	(9,900)
(Repayment to)/advance from ultimate holding company		(78,323)	(72)	(12,859)	(7,914)	908
Interest paid		–	–	–	–	(14)
Capital element of lease rentals paid		(5,882)	(6,625)	(6,121)	(1,515)	(1,543)
Interest element of lease rentals paid		(2,961)	(2,305)	(1,601)	(462)	(297)
Net cash (used in)/generated from financing activities		(87,166)	(9,002)	(20,581)	(9,891)	8,954
Net (decrease)/increase/in cash and cash equivalents		(527)	796	(475)	(515)	(118)
Cash and cash equivalents at beginning of year/period		597	70	866	866	391
Cash and cash equivalents at end of year/period	*16*	70	866	391	351	273

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. General information

The Target Company is a limited liability company established in the People's Republic of China (the "**PRC**") on 13May 2008. Its registered office and principal place of business is located at Yangfu Village, Paitou Town, Zhuji City, Zhejiang Province, the PRC.

The Target Company is principally engaged in generating and sales of electricity.

The Target Company's ultimate and immediate parent is Zhejiang Tianjie Group Co.,Ltd. ("**天潔集團有限公司**") (incorporated in the PRC).

2. Basis of preparation

2.1 Statement of compliance

The Historical Financial Information has been prepared based on the accounting policies set out in Note 3 which conform with Hong Kong Financial Reporting Standards, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") (hereinafter collectively referred to as the "**HKFRSs**") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

For the purpose of preparing this Historical Financial Information, the Target Company has consistently applied the accounting policies which conform with HKFRSs during the Relevant Periods which are effective for the accounting period beginning on 1 January 2023 throughout the Relevant Periods.

The preparation of Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting assumptions and estimates. It also requires management to exercise its judgement in the process of applying the Target Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

2.2 Basis of measurement

The Historical Financial Information has been prepared under the historical cost convention.

2.3 Going concern basis

In preparing the Historical Financial Information, the directors of the Target Company have given careful consideration to the future liquidity of the Target Company, in light of the fact that as at 31 December 2020, 2021, and 2022 and 31 March 2023, the Target Company had net current liabilities of approximately RMB39,495,000, RMB40,145,000, RMB41,389,000 and RMB24,249,000, respectively. Notwithstanding the above result, the Historical Financial Information has been prepared on a going concern basis.

The above conditions indicate the existence of a material uncertainty which may cast a significant doubt about the ability of the Target Company to continue as a going concern.

In view of these circumstances, the directors of the Target Company have given careful consideration to the future liquidity requirements of the Target Company and its available sources of financing to assess whether the Target Company would have sufficient financial resources to fulfil its financial obligations to continue as a going concern. The Target Company has plan and measures to improve its financial position and to alleviate its liquidity pressure, which include but not limited to the following:

1) The Company has confirmed its intentions in June 2023 to commit further financing and/or arrange a loan facility to the Target Company by the Company upon completion of the acquisition.

The directors of the Target Company have reviewed the Target Company's cash flow projections, which cover a period of not less than twelve months from 31 March 2023. They are of the opinion that the Target Company will have sufficient financial resources to satisfy its future working capital requirements as and when they fall due within the next twelve months from 31 March 2023. Accordingly, the directors of the Target Company consider that it is appropriate to prepare the Target Company's Historical Financial Information on a going concern basis.

Notwithstanding the above, material uncertainty exists as to whether the Target Company is able to achieve its plans and measures, which incorporate assumptions about future events and conditions that are subject to inherent uncertainties. Whether the Target Company will be able to continue as a going concern would depend upon the following:

1) whether the Target Company will be able to obtain financing from the Company upon completion of the acquisition and whether the conditions for the provision of financing exist throughout the forecast period.

Should the Target Company be unable to achieve the above plans and measures such that it would not be operate as a going concern, adjustments would have to be made to reduce the carrying values of the Target Company's assets to their recoverable amounts, to provide for financial liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in the Historical Financial Information.

The directors of the Target Company considered the assumption that the Target Company will be able to obtain financing from the Company to be fair and reasonable given that (i) the debt waiver as discussed in note 17 of this report has relieved the financial burden of the Target Company substantially; and (ii) the Company intends to commit further financing and/or arrange a loan facility to the Target Company by the Company upon completion of the Acquisition and will issue a letter of support to the Target Company.

2.4 Adoption of new and revised hong kong financial reporting standards

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, the Target Company has early adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2023 throughout the Relevant Periods. HKFRSs comprise Hong Kong Financial Reporting Standards ("**HKFRS**"); Hong Kong Accounting Standards ("**HKAS**"); and Interpretations.

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

3. Significant accounting policies

The significant accounting policies applied in the preparation of the Historical Financial Information are set out below.

Property, plant and equipment

Buildings comprise mainly factories and offices. Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Company and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Plant and machinery	4.75% – 9.50%
Office equipment	31.67%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Leases

The Target Company as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Target Company. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

Plant and machinery	4.75%

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Target Company's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US$5,000.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Target Company becomes a party to the contractual provisions of the instruments.

Financial assets are derecognises when the contractual rights to receive cash flows from the assets expire; the Target Company transfers substantially all the risks and rewards of ownership of the assets; or the Target Company neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and is recognised in profit or loss.

Financial liabilities are derecognises when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognises and the consideration paid is recognised in profit or loss.

Financial assets

Financial assets are recognised and derecognises on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Target Company are classified under the following category:

(i) Financial assets at amortised cost

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

(a) the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

(b) the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

(ii) Investments at fair value through profit or loss

Financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost and the conditions of debt investments at fair value through other comprehensive income unless the Target Company designates an equity investment that is not held for trading as at fair value through other comprehensive income on initial recognition.

Investments at fair value through profit or loss are subsequently measured at fair value with any gains or losses arising from changes in fair values recognised in profit or loss. The fair value gains or losses recognised in profit or loss are net of any interest income and dividend income. Interest income and dividend income are recognised in profit or loss.

Loss allowances for expected credit losses

The Target Company recognises loss allowances for expected credit losses on financial assets at amortised cost and contract assets. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Target Company measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("**lifetime expected credit losses**") for trade receivables and contract assets, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables and contract assets) has not increased significantly since initial recognition, the Target Company measures the loss allowance for that financial instrument at an amount equal to the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Target Company's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Target Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Target Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Target Company are recorded at the proceeds received, net of direct issue costs.

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Target Company recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

(a) the customer simultaneously receives and consumes the benefits provided by the Target Company's performance;

(b) the Target Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

(c) the Target Company's performance does not create an asset with an alternative use to the Target Company and the Target Company has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

Other income

Interest income is recognised on a time-proportion basis using the effective interest method.

Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the at the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Target Company contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Target Company and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged in profit or loss represents contributions payable by the Target Company to the funds.

(c) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Target Company can no longer withdraw the offer of those benefits and when the Target Company recognises restructuring costs and involves the payment of termination benefits.

(d) Retirement benefits

Payments to the PRC local government defined contribution retirement schemes pursuant to relevant labour rules and regulations in the PRC are recognised as an expense when employees have rendered service entitling them to the contributions.

Government grants

A government grant is recognised when there is reasonable assurance that the Target Company will comply with the conditions attaching to it and that the grant will be received.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Target Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Target Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Target Company intends to settle its current tax assets and liabilities on a net basis.

Segment reporting

Operating segments and the amounts of each segment item reported in the Historical Financial Information are identified from the financial information provided regularly to the Target Company's most senior executive management for the purpose of allocating resources and assessing the performance of the Target Company's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of productions processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Related parties

A related party is a person or entity that is related to the Target Company.

(a) A person or a close member of that person's family is related to the Target Company if that person:

 (i) has control or joint control over the Target Company;

 (ii) has significant influence over the Target Company; or

 (iii) is a member of the key management personnel of the Target Company or of a parent of the Target Company.

(b) An entity is related to the Target Company if any of the following conditions applies:

(i) The entity and the Target Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company. If the Target Company is itself such a plan, the sponsoring employers are also related to the Target Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a Target Company of which it is a part, provides key management personnel services to the Target Company or to a parent of the Target Company.

Impairment of assets

At the end of each reporting period, the Target Company reviews the carrying amounts of its tangible and intangible assets other than deferred tax assets, investments, inventories and receivables, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Target Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cashgenerating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cashgenerating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Company has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or nonoccurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Events after the reporting period

Events after the reporting period that provide additional information about the Target Company's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Historical Financial Information. Events after the reporting period that are not adjusting events are disclosed in the notes to the Historical Financial Information when material.

4. Critical judgements and key estimates

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the Historical Financial Information.

(a) Going concern and Liquidity

The assessment of the going concern assumptions involves making judgments by the directors of the Target Company, at a particular point of time, about future outcome of events of conditions which are inherently uncertain. Please refer to note 2.3 in relation to the going concern assumptions adopted by the directors of the Target Company.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Property, plant and equipment and depreciation

The Target Company determines the estimated useful lives, residual values and related depreciation charges for the Target Company's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Target Company will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

(b) Impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event such as any assets have become obsolete or idle, has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal or value in use which is estimated based upon the continue use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections. Changing the judgment and estimations adopted by management in assessing impairment, including the estimated resale values with reference to the historical disposal values or second-hand market price of the assets and the estimated future cash flows generating from the property, plant and equipment with reference to the historical and expected rental income from leasing for assets in use, could affect the recoverable amounts used in the impairment test and as a result affect the Target Company's financial position and results of operations. In the opinion of the directors of the Target Company, there is no impairment indication during the Relevant Periods.

5. Revenue and segment reporting

The Target Company determines its operating segments based on the reports reviewed by the chief operating decision-maker (the "**CODM**") that are used to make strategic decisions. The CODM is identified as executive directors of the Target Company. The CODM have considered the only operating segment of the Target Company to be sales of electricity.

No segment assets and liabilities are presented as they were not regularly provided to the CODM for the purpose of performance assessment and resources allocation.

Geographic information

The Target Company's revenue and profit are derived entirely from the operations in the PRC. All of the Target Company's non-current assets are located in the PRC.

Information about major customers

Information about the Target Company's performance obligation are summarised below:

	Year ended 31 December			Three months ended 31 March	
	2020	**2021**	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
State Grid Zhejiang Zhuji Electric Power Company, ltd	5,524	4,629	5,090	880	636
Zhejiang Tianjie Group Co.,Ltd.	2,794	2,556	491	144	128
	8,318	7,185	5,581	1,024	764

Revenues from major customers of the Target Company which represent 10% or more of the Target Company's revenue for the years ended 31 December 2020, 2021 and 2022 and for the three months ended 31 March 2022 and 2023 respectively are detailed in the above.

Sales of electricity

Revenue from sales of electricity is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery and acceptance of the electricity at the customer's location. The Target Company's obligation to transfer goods to customer for which the Target Company has received consideration (or an amount of consideration is due) from the customers.

Please refer to Financial Review under the Management Discussion and Analysis on the Target Company in Appendix IV of this Circular for further analysis on the fluctuation of revenue during the Relevant Periods.

Set out below is the disaggregation of the Target Company's revenue from contracts with customers:

	Year ended 31 December			Three months ended 31 March	
	2020	**2021**	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Type of goods					
Sales of electricity	8,318	7,185	5,581	1,024	764
Total revenue from contract with customers	8,318	7,185	5,581	1,024	764
Timing of revenue recognition					
Goods transferred at a point in time	8,318	7,185	5,581	1,024	764
Total revenue from contract with customers	8,318	7,185	5,581	1,024	764

6. OTHER INCOME, GAINS AND LOSSES, NET

	Year ended 31 December			Three months ended 31 March	
	2020	**2021**	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Interest income	3	2	3	–	–
Government grants *(note i)*	3,428	1,627	1,289	–	146
Other operations, net *(note ii)*	–	(1,671)	–	–	–
Others	142	-	–	–	–
	3,573	(42)	1,292	–	146

Note:

(i) During the Relevant Periods, government grants were recognised at the time the Target Company fulfilled the relevant granting criteria. In accordance with the accelerating the economic transformation notice issued by the Shaoxing Municipal People's Government, the Target Company is entitled to a government grant equivalent to RMB0.2 per kilowatt hour electricity generated.

(ii) During the year ended 31 December 2021, the Target Company facilitated the equipment purchase agreement between the ultimate holding company and Zhejiang Tengy Environmental Technology Co., Ltd (the "**Equipment Purchase Agreement**"). As a result of the Equipment Purchase Agreement, the Target Company incurred unexpected assembling and dismantling costs, which resulted in a loss of approximately RMB1,671,000.

7. PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE

Profit/(loss) before income tax expense is arrived after charging/(crediting):

	Year ended 31 December			Three months ended 31 March	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
(a) Finance costs					
Interest on other borrowings	–	–	–	–	14
Interest on lease liabilities	2,961	2,305	1,623	462	330
	2,961	2,305	1,623	462	344
(b) Staff costs *(Note i)*					
Salaries, wages and other benefits (including directors' emoluments *(Note 11)*)	–	–	–	–	–
Contributed to defined contribution retirement plan	15	31	35	8	6
	15	31	35	8	6
(c) Other items					
Depreciation of property, plant and equipment	1,007	1,007	988	246	246
Depreciation of right-of-use assets	1,655	1,655	1,715	414	504
Auditors' remuneration	–	–	–	–	–
Repairs and maintenance expenses (included in administrative expenses)	–	–	–	–	70

Note:

(i) Salaries and contributions to defined contribution retirement plan of the Target Company are paid by the parent company and fellow subsidiaries, except for contributions to defined contribution retirement plan of one employee.

The photovoltaic power plants of the Target Company are self- operated and will generate electricity on its own based on the photovoltaic power resources and therefore the day to day operation of the Target Company is not labour intensive. Should the Target Company need to bear future salary related expenses, the amount would be approximately RMB60,000 per year, which is considered insignificant.

8. INCOME TAX EXPENSE

(a) Taxation in the statements of profit or loss and other comprehensive income represents

	Year ended 31 December			Three months ended 31 March	
	2020	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Current tax					
PRC Enterprise Income Tax for the year	–	–	–	–	–

Under the PRC Corporate Income Tax Law (the "**CIT Law**"), the Target Company is subject to income tax at a rate of 25% for years ended 31 December 2020, 2021, 2022 and three months periods ended 31 March 2022 and 2023, unless otherwise specified.

The Target Company is subject to the "Public Infrastructure Projects Enterprise Income Tax Preferential Catalogue" published from 2008, where the profits arising from investments in photovoltaic power are exempt from enterprise income tax. The Target Company is subject to this preferential treatment. The tax effect of the tax policy is set out below in 8(b).

(b) Reconciliation between tax expense and accounting profit/(loss) at applicable tax rates:

	Year ended 31 December			Three ended 31 March	
	2021	2021	2022	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit/(loss) before income tax expense	3,206	2,105	2,443	(107)	(263)
Tax at the statutory tax rate of 25%	802	526	611	(27)	(66)
Tax effect of income not taxable for tax purposes	(490)	–	–	–	–
Others	(312)	(526)	(611)	27	66
	–	–	–	–	–

9. Dividends

No dividend was paid or proposed for ordinary shareholders of the Target Company during the Relevant periods, nor has any dividend been proposed since the end of the reporting period.

10. Directors' emoluments

Directors' emoluments disclosed pursuant to section of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Fees	Salaries and other allowances	Pension scheme and contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2020				
Directors				
Mr. Lv Yinggang	–	–	–	–
Mr. Zhou Guangchang	–	–	–	–
Mr. Yang Boming	–	–	–	–
Mr. Zhang Yuanyuan	–	–	–	–
Mr. Zhao Jinyong	–	–	–	–
Mr. Bian Weican	–	–	–	–
Mr. Bian Jianguang	–	–	–	–
Mr. Bian Chenxia	–	–	–	–
Mr. Chen Laixing	–	–	–	–
Mr. Zhu Yanming	–	–	–	–
	–	–	–	–

	Fees	Salaries and other allowances	Pension scheme and contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2021				
Directors				
Mr. Lv Yinggang	–	–	–	–
Mr. Zhou Guangchang	–	–	–	–
Mr. Yang Boming	–	–	–	–
Mr. Zhang Yuanyuan	–	–	–	–
Mr. Zhao Jinyong	–	–	–	–
Mr. Bian Weican	–	–	–	–
Mr. Bian Jianguang	–	–	–	–
Mr. Bian Chenxia	–	–	–	–
Mr. Chen Laixing	–	–	–	–
Mr. Zhu Yanming	–	–	–	–
	–	–	–	–

	Fees	Salaries and other allowances	Pension scheme and contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2022				
Directors				
Mr. Lv Yinggang	–	–	–	–
Mr. Zhou Guangchang	–	–	–	–
Mr. Yang Boming	–	–	–	–
Mr. Zhang Yuanyuan	–	–	–	–
Mr. Zhao Jinyong	–	–	–	–
Mr. Bian Weican	–	–	–	–
Mr. Bian Jianguang	–	–	–	–
Mr. Bian Chenxia	–	–	–	–
Mr. Chen Laixing	–	–	–	–
Mr. Zhu Yanming	–	–	–	–
	–	–	–	–

	Fees	Salaries and other allowances	Pension scheme and contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Three months ended 31 March 2022				
Directors				
Mr. Lv Yinggang	–	–	–	–
Mr. Zhou Guangchang	–	–	–	–
Mr. Yang Boming	–	–	–	–
Mr. Zhang Yuanyuan	–	–	–	–
Mr. Zhao Jinyong	–	–	–	–
Mr. Bian Weican	–	–	–	–
Mr. Bian Jianguang	–	–	–	–
Mr. Bian Chenxia	–	–	–	–
Mr. Chen Laixing	–	–	–	–
Mr. Zhu Yanming	–	–	–	–
	–	–	–	–

	Fees	Salaries and other allowances	Pension scheme and contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Three months ended 31 March 2023				
Directors				
Mr. Yang Boming	–	–	–	–
Mr. Zhang Yuanyuan	–	–	–	–
Mr. Bian Yu	–	–	–	–
Mr. Bian Jianguang	–	–	–	–
Mr. Zhu Yanming	–	–	–	–
	–	–	–	–

Note: The directors received emoluments from the ultimate and immediate parent of the Target Company.

The executive director's remuneration shown above were for their services in connection with the management of the affairs of the Target Company. No directors waived any emoluments and no amount was paid as an inducement to join the Target Company during the Relevant Periods.

Notes:

(a) Mr. Lv Yinggang resigned as director of the Target Company on 23 March 2023.

(b) Mr. Zhou Guangchang resigned as director of the Target Company on 23 March 2023.

(c) Mr. Zhao Jinyong resigned as director of the Target Company on 23 March 2023.

(d) Mr. Bian Weican resigned as director of the Target Company on 23 March 2023.

(e) Mr. Bian Chengxia resigned as director of the Target Company on 23 March 2023.

(f) Mr. Chen Laixing resigned as director of the Target Company on 23 March 2023.

(g) Mr. Bian Yu was appointed as director of the Target Company on 23 March 2023.

11. Individuals with highest emoluments

The Target Company only contributed to defined contribution retirement plan for a small number of its current employees. The wage, emoluments and bonuses are borne by the ultimate holding company. Accordingly, the director's are of the opinion that individuals with highest emoluments is not considered meaningful and thus, not included for the purpose of this report.

12. Earnings/(loss) per share

Earnings/(loss) per share information is not presented as its inclusion for the purpose of this report is not considered meaningful.

13. Property, plant and equipment and right-of-use assets

(a) Property, plant and equipment

	Plant and machinery	Office Equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
COST				
At 1 January 2020,31 December 2020, 31 December 2021, 31 December 2022 and 31 March 2023	20,589	68	40	20,697
ACCUMULATED DEPRECIATION				
At 1 January 2020	1,499	27	–	1,526
Depreciation	988	19	–	1,007
At 31 December 2020 and 1 January 2021	2,487	46	–	2,533
Depreciation	988	19	–	1,007
At 31 December 2021 and 1 January 2022	3,475	65	–	3,540
Depreciation	988	–	–	988
At 31 December 2022 and 1 January 2023	4,463	65	–	4,528
Depreciation	246	–	–	246
At 31 March 2023	4,709	65	–	4,774
NET CARRYING AMOUNT				
At 31 December 2020	18,102	22	40	18,164
At 31 December 2021	17,114	3	40	17,157
At 31 December 2022	16,126	3	40	16,169
At 31 March 2023	15,880	3	40	15,923

(b) Right-of-use assets

The analysis of the net carrying amount of leased assets by class of underlying asset is as follows. All of the leased assets are carried at depreciated cost.

	As at 31 December			As at 31 March
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Right-of-use assets				
– Plant and machinery	30,621	28,966	27,311	26,897
– Leasehold land	–	–	3,549	3,459
	30,621	28,966	30,860	30,356

The analysis of expense items in relation to lease recognised in statements of profit or loss and other comprehensive income is as follows:

	As at 31 December			As at 31 March
	2020	**2021**	**2022**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation charge of leased assets by class of underlying asset:				
– Plant and machinery	1,655	1,655	1,655	414
– Leasehold land	–	–	60	90
	1,655	1,655	1,715	504

14. Lease liabilities

The Target Company as a lessee

The Target Company has a finance lease contract for plant and machinery with a fixed repayment term of 6 years and operating lease contract for leasehold land used in its operation with a fixed repayment term of 10 years. Both contracts do not include variable lease payments.

Lease liabilities

The carrying amount of lease liabilities and the movements during the Relevant Periods are as follows:

	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount at beginning of the year/period	29,619	23,737	17,112	14,622
Interest charged to profit or loss	2,961	2,305	1,623	330
Payment during the year/period	(8,843)	(8,930)	(7,722)	(1,840)
New lease entered into during the year/period	–	–	3,609	–
Carrying amount at end of the year/period	23,737	17,112	14,622	13,112
Analysed into:				
– Current	8,930	7,722	8,013	7,877
– Non-current	14,807	9,390	6,609	5,235

	Lease Payments			
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	8,930	7,722	8,013	7,877
Within a period of more than one year but not more than two years	7,722	7,165	5,415	3,711
Within a period of more than two years but not more than five years	12,156	4,991	1,272	1,272
Within a period of more than five years	–	–	1,695	1,696
	28,808	19,878	16,395	14,556
Less: future finance charges	(5,071)	(2,766)	(1,773)	(1,444)
Present value of lease obligations	23,737	17,112	14,622	13,112

	Present value of lease payments			
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	8,354	7,232	7,541	7,420
Within a period of more than one year but not more than two years	6,501	6,032	4,676	3,265
Within a period of more than two years but not more than five years	8,882	3,848	1,106	1,116
Within a period of more than five years	–	–	1,299	1,311
Present value of lease obligations	23,737	17,112	14,622	13,112
Less: Amount due for settlement within twelve months (shown under current liabilities)	(8,930)	(7,722)	(8,013)	(7,877)
Amounts due for settlement after twelve months	14,807	9,390	6,609	5,235

15. Trade and other receivables

	As at 31 December			As at 31 March
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	389	499	375	313
Less: ECL allowance for trade receivables	–	–	–	–
	389	499	375	313
Amounts due from related companies *(note 21c)*	–	8,289	1,000	1,000
Value added tax recoverable	7,343	5,745	–	–
Other receivables	2,054	35	35	35
	9,786	14,568	1,410	1,348

Note: None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

As at 31 December 2020, 2021 and 2022 and 31 March 2023, the ageing analysis of the trade receivables based on invoice date, net of ECL allowance, were as follows:

	As at 31 December			As at 31 March
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	389	499	375	313
	389	499	375	313

16. Cash and cash equivalents

	As at 31 December			As at 31 March
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	70	866	391	10,273
Less: Pledged bank deposits	–	–	–	(10,000)
Cash and cash equivalents in the statements of cash flows	70	866	391	273

The Target Company's cash and bank balances were denominated in RMB as at 31 December 2020, 2021 and 2022 and 31 March 2023.

The RMB is not freely convertible into other currencies. However, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Company is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods between one day and three months depending on the immediate cash requirements of the Target Company, and earn interest at the respective short-term time deposit rates.

	As at 31 December			As at 31 March
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Pledged bank deposits	–	–	–	10,000

As at 31 March 2023, approximately RMB10,000,000 was pledged to secure bank and other borrowings of the Target Company.

17. Other payables

	As at 31 December			As at 31 March
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount due to ultimate holding company *(note i, ii)*	38,315	38,243	25,384	8,265
Other tax payables	834	21	80	56
Other payables *(note i)*	1,272	9,593	9,713	9,772
	40,421	47,857	35,177	18,093

Note: (i) The amounts are interest-free, repayable on demand and non-trade in nature.

(ii) During the three months ended 31 March 2023, the Target Company and the ultimate holding company entered into a debt waiver agreement. Pursuant to the debt waiver agreement, approximately RMB18,027,000 of amount due to the ultimate holding company was waived. A reduction in liabilities was recorded and the same amount was credited to other reserve as deemed capital contribution from the ultimate holding company. This has no impact on the statement of profit or loss and is a non-cash transaction.

18. Bank and other borrowings

As at 31 March 2023, the bank borrowings were secured by a pledged bank deposit and repayable within one year. The bank borrowings carry an effective interest rate of 3% per annum. The amounts due were based on the scheduled repayment dates set out in the loan agreement. None of the bank and other borrowings are subject to fulfillment of covenants relating to any of the Target Company's financial performance.

There were no bank and other borrowings as at 31 December 2020, 2021 and 2022.

19. Capital

	RMB'000
Registered and paid-up capital:	
As at 31 December 2020, 2021 and 2022 and 31 March 2023	20,000

20. Capital commitments and guarantees

As at 31 December 2020, 2021 and 2022 and 31 March 2023, the Group did not have any material capital commitment.

21. Material related party transactions

a. *Names and relationships with related parties*

The Target Company entered into the material related party transactions with the following parties during the Relevant Periods:

Name of related parties	Subsidiary of/Shareholder
Tianjie Group Co., Ltd. ("天潔集團有限公司")	Ultimate Holding company
Tianjie Environmental and Engineering Co., Ltd. ("浙江天潔環境工程有限公司")	Subsidiary of a fellow subsidiary, Zhejiang TENGY Environmental Technology Co., Ltd. ("浙江天潔環境科技股份有限公司")
Tianjie Xincailiao Co., Ltd. ("浙江天潔新材料有限公司")	Subsidiary of ultimate holding company, Tianjie Group Co., Ltd. ("天潔集團有限公司")
Zhejiang TENGY Environmental Technology Co., Ltd. ("浙江天潔環境科技股份有限公司")	Subsidiary of ultimate holding company, Tianjie Group Co., Ltd. ("天潔集團有限公司")

b. Significant transactions with related parties

During the Relevant Periods, the Target Company had the following material transactions with related parties:

	Year ended 31 December			Three months ended 31 March	
	2020	**2021**	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
(i) Sales of electricity *(note i)*					
Tianjie Group Co., Ltd. ("**天潔集團有限公司**")	2,794	2,556	491	144	128
(ii) Other operating loss, net *(Note 6)*					
Tianjie Group Co., Ltd. ("**天潔集團有限公司**")	–	(1,671)	–	–	–
(iii) Loss on disposal of FVTPL *(note ii)*					
Zhejiang TENGY Environmental Technology Co., Ltd. ("**浙江天潔環境科技股份有限公司**")	(4,901)	–	–	–	–

Note:

(i) During the Relevant Periods, the Target Company sold electricity to its parent company at a discount of approximately 20%. The discount was offered as a direct result of the ultimate holding company offering rooftop access for the Target Company to install electricity generating equipment. Accordingly, the Target Company has recorded the net result of the discount in the Underlying Financial Statements.

The Board of the Company confirms that the transactions with the ultimate holding company will become continuing connected transactions of the Group, and the Company will comply with relevant requirements under Chapter 14A of the Listing Rules. The Board believes that these continuing connected transactions will benefit both parties.

(ii) On 1 June 2020, the Target Company sold the Company 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.

c. Balances with related parties

	As at 31 December			As at 31 March
	2020	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
(i) Other receivables				
Tianjie Environmental and Engineering Co., Ltd. ("浙江天潔環境工程有限公司") *(note i)*	–	8,289	–	–
Tianjie Xincailiao Co., Ltd. ("浙江天潔新材料有限公司") *(note i)*	–	–	1,000	1,000
(ii) Other payables				
Tianjie Group Co., Ltd. ("天潔集團有限公司")*(note ii)*	38,315	38,243	25,384	8,265

Note:

(i) The Target Company's investing activities incurred during the Relevant Periods are as a result of internal borrowing arrangements with fellow subsidiaries of the ultimate holding company. The amounts are interest free, non-trade in nature and repayable on demand.

(ii) The Target Company's financing activities incurred during the Relevant Periods are as a result of internal borrowings from the ultimate holding company to finance its investments and daily operations. The amount is interest free, non-trade in nature, and repayable on demand.

d. Compensation of key management personnel of the Target Company

The directors and other members of key management received emoluments from the ultimate holding company and fellow subsidiaries of the Target Company.

22. Summary of financial assets and liabilities by category

The following table shows the carrying amount of financial assets and liabilities:

	As at 31 December			As at 31 March
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at amortised cost				
– Trade and other receivables	2,443	8,823	1,410	1,348
– Cash and cash equivalents	70	866	391	273
– Pledged bank deposits	–	–	–	10,000
	2,513	9,689	1,801	11,621
Financial liabilities at amortised cost				
– Other payables	39,587	47,836	35,097	18,037
– Bank borrowings	–	–	–	9,900
	39,587	47,836	35,097	27,937

The directors of the Target Company consider that the carrying amounts of financial assets and financial liabilities approximate their fair values due to the short term maturities of these instruments.

23. Financial risk management objective and policies

The Target Company's principal financial instruments comprise trade and other receivables, cash and cash equivalents, pledged bank deposits, other payables, and bank borrowings. The main purpose of these financial instruments is to raise finance for the Target Company's operations.

The main risks arising from the Target Company's financial instruments are credit risk and liquidity risk. The board of directors of Target Company reviews and agrees policies for managing each of these risks and they are summarised below.

(i) Credit risk

The carrying amounts of the Target Company's cash and cash equivalents, trade and other receivables, and pledged bank deposits represent the Target Company's maximum exposure to credit risk in relation to its financial assets.

The majority of the Target Company's trade receivables are related to the sale of electricity. The trading terms of the Target Company with its customers are mainly on credit. The credit period is generally 90 days.

It is the Target Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and only long–standing customers are granted with credit terms. In addition, receivable balances are monitored on an ongoing basis and the Target Company's exposure to ECL assessment under HKFRS 9 is not significant.

The following table provides information about the Target Company's exposure to credit risk for trade receivables, based on invoice dates, as at 31 December 2020, 2021, 2022 and 31 March 2023.

	As at 31 December			As at 31 March
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 30 days	389	499	375	313
At end of the year/period	389	499	375	313

There is no movement in the loss allowance account in respect of trade receivables during the Relevant Periods.

Since the Target Company trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer and by geographical region. The directors of the Target Company consider the exposure to credit risk is minimal.

The Target Company's credit risk arising from cash and cash equivalents and pledged bank deposits is limited because the counterparties are banks, financial institutions and companies with good credit rating for which the Target Company considers to have low credit risk. No other financial assets carry a significant exposure to credit risk.

(ii) Liquidity risk

The Target Company monitors its risk to a shortage of funds. The Target Company considers the maturity of its financial assets (e.g. trade and other receivables) and projected cash flows from operations.

The Target Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings.

The maturity profile of the Target Company's financial liabilities as at the end of the each reporting period, based on the contractual undiscounted payments, is as follows:

	Weight average effective interest rate	Carrying amount	Total contractual undiscounted cash flows	Within one year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2020							
Other payables		39,587	39,587	39,587	–	–	–
Leases liabilities	11.24%	23,737	28,808	8,930	7,722	12,156	–
		63,324	68,395	48,517	7,722	12,156	–
As at 31 December 2021							
Other payables	–	47,836	47,836	47,836	–	–	–
Leases liabilities	11.24%	17,112	19,878	7,722	7,165	4,991	–
		64,948	67,714	55,558	7,165	4,991	–
As at 31 December 2022							
Other payables	–	35,097	35,097	35,097	–	–	–
Leases liabilities	3.65% to 11.24%	14,622	16,395	8,013	5,415	1,272	1,695
		49,719	51,492	43,110	5,415	1,272	1,695
As at 31 March 2023							
Other payables	–	18,037	18,037	18,037	–	–	–
Bank borrowing	3%	9,900	10,197	10,197	–	–	–
Leases liabilities	3.65% to 11.24%	13,112	14,556	7,877	3,711	1,272	1,696
		41,049	42,790	36,111	3,711	1,272	1,696

(iii) Capital management

The primary objective of the Target Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Target Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Target Company may adjust dividend payments to shareholders, return capital to shareholders, raise new debt or issue new shares. No changes were made in the objectives, policies or processes for managing capital for the years ended 31 December 2020, 2021 and 2022 and the three months ended 31 March 2023.

The Target Company monitors capital using a gearing ratio, which is calculated as interest-bearing debts divided by total equity. The gearing ratios are not presented as its inclusion for the purpose of this report is not considered meaningful, given the capital deficiency of the Targe Company.

The Target Company is not subject to any externally imposed capital requirement during the Relevant Periods.

24. Reconciliation of liabilities arising from financing activities

The table below details changes in the Target Company's liabilities arising from financing activities, including both cash and non–cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Target Company's statements of cash flows as cash flows from financing activities.

	Bank and other borrowings	Lease liabilities	Amount due to ultimate holding company	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 18)	*(Note 14)*	*(Note 17)*	
At 1 January 2020	–	29,619	116,638	146,257
Changes from financing cash flow:				
Repayment to ultimate holding company	–	–	(78,323)	(78,323)
Repayment of lease liabilities	–	(5,882)	–	(5,882)
Interest paid	–	(2,961)	–	(2,961)
Total changes from financing cash flows	–	(8,843)	(78,323)	(87,166)
Other changes:				
Finance costs	–	2,961	–	2,961
Total other changes	–	2,961	–	2,961
At 31 December 2020	–	23,737	38,315	62,052
At 1 January 2021	–	23,737	38,315	62,052
Changes from financing cash flow:				
Repayment to ultimate holding company	–	–	(72)	(72)
Repayment of lease liabilities	–	(6,625)	–	(6,625)
Interest paid	–	(2,305)	–	(2,305)
Total changes from financing cash flows	–	(8,930)	(72)	(9,002)
Other changes:				
Finance costs	–	2,305	–	2,305
Total other changes	–	2,305	–	2,305
At 31 December 2021	–	17,112	38,243	55,355

	Bank and other borrowings *RMB'000* *(Note 18)*	Lease liabilities *RMB'000* *(Note 14)*	Amount due to ultimate holding company *RMB'000* *(Note 17)*	Total *RMB'000*
At 1 January 2022	–	17,112	38,243	55,355
Changes from financing cash flow:				
Repayment to ultimate holding company	–	–	(12,859)	(12,859)
Repayment of lease liabilities	–	(6,121)	–	(6,121)
Interest paid	–	(1,601)	–	(1,601)
Total changes from financing cash flows	–	(7,722)	(12,859)	(20,581)
Other changes:				
New leases entered	–	3,609	–	3,609
Finance costs	–	1,623	–	1,623
Total other changes	–	5,232	–	5,232
At 31 December 2022	–	14,622	25,384	40,006
At 1 January 2022	–	17,112	38,243	55,355
Changes from financing cash flow:				
Repayment to ultimate holding company	–	–	(7,914)	(7,914)
Repayment of lease liabilities	–	(1,515)	–	(1,515)
Interest paid	–	(462)	–	(462)
Total changes from financing cash flows	–	(1,977)	(7,914)	(9,891)
Other changes:				
Finance costs	–	462	–	462
Total other changes	–	462	–	462
At 31 March 2022 (unaudited)	–	15,597	30,329	45,926

	Bank and other borrowings *RMB'000* *(Note 18)*	Lease liabilities *RMB'000* *(Note 14)*	Amount due to ultimate holding company *RMB'000* *(Note 17)*	Total *RMB'000*
At 1 January 2023	–	14,622	25,384	40,006
Changes from financing cash flow:				
Proceeds from bank and other borrowings	19,800	–	–	19,800
Repayment of bank and other borrowings	(9,900)	–	–	(9,900)
Advance from ultimate holding company	–	–	908	908
Repayment of lease liabilities	–	(1,543)	–	(1,543)
Interest paid	(14)	(297)	–	(311)
Total changes from financing cash flows	9,886	(1,840)	908	8,954
Other changes:				
Finance costs	14	330	–	344
Waiver of amount due to ultimate holding company *(Note 16)*	–	–	(18,027)	(18,027)
Total other changes	14	330	(18,027)	(17,683)
At 31 March 2023	9,900	13,112	8,265	31,277

25. Events after the reporting period

There are no significant subsequent events occurred that materially affect the Target Company's financial condition or operation after 31 March 2023 and up to the date of this accountants' report.

26. Subsequent financial statements

No audited financial statements of the Target Company has been prepared in respect of any period subsequent to 31 March 2023.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma statement of assets and liabilities of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**") has been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of as if the Acquisition as if they had been taken place on 31 December 2022.

The Unaudited Pro Forma Financial Information is prepared based (i) the information on the unaudited condensed consolidated statement of financial position of the Group as at 31 December 2022, which has been extracted from the published annual report of the Group for the year ended 31 December 2022; (ii) the information from the underlying financial information of the Target Company as at 31 March 2023, which has been extracted from the accountant's report as set out in Appendix II to this circular and after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the Acquisition and (ii) factually supportable as if the Acquisitions had been completed on 31 December 2022. The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates and uncertainties. Accordingly, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisitions been completed as at 31 December 2022 or at any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction of the historical financial information of the Group and Target Company, as set out in the published annual report of the Group for the year ended 31 December 2022 and accountants' report of the Target Company as set out in Appendix II to this Circular, respectively and other financial information included elsewhere in the Circular.

UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	The Group as at 31 December 2022	The Target Group as at 31 March 2023	Pro forma	adjustments	The Enlarged Group as at 31 December 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 5)*	
Non-current assets					
Property, plant and equipment	27,963	15,923			43,886
Right-of-use assets	1,020	30,356			31,376
Goodwill	–	–	33,353		33,353
Intangible assets	592	–			592
Deferred tax assets	43,878	–			43,878
Contingent consideration receivables	–	–	1,892		1,892
Investment in associate	122,671	–			122,671
Pledged deposits	173	–			173
	196,297	46,279			277,821
Current assets					
Inventories	291,288	–			291,288
Trade and bills receivables	700,899	1,348			702,247
Contract assets	44,295	–			44,295
Prepayment, deposits and other receivables	61,906	–			61,906
Investments at fair value through profit or loss	–	–			–
Pledged deposits	–	10,000			10,000
Bank and cash balances	241,041	273	(51,200)		190,114
	1,339,429	11,621			1,299,850
Current liabilities					
Trade and bills payables	200,711	18,093			218,804
Contract liabilities	354,675	–			354,675
Other payables and accruals	77,852	–		1,356	79,208
Bank and other borrowings	55,000	9,900			64,900
Lease liabilities	–	7,877			7,877
Tax payable	13,267	–			13,267
	701,505	35,870			738,731
Net current assets/(liabilities)	637,924	(24,249)			561,119
Non-current liabilities					
Lease liabilities	–	5,235			5,235
	–	5,235			5,235
Net Assets	834,221	16,795			833,705

Notes:

1. Figures are extracted from the audited condensed consolidated statement of financial position of the Group as at 31 December 2022 as set out in the annual report for the year ended 31 December 2022.

2. Figures are extracted from the audited statement of financial position of the Target Company as at 31 March 2023 as set out in Appendix II to this Circular, which have been prepared under HKFRSs and using accounting policies materially consistent with those of the Group.

3. The adjustment represents the acquisition of the entire issued share capital of the Target Company. Pursuant to the Provisional Sale and Purchase Agreement dated 25 May 2023, the Group has conditionally agreed to acquire 95% of the issued share capital of Target Company for a consideration amounted to RMB51,200,000, which is to be satisfied by cash consideration.

   After the acquisition, the identifiable assets and liabilities of the Target Company will be accounted for in the consolidated financial statements of the Enlarged Group at fair value in accordance with Hong Kong Financial Reporting Standard 3 (Revised) "Business Combination". The amounts of goodwill and fair value of the identifiable assets and liabilities of the Target Group are subject to change upon the completion of the Acquisition. Consequently, it will be likely to result in a different amount than those stated in this pro forma financial information.

   Goodwill is arrived from the following:

	RMB'000	*RMB'000*
Book value and fair value of the net asset in the Target Company *(note (i))*	16,795	
Consideration		51,200
Add: Fair value of non-controlling interest in the acquiree		840
Less: Fair value of contingent consideration receivable *(note (ii))*		(1,892)
Less: Fair value of net assets to be acquired *(note (i))*		(16,795)
Goodwill		33,353

Note (i): For the purpose of the unaudited pro forma financial information, the acquisition-date fair value of the 100% equity interest in the Target Company is determined to be approximately RMB26,900,000 by reference to the net asset value of the Target Group as at 31 March 2023, which is approximate to its book value.

Note (ii): It is the right of the buyer to receive the additional assets from the seller of the business (usually cash) if future events occur or conditions are met as "Compensation Sum" which is further detailed in note 4. For the purpose of the unaudited pro forma financial information, the acquisition-date fair value of such Compensation Sum or contingent consideration receivable is determined to be approximately RMB1,892,000 by reference to the valuation report as set out in Appendix V.

Goodwill represents the excess of (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree, if any; over (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date and the fair value of contingent consideration receivable, if any.

4. Profit guarantee and compensation

Pursuant to the Agreement, the Vendor has irrevocably and unconditionally guaranteed to the Purchaser that the Target Company will meet the following profit guarantee in each of the five financial years (the "**Profit Guarantee Period**") as follows:

(i) the reviewed annual net profit after tax for the year ending 31 December 2023 shall be not less than RMB4,150,917;

(ii) the reviewed annual net profit after tax for the year ending 31 December 2024 shall be not less than RMB5,669,158;

(iii) the reviewed annual net profit after tax for the year ending 31 December 2025 shall be not less than RMB5,669,158;

(iv) the reviewed annual net profit after tax for the year ending 31 December 2026 shall be not less than RMB5,669,158; and

(v) the reviewed annual net profit after tax for the year ending 31 December 2027 shall be not less than RMB5,594,158.

An auditor appointed by the Company shall review the financial report prepared by the Target Company in accordance with the China Accounting Standards for Business Enterprises for the relevant periods and issue the review report within three months after the end of the relevant periods respectively, and such review reports shall then be final, conclusive and binding on the Vendor and the Company.

If the reviewed annual net profit (the "**Actual Profits**") of the Target Company for any of the above-mentioned financial year is lower than the corresponding annual guaranteed net profit as agreed, the Company shall be entitled to request the Vendor to fulfill its obligation to pay the full amount of compensation (the "**Compensation Sum**") for the difference between the actual net profit of the Target Company and the guaranteed net profit for the relevant financial year within seven working days from the date of the review report for that financial year.

5. The adjustment represents the estimated legal and professional fees in relation to the Acquisition of approximately HK$1,490,000 (equivalent to RMB1,356,000 at the exchange rate of 0.91). This adjustment is not expected to have a continuing financial effect on the Enlarged Group.

6. Except for the Acquisitions and provision of estimated amount paid for legal and professional fees, no adjustment has been made to reflect any trading result or other transactions of the Enlarged Group entered into subsequent to 31 December 2022.

B. ASSURANCE REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Zhejiang Tengy Environmental Technology Co., Ltd

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Zhejiang Tengy Environmental Technology Co., Ltd (the "**Company**") and its subsidiaries (collectively the "**Group**") and Zhejiang Tianjie New Energy Co., Ltd. (the "**Target Company**") (collectively the "**Enlarged Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 31 December 2022 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages III-2 to III-4 of the circular issued by the Company dated 7 July 2023 (the "**Circular**"), in connection with the proposed acquisition of 95% issued shares in the Target Company (the "**Proposed Acquisition**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages III-1 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed acquisition on the Group's financial position as at 31 December 2022 as if the Proposed Acquisition had taken place at 31 December 2022. As part of the process, information about the Group's financial position has been extracted from the Group's financial statements for the year ended 31 December 2022, on which an annual report has been published.

Directors' responsibility for the unaudited pro forma financial information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7, "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29 (7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the unaudited pro forma financial information in accordance with paragraph 7.31 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Company as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2022 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

McMillan Woods (Hong Kong) CPA Limited
Certified Public Accountants (Practising)

Wong Ka Bo, Jimmy
Practising Certificate Number: P07560
7 July 2023

This discussion of the financial position and results of operations of the Target Company is based upon and should be read in conjunction with the Accountants' Report on the Target Company set out in Appendix II to this circular.

Unless stated otherwise, terms used herein shall have the same meanings as those defined in the circular.

OVERVIEW

The Target Company is a company established in the PRC and is principally engaged in solar power generation business in the PRC. As at the Latest Practicable Date, the Target Company holds a 12 MWp distributed photovoltaic power generation project and has entered into a electricity sale contract with 國網浙江諸暨市供電有限公司 (State Grid Zhejiang Zhuji Power Supply Company Limited*), a stated owned enterprise, for a term of three years and automatically renewed for another term of three years expiring in December 2023.

The Target Company derives its revenue from the sales of electricity generated by its photovoltaic equipment.

Revenue from sales of electricity is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery and acceptance of the electricity products at the customer's location. The Target Company has an obligation to transfer goods to customer for which the Target Company has received consideration (or an amount of consideration is due) from the customers.

BUSINESS REVIEW

The Target Company is a limited liability company established in the PRC. As at the Latest Practicable Date, the Target Company is owned as to 95% and 5% by the Vendor and Mr. Yang Boming (楊波明) respectively.

During the years ended 31 December 2020, 2021 and 2022 and three months ended 31 March 2023, the Target Company focused on sales of electricity generated by its photovoltaic power station.

BUSINESS MODEL

Sales of electricity generated

The Target Company strictly follows the tariffs approved by the government price authorities and mainly sells electricity generated by its photovoltaic power station to its customer, 國網浙江諸暨市供電有限公司 (State Grid Zhejiang Zhuji Power Supply Company Limited*), a local grid company. The local grid company has been the customer of the Target Company since 2017. As (i) the Target Company has established a long term relationship with the local grid company and the local grid company has purchased electricity from the Target Company for more than 3 years; (ii) there has not been any early termination of contract by the local grid company throughout the past 3 years and electricity generation by the Target Company has all along been satisfactory to the local grid company; and (iii) the photovoltaic power generation industry is capital intensive and hence with high entry barrier and it is not likely that the Target Company will face more competition in the future, the Board is of the view that the risk of termination of relationship between the Target Company and the local grid company is remote.

BUSINESS FLOW

Step 1: Pricing Agreement

The Target Company has entered into an electricity sale contract with the customer for a term of three years and automatically renewed for another term of three years expiring in December 2023. Both parties strictly follow the tariffs approved by the government price authorities. If there are adjustments, prices are adjusted according to government documents.

Step 2: Sale of electricity

The Target Company sells the electricity generated by its photovoltaic power plants to the customer based on the terms of the price agreement.

Step 3: Invoicing

The Target Company issues invoice to the customer at the beginning of next month.

Step 4: Collection of payment

Upon receipt of the invoice, the customer typically settles the outstanding amount within one month.

CONTRACT WITH THE CUSTOMER

The contracts that the Target Company entered into with the customer were typically in a standard form, the salient terms of which are set out below:

(i)	Customer:	國網浙江諸暨市供電有限公司 (State Grid Zhejiang Zhuji Power Supply Company Limited*), a local grid company
(ii)	Term:	the Target Company entered into a three year contract with the customer
(iii)	Price:	the sale price is determined by the relevant pricing authorities in the PRC and consisted of (a) on-grid tariff; and (b) subsidy from the local government. If during the term of the contract, the on-grid tariff is adjusted by the relevant pricing authorities in the PRC, the sale price under the contract will be adjusted accordingly. The sale price under the contract is at a rate of RMB0.4153 per kilowatt per hour
(iv)	Payment:	the sale price is payable monthly by the customer based on the monthly electricity bill
(v)	Renewal:	Upon expiry of the contract, the contract shall be automatically extended for a period of three years if either party does not submit a written objection to the other party

DETAILS OF PERSONNEL

The business of the Target Company is currently managed by Mr. Zhang Yuan Yuan and Mr. Bian Jian Guang, which are the directors of the Target Company.

Biographical details of the management members of the Target Company are set out below:

Mr. Zhang Yuan Yuan, aged 41, is a director of the Target Company and is responsible for the operational strategies of the Target Company. He has approximately 15 years of experience in the wind power and solar power business.

He obtained a bachelor's degree in applied physics from Tongji University in July 2003 and a master's degree in engineering management from the University of Technology, Sydney, Australia in July 2007. He joined the Target Company as a director in May 2008 and is responsible for advising on operational strategies, attending board meetings, and assessing business operations and development strategies.

Mr. Bian Jianguang, aged 68, is a director of the Target Company and is responsible for overseeing the operation of the Target Company's solar farm. He joined the Target Company as a director in April 2023.

He is an executive director of various companies, such as Runtian Magnetic, which is principally engaged in the manufacture, processing, and marketing of steel sheets, since April 2016, and Zhuji Tianjie Heavy Industry Technology Company Limited, which is principally engaged in the research, design and, development of heavy industry machinery, since April 2016. He is mainly responsible for the daily operation and management as well as the overall business management of these companies.

As such, he has extensive experience in industrial machinery and provides professional advice on the day-to-day machinery operations of the Target Company.

The following sets forth the management discussion and analysis of the Target Company for the years ended 31 December 2020, 2021 and 2022 and for the three months ended 31 March 2022 and 2023 (collectively, the "**Relevant Periods**").

FINANCIAL REVIEW

Revenue

The Target Company recorded revenue of approximately RMB8.3 million, RMB7.2 million, RMB5.6 million, RMB5.6 million, RMB1.0 million and RMB0.8 million for the Relevant Periods, respectively. The revenue of the Target Company is mainly derived from sales of electricity arising from the photovoltaic power generation project.

The total revenue decreased from approximately RMB8.3 million for the year ended 31 December 2020 to approximately RMB7.2 million for the year ended 31 December 2021 and further decreased to approximately RMB5.6 million for the year ended 31 December 2022. The fluctuation of the revenue was mainly due to the reduction of solar energy resources and utilisation hours of the solar panels arising from rainy days, resulting in decreased operation time. Additionally, the solar panel of the Target Company has been operating at a relatively low capacity during the Relevant Periods arising from construction works near the solar panel which resulted in thick layers of dusts. This thick layer of dusts affected the performance of transferring solar energy resources to power, ultimately contributing to the decrease in revenue. In order to combat these external factors, enhanced repairs and maintenance procedures are required, but the procedures were not regularly conducted during the Relevant Periods. Revenue decreased by approximately 34% from approximately RMB1.0 million for three months ended 31 March 2022 to approximately RMB0.8 million for the corresponding period of 2023. The slight decrease was mainly attributable to the reasons as mentioned in the above.

During the years ended 31 December 2020, 2021 and 2022, and three months ended 31 March 2022 and 2023, the Target Company received national and provincial subsidies, included in revenue, of approximately RMB4,150,000, RMB3,558,000, RMB3,033,000, RMB544,000 and RMB139,000, respectively. The subsidies were granted based on a price ranging from RMB0.09 to RMB0.46 per kilowatt hour electricity generated.

The directors of the Target Company considered that the government subsidies will sustain considering that (i) the government subsidies have been provided to the Target Company since 2018; (ii) public government documents have evidenced that government grants to eligible photovoltaic power generation projects will be provided by the central government of the PRC and Zhejiang provincial government for a term of 20 years; and (iii) based on the previous discussion between the relevant government officials and the management of the Company, the management reasonably expects that the government grants will continue to be provided to eligible photovoltaic power generation projects by the central government and Zhejiang provincial government for an additional term of 5 years after the expiry of the said 20-year period.

Cost of sales

The cost of sales mainly represents the deprecation charges on property, plant and machinery and right-of-use assets which were keeping at a stable level at approximately RMB2.7 million for the years ended 31 December 2020, 2021 and 2022 respectively. The increase in cost of sales from RMB0.7 million for the three months ended 31 March 2022 to RMB0.8 million for three months ended March 2023 was due to the increase in depreciation of right-of-use assets arising from a new lease agreement entered into by the Target Company in November 2022.

Other income, gains and losses, net

Other income mainly refers to municipal government grants for photovoltaic power generation project and interest income from the cash balance. The Target Company recorded a net amount of other income, gains and losses of approximately RMB3.6 million, RMB0.04 million and RMB1.3 million for the years ended 31 December 2020, 2021 and 2022 respectively. Such a decrease for the year ended 31 December 2021 was mainly due to reduction of other income of municipal government grants arising from reduction of solar energy resources and loss on disposal of property, plant and machinery of approximately RMB1.7 million during the year while the increase in other income, gains and losses for the year ended 31 December 2022 was due to combined effect of decrease in government grants and no loss on disposal of property, plant and machinery during the period.

Other income, gains and losses of the Target Company increased from RMB nil for three months ended 31 March 2022 to approximately RMB0.1 million for the corresponding period of 2023. Such a increase was mainly due to the government grant was issued in first quarter of 2023 where none was noted in 2022.

Administrative expenses

Administrative expenses mainly include office expenses, service fee and equipment insurance expenses. The Target Company recorded administrative expenses of approximately RMB0.12 million, RMB0.07 million and RMB0.10 million for the years ended 31 December 2020, 2021 and 2022 respectively.

Administrative expenses increased from approximately RMB9,000 for three months ended 31 March 2022 to approximately RMB79,000 as compared to the corresponding period of 2023, primarily attributable to cleaning expense, categorised as repairs and maintenance expenses, for power generation equipment in the first quarter of 2023.

Finance costs

Finance costs mainly represented interest on lease liabilities. Finance costs decreased from approximately RMB3.0 million for the year ended 31 December 2020 to approximately RMB2.3 million for the year ended 31 December 2021 and further decreased to RMB1.6 million for the year ended 31 December 2022, and from approximately RMB0.4 million for the period ended 31 March 2022 to approximately RMB0.3 million for the period ended 31 March 2023. Such a decrease in finance cost was mainly due to the repayment of lease liabilities and reduction of accrued interest expenses.

Income tax expenses

No income tax expenses were recorded by the Target Company during the Relevant. The Target Company was eligible for a tax concession under the "Public Infrastructure Projects Enterprise Income Tax Preferential Catalogue" published in 2008, where the profits arising from investments in photovoltaic power are exempt from enterprise income tax during the Relevant Periods.

Profit/(loss) for the year/period

The Target Company recorded profit for the year of approximately RMB3.2 million, RMB2.1 million and RMB2.4 million for the years ended 31 December 2020, 2021 and 2022 respectively, and loss for the period of approximately RMB0.1 million and RMB0.2 million for the period ended 31 March 2022 and 2023, respectively.

The decrease in profit for the year of approximately RMB1.1 million for the year ended 31 December 2021 was mainly attributable to the decrease in revenue. Profit for the year increased by approximately RMB0.3 million for the year ended 31 December 2022 was mainly due to the net effect of decrease in revenue and increase in other income, gains and losses. The slight increase in loss for the period of approximately RMB0.1 million was due to the combined effect of decrease in gross profit and increased administrative expenses, net of an increase in other income, gains and losses. The fluctuations of individual accounts have been elaborated in the above.

Capital structure, liquidity and financial resources

During the Relevant Periods, the Target Company mainly financed its operation by i) cash flow from operation during the Relevant Periods and ii) amount due to the ultimate holding company.

As at years ended 31 December 2020, 2021 and 2022 and three months period ended 31 March 2023, the bank balances and cash were approximately RMB0.1 million, RMB0.9 million, RMB0.4 million and RMB0.3 million respectively while the amount due to the immediate holding company were approximately RMB38.3 million, RMB38.2 million, RMB25.4 million and RMB8.3 million respectively.

The amount due to the immediate holding company were interest-free, unsecured, non-trade in nature and repayable on demand.

During the Relevant Periods, the Target Company did not have any formal hedging policies and no financial instrument was used for hedging purpose.

During the Relevant Periods, the Target Company recorded net current liabilities of approximately RMB39.5 million, RMB40.1 million, RMB41.4 million and RMB24.2 million respectively, and the net current liabilities were mainly attributable to the amount due to the immediate holding company. During the Relevant Periods, the gearing ratios are not considered meaningful, given the capital deficiency of the Target Company and have not been presented.

As at 31 March 2023, the Target Company recorded pledged bank deposits and bank and other borrowings of RMB10,000,000 and RMB9.900,000, respectively. The borrowing from bank and placement of pledged deposits were primarily due to an invitation from the bank to initiate business relationship with the Target Company. As a result thereof, the Target Company had obtained a bridge loan of RMB9,990,000 from a micro lending company and subsequently, pledged the funds in the amount of RMB10,000,000 in the said bank to earn interest income. The Target Company then obtained another loan from the bank for repayment of the bridge loan to the micro lending company the day after. The directors of the Target Company considered the said financing and investing activities to be fair and reasonable given that (i) the short-term loan obtained from the bank served relationship building purpose with the bank which would allow the Target Company to obtain credit line from the bank with more ease in long term, which in turn increase the future liquidity of the Target Company; (ii) such commercial practice was not uncommon in the PRC; and (iii) the loan interests paid to the micro lending company and the bank was insignificant and partially offset by the interest earned in the pledged deposit.

Pledge of assets

As at 31 December 2020, 2021 and 2022, the Target Company did not pledge any of their assets. As at 31 March 2023, the Target Company pledged its bank deposits to secure its bank borrowings.

Contingent liabilities

As at 31 December 2020, 2021 and 2022 and three months ended 31 March 2023, the Target Company did not have significant contingent liabilities.

Capital commitment

As at 31 December 2020, 2021 and 2022 and three months ended 31 March 2023, the Target Company did not have significant capital commitment.

Foreign exchange exposure

During the Relevant Periods, the Target Company was not exposed to any material foreign currency risk at most of its business transaction, assets and liabilities were denominated in RMB and the Target Company did not enter into any foreign exchange contract as hedging measures.

Employees and remuneration policies

As at the Latest Practicable Date, salaries and contributions to defined contribution retirement plan of the Target Company are bome by the ultimate holding company and fellow subsidiaries. After construction of the photovoltaic power station and successful grid connection, the photovoltaic power plants are primarily self-sustaining and will generate electricity on its own based on the photovoltaic power resources and therefore, the day to day operation of the Target Company is not labour intensive. As to the repair and maintenance work of the photovoltaic power plants, the Target Company will outsource the repair and maintenance work to third party, which will be more cost efficient compared to the Target Company employing its own staff to do the repair and maintenance work. Staff recruitment and promotion of the Target Company are primarily determined based on the employee's experience, qualification and performance. The remuneration and staff benefit policies are fixed and are determined with reference to the competitive market salary levels.

Material acquisitions and disposals of assets

On 1 June 2020, the Target Company entered into the agreement with the Company, pursuant to which the Target Company conditionally agreed to sell and the Company conditionally agreed to acquire 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 Target Company did not have any other material acquisition and disposal of subsidiaries, associates and joint ventures during the relevant periods.

The following is the text of a report dated 7 July 2023 prepared for the purpose of incorporation into this circular received from Roma Appraisals Limited in connection with its opinion on the market value of 100% equity interest in the Target Group as at 31 March 2023.

ROMA

22/F, China Overseas Building,
139 Hennessy Road, Wan Chai, Hong Kong
Tel (852) 2529 6878 Fax (852) 2529 6806
E-mail info@romagroup.com
http://www.romagroup.com

7 July 2023

Zhejiang Tengy Environmental Technology Co., Ltd
Room 1201, 12th Floor,
Chung Ying Building,
20 Connaught Road West,
Sheung Wan, Hong Kong

Case Ref: AK/BVPPA7501p/OCT22(a)

Dear Sir/Madam,

Re: Business valuation for Zhejiang Tengy Environmental Technology Co., Ltd

In accordance with the instructions from Zhejiang Tengy Environmental Technology Co., Ltd (hereinafter referred to as the "**Company**") to us to conduct a valuation of 浙江天潔新能源有限公司 (hereinafter referred to as the "**Target Company**"), we are pleased to report that we have made relevant enquiries and obtained other information which we considered relevant for the purpose of providing you with our opinion of the Target Company as at 31 March 2023 (hereinafter referred to as the "**Date of Valuation**").

This report states the purpose of valuation, scope of work, economic overview, industry overview, overview of the Target Company, basis of valuation, investigation, valuation methodology, cash flow projection assumptions, major assumptions in the valuation, marketability discount, valuation summary, information reviewed, limiting conditions, remarks and presents our opinion of value.

1. PURPOSE OF VALUATION

This report is prepared solely for the use of the directors and management of the Company. In addition, Roma Appraisals Limited (hereinafter referred to as "**Roma Appraisals**") acknowledges that this report may be made available to the Company for public documentation purpose only.

Roma Appraisals assumes no responsibility whatsoever to any person other than the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely at their own risk.

2. SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and the information provided by management of the Company, management of the Target Company and/or their representative(s) (together referred to as the "**Management**").

In preparing this report, we have had discussions with the Management in relation to the development, operations and other relevant information of the Target Company. In arriving at our opinion of value, we have relied on the completeness, accuracy and representation of operational, financial and other pertinent data and information of the Target Company as provided by the Management to a considerable extent.

We have no reason to believe that any material facts have been withheld from us. However, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

In applying these projections to the valuation of the Target Company, we are making no representation that the business expansion will be successful, or that market growth and penetration will be realized. In case of any change in the assumptions and projections, our opinion of value may vary materially.

3. ECONOMIC OVERVIEW

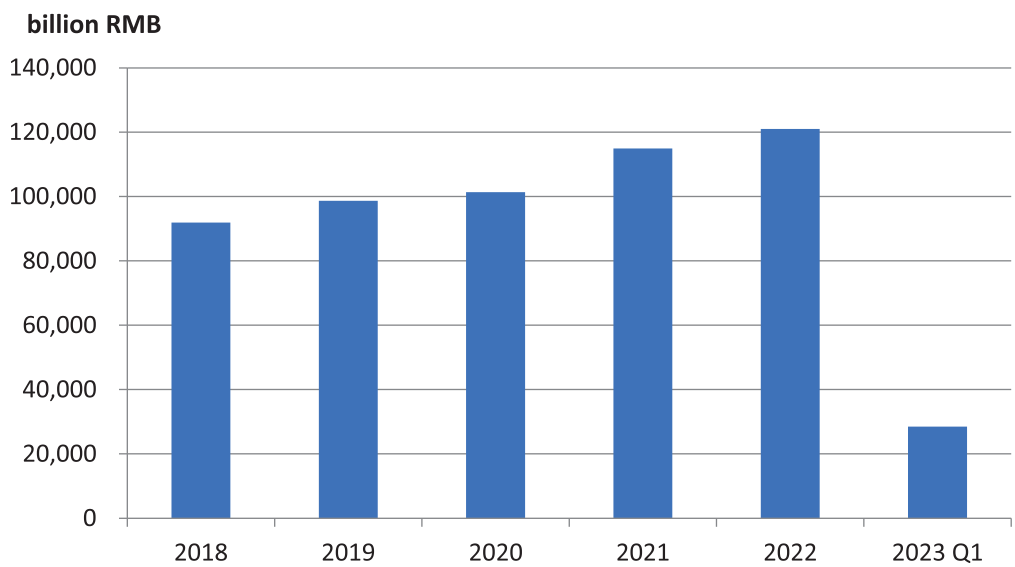
3.1 Overview of the Economy in China

According to the National Bureau of Statistics of China, the nominal gross domestic product ("**GDP**") of China in 2023 Q1 was RMB28,500 billion, a year-over-year nominal increase of 4.97% compared to 2022 Q1. China was the largest economy in the world, in terms of nominal GDP measured by the International Monetary Fund ("**IMF**") in 2021. Despite the global financial crisis in late 2008, the Chinese economy continued to be supported by the Chinese government through spending in infrastructure and real estates.

Throughout 2009, the global economic downturn reduced foreign demand for Chinese exports for the first time in many years. The government vowed to continue reforming the economy and emphasized the need to increase domestic consumption in order to make China less dependent on foreign exports. China's economy rebounded quickly in 2010, outperforming all other major economies with robust GDP growth and the economy remained in strong growth since 2011.

Over the past five years from 2018 to 2022, compound annual growth rate of China's nominal GDP was 7.12%. An upward trend of China's nominal GDP was observed from 2018 to 2022. Figure 1 illustrates the nominal GDP of China from 2018 to 2023 Q1.

Figure 1 – China's Nominal GDP from 2018 to 2023 Q1

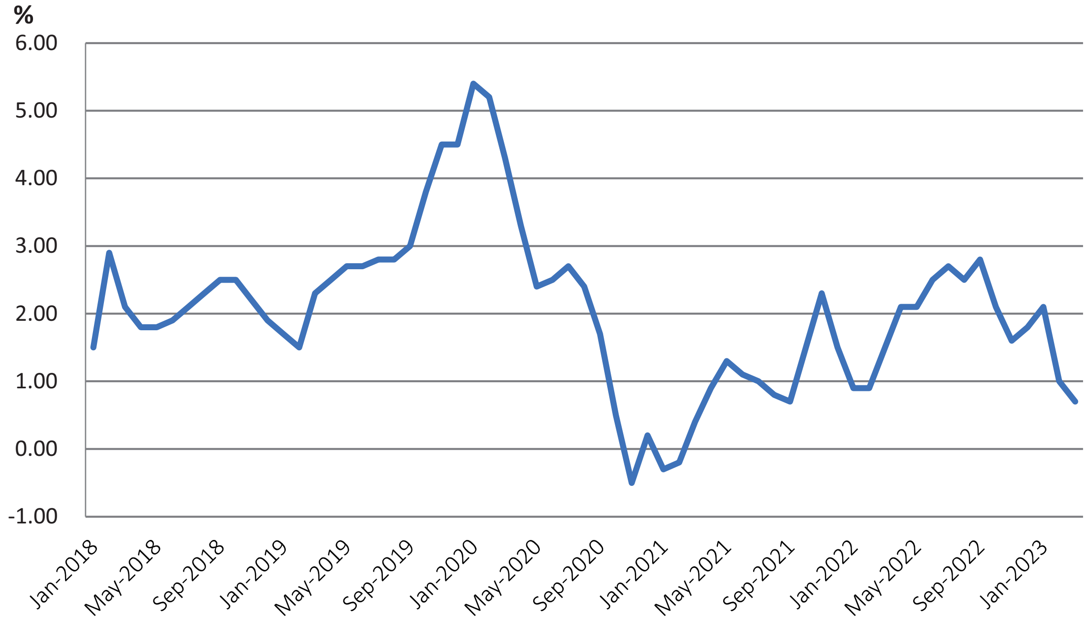


Source: National Bureau of Statistics of China

3.2 Inflation in China

Tackling inflation problem has long been the top priority of the Chinese government as high prices are considered as one of the causes of social unrest. For such a fast-growing economy, the middle-class' demand for food and commodities has been rising continuously. According to the National Bureau of Statistics of China, the year-over-year change in consumer price index ("**CPI**") reached its peak at 2.9% in February but fluctuated around 1.8% to 2.1% in the middle of the year, it then rose again to 2.5% in September and fell back to 1.9% in December 2018. In 2019, the year-over-year change in CPI increased from 1.7% in January to 4.5% in December. In 2020, the year-over-year change in CPI start out high at 5.4% in January, yet it significantly decreased down to 0.2% in December. In 2021, the year-over-year change in CPI dropped by 0.3% in January and rose to 1.5% in December. In 2022, the year-over-year change in CPI dropped to 0.9% in January and 1.8% in December. In 2023, the year-over-year change in CPI rose to 2.1% in January and dropped to 0.7% in March. Figure 2 shows the year-over-year change in CPI of China from January 2017 to March 2023.

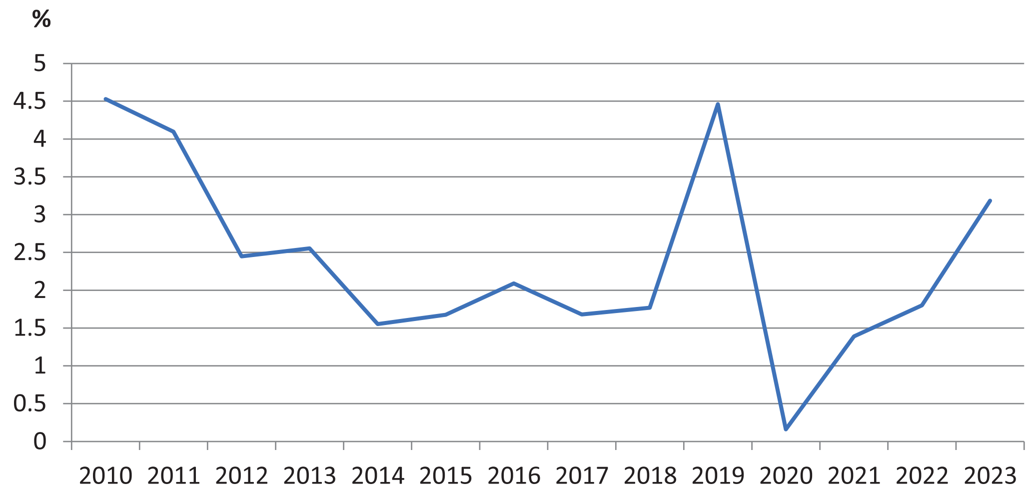
Figure 2 – Year-over-year Change in China's CPI from January 2018 to March 2023



Source: Bloomberg

China's inflation rate was volatile during the past decade. According to the IMF, the inflation rate increased to 4.6% in 2010 and maintained at 4.1% in 2011. The inflation rate dropped again to 2.5% in 2012 and 2013, and further to 1.5% in 2014. The inflation rate has been fluctuating in recent years. It started to climb in 2015 and 2016 from 1.6% to 2.1%, then decreased in 2017 to 1.8%, eventually rose again to 1.9% in 2018. The inflation rate increased to 4.5% in 2019 while decreased to -0.31% in 2020 due to outbreak of Covid-19. There was an upward trend in the yearly inflation rate in China from 2020 to 2022. The yearly inflation rate in China's is 1.8% in 2022. According to IMF's forecast, the long-term inflation rate of China is expected to be around 2.2%. Figure 3 shows the historical trend of China's inflation rate from 2009 to 2023.

Figure 3 – China's Inflation Rate from 2010 to 2023



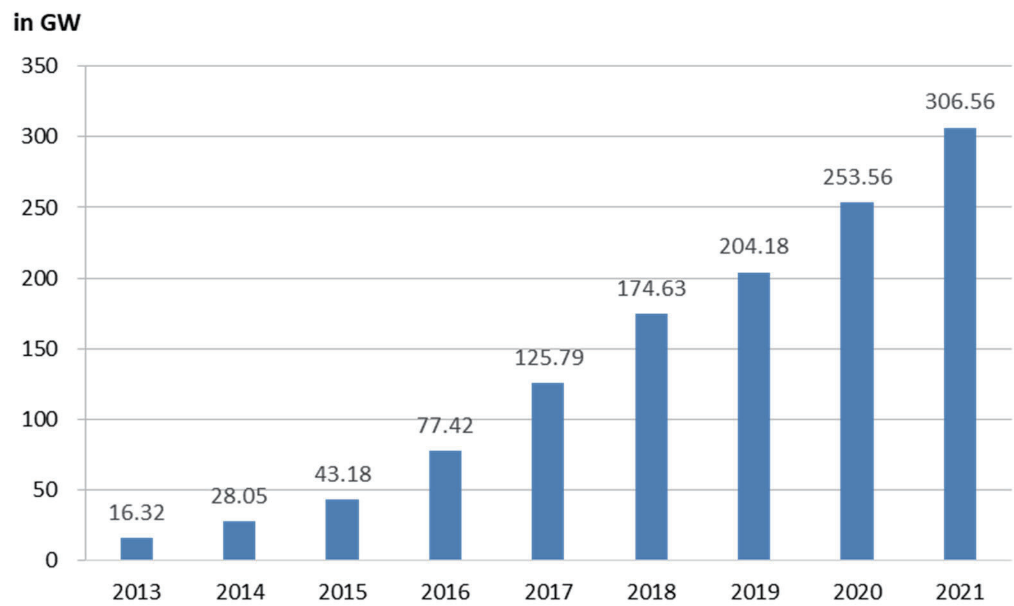
Source: International Monetary Fund

4. INDUSTRY OVERVIEW

4.1 Overview of Solar Energy Industry in China

China's solar energy sector has seen significant growth in recent years, making it the world's largest producer and consumer of solar panels, accounting for more than 70% of the global production capacity. The country's Five-Year Plan (2021-2025) has set ambitious targets for renewable energy adoption, with a goal of increasing the share of non-fossil fuels in primary energy consumption to 20% by 2025. The Chinese government has also announced plans to build the world's largest solar power station in Qinghai province, with a capacity of 2.2 GW. China is investing heavily in energy storage technologies to improve the stability and reliability of its power grid. According to the International Energy Agency (IEA), China is set to become the world's largest market for energy storage by 2025, with an estimated 137 GW of storage capacity installed by that year. Figure 4 shows the historical trend of China's solar energy installed capacity from 2012 to 2021.

Figure 4 – China's solar energy installed capacity from 2012 to 2021



Source: China Energy Portal

China's solar industry has benefitted from economies of scale, with the country's large domestic market providing a platform for companies to achieve cost efficiencies and drive down prices. The Chinese government has implemented a range of policies to support the growth of the solar industry, including feed-in tariffs, subsidies, and tax incentives. However, the government has also been gradually reducing these subsidies to encourage the industry to become more competitive and sustainable. In addition to traditional solar PV technologies, China is also investing in emerging technologies like concentrated solar power (CSP) and floating solar farms. The country is home to the world's largest floating solar farm, located on a flooded coal mine in Anhui province. The solar energy sector in China is characterized by strong government support, favorable economics, and a commitment to reducing carbon emissions. These factors are likely to drive continued growth in the industry and position China as a key player in the global transition to renewable energy.

5. OVERVIEW OF THE TARGET COMPANY

The Target Company is principally engaged in renewable energy power generation, power station development, construction, operation, power production and sales. The Target Company built a solar photovoltaic power generation system with a capacity of 12MWp in Zhejiang, including solar photovoltaic power generation systems and corresponding supporting grid-connected facilities.

6. BASIS OF VALUATION

Our valuation is conducted on a market value basis. According to the International Valuation Standards established by the International Valuation Standards Council in 2022, market value 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".

7. INVESTIGATION

Our investigation included discussions with members of the Management in relation to the development, operations and other relevant information of the Target Company. In addition, we have made relevant inquiries and obtained further information as we considered necessary for the purpose of the valuation.

We have had discussions with the Management in relation to the development, operations and other relevant information of the Target Company. We have also consulted other sources of financial and business information. In arriving at our opinion of value, we have relied on the completeness, accuracy and representation of operational, financial and other pertinent data and information of the Target Company as provided by the Management to a considerable extent.

The valuation of the Target Company requires consideration of all pertinent factors, which may or may not affect the operation of the business. The factors considered in our valuation include, but are not necessarily limited to, the following:

- The nature and prospect of the Target Company;
- The financial information of the Target Company;
- The business plan of the Target Company as provided by the Management;
- The business risks of the Target Company such as the ability in maintaining competent technical and professional personnel; and
- Investment returns of entities engaged in similar lines of business.

8. VALUATION METHODOLOGY

There are generally three accepted approaches to obtain the market value of the Target Company, namely the Market-Based Approach, Income-Based Approach and Asset-Based Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature.

8.1 Market-Based Approach

The Market-Based Approach values a business entity by comparing prices at which other business entities in a similar nature changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to for an equally desirable alternative. By adopting this approach, the valuer will first look for valuation indication of prices of other similar business entities that have been sold recently.

The right transactions employed in analyzing indications of values need to be sold at an arm's length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

8.2 Income-Based Approach

The Income-Based Approach focuses on the economic benefits due to the income producing capability of the business entity. The underlying theory of this approach is that the value of the business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts them to their present values using a discount rate appropriate for the risks associated with realizing those benefits.

Alternatively, this present value can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

8.3 Asset-Based Approach

The Asset-Based Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals to the value of its invested capital ("**equity and long term debt**"). In other words, the value of the business entity is represented by the money that has been made available to purchase the business assets needed.

This money comes from investors who buy stocks of the business entity ("**equity**") and investors who lend money to the business entity ("**debt**"). After collecting the total amounts of money from equity and debt, and converted into various types of assets of the business entity for its operation, their sum equals the value of the business entity.

8.4 Business Valuation

In the process of valuing the Target Company, we have taken into account the operation and financial information of the Target Company and conducted discussions with the Management to understand the status and prospect of the Target Company and the renewable energy industry it is participating. Also, we have considered the accessibility to available data and relevant market transactions in choosing among the valuation approaches.

The Market-Based Approach was not adopted in this case based on the business nature of the comparable companies consist with different location, sunlight durations, model of the sunlight board, and maintenance which will affect the financial performance thus consideration. Moreover, most of the important assumptions of the comparable transactions, such as discount or premium on the transaction prices or considerations, were unavailable. Given lacking the details of the operation and project of the comparable companies and/or comparable transactions, the market approach was not adopted. The Asset-Based Approach was also not adopted because it could not capture the future earning potential and thus market value of the Target Company. We have therefore considered the adoption of the Income-Based Approach in arriving at the market value of the Target Company.

8.5 Discounted Cash Flow

Under the Income-Based Approach, we have adopted the discounted cash flow ("**DCF**") method, which is based on a simple reversal calculation to restate all future cash flows in present terms. The expected free cash flow for each year was determined as follows:

Expected Free Cash Flow = Net Profit + Depreciation – Change in Net Working Capital – Capital Expenditure

The present value of the expected free cash flows was calculated as follows:

$$PVCF = CF_1/(1+r)^1 + CF_2/(1+r)^2 + \cdots + CF_n/(1+r)^n$$

In which

PVCF = Present value of the expected free cash flows;
CF = Expected free cash flow;
r = Discount rate; and
n = Number of years.

To adopt this method, we estimated the weighted average cost of capital ("**WACC**") of the Target Company as a basic discount rate. The WACC is the minimum required return that the Target Company must earn to satisfy its various capital providers including shareholders and debt holders. WACC calculation takes into account the relative weights of debt and equity. It is computed using the formula below:

$$WACC = W_e \times R_e + W_d \times R_d \times (1 - T_c)$$

In which

R_e = Cost of equity;
R_d = Cost of debt;
W_e = Weight of equity value to enterprise value;
W_d = Weight of debt value to enterprise value; and
T_c = Corporate tax rate.

8.6 Cost of Debt

The cost of debt was determined by the expected borrowing rate of the Target Company. Since the interest expenses paid on debts are tax-deductible for the Target Company, the cost of the Target Company to get debt funds is less than the required rate of return of the suppliers of the debt capital. The after-tax cost of debt was calculated by multiplying one minus the corporate tax rate by the cost of debt.

8.7 Cost of Equity

The cost of equity was determined using the Capital Asset Pricing Model ("**CAPM**"), which describes the relationship between the risk of the Target Company and expected return to investors. It is calculated by the following formula:

$$R_e = R_f + \beta \times \text{Market Risk Premium} + \text{Size Premium} + \text{Other Risk Premium}$$

In which

R_e = Cost of equity;
R_f = Risk-free rate; and
β = Beta coefficient.

8.8 Discount Rate

In the process of determining the WACC, we have considered the business nature of the Target Company and adopted several listed companies with business scopes and operations similar to those of the Target Company as comparable companies which are considered as exhaustive and representative. For the avoidance of doubt, comparable companies selection in WACC calculation was based on similar business scopes and operations with selection criteria listed in the following paragraph. However, the discussion of comparable companies in adopting the market-based approach or not requires further detailed similarity factors, such as different location, sunlight durations, model of the sunlight board, and maintenance which will affect the financial performance.

As those factors, in the income-based approach, can be addressed in the cash flow forecasts instead of solely addressed by the WACC estimated from the comparable companies with similar business scope and operations.

Therefore, the selected comparable companies are for determining the WACC calculation but not under the market-based approach.

The comparable companies were selected with reference to the following selection criteria:

- The companies are principally engaged in solar power generation in China;
- The companies have sufficient listing and operating histories more than 2 years;
- The companies are listed in China or Hong Kong; and
- The financial information of the companies is available to the public.

Details of the comparable companies adopted were listed as follows:

Company Name	Stock Code	Listing Location	Business Description	Leveraged Beta	Debt to Equity ratio
NYOCOR Co Ltd	600821.CH	China	NYOCOR Co Ltd. operates new energy power generation businesses. The company generates and distributes solar power, wind power, and other power products. The company also operates indoor decoration businesses.	0.761	152.66%
Shunfeng International Clean Energy Ltd	1165.HK	Hong Kong	Shunfeng International Clean Energy Limited is a comprehensive solar energy operator. The company develops, operates and maintains solar power plants. The company also manufactures and sells solar cells, solar modules, solar wafers and related solar products.	0.839	2150.12%

Company Name	Stock Code	Listing Location	Business Description	Leveraged Beta	Debt to Equity ratio
Jinko Power Technology Co Ltd	601778.CH	China	Jinko Power Technology Co., Ltd. develops, builds, finances, owns, and operates solar power plants. The company offers solar power photovoltaic power station development, investment, construction, and management services. The company also offers photovoltaic power plant project general contracting services.	1.189	74.32%
Xinyi Energy Holdings Ltd	3868.HK	Hong Kong	Xinyi Energy Holdings Limited operates as a renewable energy project development company. The company provides installation, construction, and maintenance of solar plant, as well as offers photovoltaic transformation systems. The company serves customers in China.	0.730	32.51%
Kong Sun Holdings Ltd	295.HK	Hong Kong	Kong Sun Holdings Limited, through its subsidiaries, invests, develops and operates solar PV power plants.	0.787	264.28%
GCL New Energy Holdings Ltd	451.HK	Hong Kong	GCL New Energy Holdings Ltd., through its subsidiaries, offers solar plant operation and maintenance. The company also offers energy storage technology, micro-grid and intelligent integration capabilities.	1.208	740.78%

Source: Bloomberg

Below is the summary of the key parameters of the WACC of the Target Company adopted as at the Date of Valuation:

Key Parameters		**As at 31 March 2023**
a)	Risk-free Rate	2.86%
b)	Market Risk Premium	12.38%
c)	Beta Coefficient	0.77
d)	Size Premium	3.05%
e)	Other Risk Premium	1.00%
f)	Cost of Equity	16.44%
g)	Cost of Debt	3.00%
h)	Weight of Equity Value to Enterprise Value	32.42%
i)	Weight of Debt Value to Enterprise Value	67.58%
j)	Corporate Tax Rate	25.00%
WACC		**6.85%**

Notes:

a) The risk-free rate adopted was the implied yield rate of China 10-year government bonds as at the Date of Valuation as extracted from Bloomberg.

b) The market risk premium adopted was the difference between the market expected return in China and the risk-free rate adopted as at the Date of Valuation as extracted from Bloomberg.

c) The beta coefficient adopted was the median beta of the comparable companies as at the Date of Valuation as extracted from Bloomberg.

d) The size premium adopted was the size premium for micro-cap companies with reference to the size premium study in Duff & Phelps Cost of Capital Navigator 2022 conducted by Duff & Phelps, LLC.

e) The other risk premium adopted was to reflect the status and business risk of the Target Company as at the Date of Valuation. As advised by the Management, the operation require minimal active management involvement and the demand of electricity will be bounded by the terms and conditions as stated in the contract signed. The operation risk is relatively low and we considered 1% of Other Risk Premium is suitable for accounting the forecast and business risk of the Target Company.

f) The cost of equity was determined based on Capital Asset Pricing Model ("**CAPM**").

g) The cost of debt adopted was the actual borrowing rate of the Target Company as advised by the Management.

h) The adopted weight of equity value to enterprise value derived from the median debt-to-equity ratio of the comparable companies as at the Date of Valuation as extracted from Bloomberg.

i) The adopted weight of debt value to enterprise value derived from the median debt-to-equity ratio of the comparable companies as at the Date of Valuation as extracted from Bloomberg.

j) The corporate tax rate adopted was China corporate tax rate as at the Date of Valuation as extracted from Bloomberg.

Hence, we adopted the WACC of 6.85% as the discount rate of the Target Company as at the Date of Valuation.

9. CASH FLOW PROJECTION ASSUMPTIONS

9.1 Forecast period

As advised by the Management, the forecast period was determined based on the respective economic useful life of the Target Company and ends at 2042. Based on government policy which promotes the solar energy's industry with the benchmark electricity price or electricity price subsidy standard for photovoltaic power generation projects shall be 25 years in principle starting when the Target Company operates.

9.2 Revenues and Costs

The projected revenues of the Target Company were RMB6,981,674 from 30 April 2023 to 31 December 2023 and RMB10,480,924 for each year from year 2024 to year 2042 as advised by the Management.

Revenues were projected with reference to the historical track record of on-grid revenue and subsidized revenue for the year of 2023. Self-use revenue was added in the projection of revenues for 2024 onwards as advised by the Management. The projected revenues mentioned were estimated from the unit price times the expected annual volume.

For the unit selling price, the Management adopted RMB0.37, RMB0.46 and RMB0.67 per kilowatt hour for on-grid revenue, subsidized revenue and self-use revenue respectively which were made reference to the historical average selling price of the period from 2020 to 2022 and the government document named "the Notice of the Price Bureau of Zhejiang Province on Matters Related to the Adjustment of Electricity Prices (Zhe Jia Zi [2016] No. 2)" and "the Implementation Opinions of Shaoxing Municipal People's Government Office on Promoting the Construction of Household Roof Photovoltaic Projects in Shaoxing City". In addition, for the unit price of self-use revenue, the Target Company used to supply electricity to a related party at a 20% discount. In determining the unit price of electricity supplied to nearby companies and/or factories during the forecast period, the 20% discount has been eliminated as the Target Company will discontinue this discount arrangement and supply electricity to this related party and other independent third parties at the same price upon completion.

For the unit government subsidy, it is also estimated based on the historical unit government subsidy received by the Target Company from FY2020 to FY2022, which is constant and determined by the National Development and Reform Commission. The unit government subsidy remains constant for FY2023 and is expected to continue in the future as the government policy trend will support and favor the development of the photovoltaic market in China.

For the expected annual volume, the Management adopted 8,550,000kWh, 950,000kWh and 9,500,000kWh for self-use revenue, on-grid revenue, and subsidized revenue respectively and they were estimated with reference to the historical power generation volumes, the expected sunshine duration in the forecast period and the estimated growth after the completion of the acquisition. The estimated growth is expected to recover to the historical level of approximately 9.5 million kWh per annum after the construction work is finished and proper cleanup is maintained. As advised by the Management, the lower electricity generation of approximately 7.7 million kWh and 6.6 million kWh in FY2021 and FY2022 was due to the construction work beside the solar farm, which resulted in dust covering the solar panels and reduced the operation efficiency. The construction work is expected to complete in 2023 based on recent communication between the managements of the Target Company and the factory. After the acquisition is completed, the Company plans to optimize the operation of the solar farm, increase the frequency of regular cleaning and maintenance, assign its own engineers to monitor the daily operation of the solar farm and invest RMB4.0 million for daily maintenance and repair of the solar panels during the forecast period. The electricity generation amount is expected to resume to a normal level similar to that in 2018 of approximately 9.5 million kWh per annum, which has been taken into account in the forecasted revenue.

It is anticipated that 90% of the 9.5 million kWh electricity generation will be purchased by companies and/or factories located near the solar farm, and the remaining 10% will be purchased by the local electricity supply company during the 19 years ending 31 December 2042. The management of the Company has advised that a non-metallic inorganic new materials company is constructing a new plant near the solar farm and has represented to the Target Company that it will constantly purchase electricity from the Target Company when its new plant is opened. It is expected that the new plant construction will be completed by the end of 2023, and the new materials company will start to purchase electricity from the Target Company since 2024. The unit electricity price of the Target Company is cheaper than the market rate, especially during peak time, and that is why the new materials company prefers to purchase electricity from the Target Company.

The projected costs of revenue of the Target Company were RMB1,705,750 from 30 April 2023 to 31 December 2023 and RMB2,341,000 for each year from year 2024 to year 2026 and each year from year 2029 to year 2041, and RMB2,776,250 for the year 2042 as advised by the Management.

As advised by the Management, the costs were mainly the depreciation of the property, plant and equipment in nature.

9.3 Premises, staff and general administrative expenses

The Target Company of premises, staff and general administrative expenses were based on the annualized historical expenses for the period from 2020 to 2022. It is projected with 2% of the revenue. Based on the business nature of the Target Company, the operation of photovoltaic power generation does not rely heavily on man power or staff. The premise expense were mainly included rental expenses and estimated with RMB3.8 per square meter per year.

9.4 Income Tax Expenses

As advised by the Management, the income tax will be charged since 2023 at half rate. After 2023, the income tax 25% will be fully charged and the tax benefit will no long can be enjoyed starting from 2024. The Target Company would enjoy tax benefit in 2023 which were made reference to the government document named "the Notice on Alleviating the Tax Burden of Enterprises Involved in the Field of Renewable Energy". The income tax expense was estimated by adopting the corporate tax rate in China of 25% from 2024 as advised by the Management.

9.5 Working Capital

The forecasted working capital balance consisted of trade receivable and other tax payable. For trade receivable, it was projected with reference to the average historical trade receivables turnover days from 2020 to 2022. For other tax payable, it was assumed to be constant with the balance as at the Date of Valuation.

9.6 Capital expenditures

Capital expenditures were mainly for the regular purification and maintenance of the solar energy board. The projected amount were RMB1,000,000 each in 2023, 2027, 2032 and 2037. As advised by Management, the projected capital expenditures were used for maintaining the fixed assets only. Due to the nature of photovoltaic power generation operation and the nature of the capital expenditure, the Management considered capital expenditures of RMB1 million in every 4 to 5 years were sufficient.

10. MAJOR ASSUMPTIONS IN THE VALUATION

We have adopted certain specific assumptions in our valuation and the major ones are as follows:

- The unaudited financial statements of the Target Company as at 31 March 2023 could reasonably represent its financial position since the audited financial statements were not available;

- The valuation was mainly based on the projections of the future cash flows as confirmed by the Management as at the Date of Valuation. The projections outlined in the financial information provided are reasonable, reflecting market conditions and economic fundamentals, and will be materialized;

- The Target Company would be operated and developed as planned by the Management throughout the forecast period, and the development would be in line with the financial projection;

- As advised by the Management, RMB18,027,507 of the amount due to ultimate holding company would be waived with reference to the waiver letter provided by the Management dated as 31 March 2023;

- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Target Company operates or intends to operate would be officially obtained and renewable upon expiry;

- There will be sufficient supply of technical staff in the industry in which the Target Company operates, and the Target Company will retain competent management, key personnel and technical staff to support its ongoing operations and developments;

- There will be no major change in the current taxation laws in the localities in which the Target Company operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

- There will be no major change in the political, legal, economic or financial conditions in the localities in which the Target Company operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Company; and

- Interest rates and exchange rates in the localities for the operation of the Target Company will not differ materially from those presently prevailing.

11. MARKETABILITY DISCOUNT

Compared to similar interest in public companies, ownership interest is not readily marketable for closely held companies. Therefore, the value of a share of stock in a privately held company is usually less than an otherwise comparable share in a publicly held company. A discount for lack of marketability of 9.00% was adopted in arriving at the market value of the Target Company as at the Date of Valuation based on the searching criteria of transaction dates from 31 March 2003 to the Date of Valuation and companies engaged in electric services or other electric power generation in restricted stock study published in "Stout Restricted Stock Study 2022" by Stout Risius Ross, LLC.

12. VALUATION SUMMARY

To determine the market value of the Target Company as at the Date of Valuation, we have considered the cash and debt balances, non-operating assets and liabilities of the Target Company. Detailed calculation is shown as below:

	As at 31 March 2023 *RMB*
Total Present Value of the Target Company	85,353,503
Add: Cash	10,273,000
Less: Debt	(9,900,000)
Less: Lease Liability	(9,448,000)
Add/(Less): Net Non-Operating Assets/(Liabilities)	(17,001,493)
100% Equity Interests in the Target Company	**59,277,010**
Less: Marketability Discount of 9.00%	(5,334,931)
Market Value of 100% Equity Interests in the Target Company	53,942,079
Market Value of 100% Equity Interests in the Target Company (rounded)	53,900,000

Note: The totals may not sum up due to rounding.

13. INFORMATION REVIEWED

Our opinion requires consideration of relevant factors affecting the market value of the Target Company. The factors considered included, but were not necessarily limited to, the following:

- Unaudited financial statements of the Target Company as at 31 March 2023;
- Government document named "關於減輕可再生能源領域涉企稅費負擔的通知", "浙江省物價局關於電價調整有關事項的通知(浙價資[2016]2號)" and "紹興市人民政府辦公室關於推進紹興市家庭屋頂光伏工程建設的實施意見";
- Business licenses of the Target Company;
- Historical operational information of the Target Company;
- Financial projections of the Target Company;
- The nature and background of the Target Company; and
- Economic outlook in China.

We have discussed the details with the Management on the information provided and assumed that such information is reasonable and reliable. We have assumed the accuracy of information provided and relied on such information to a considerable extent in arriving at our opinion of value.

14. LIMITING CONDITIONS

The valuation reflects facts and conditions existing at the Date of Valuation. Subsequent events or circumstances have not been considered and we are not required to update our report for such events and conditions.

We would particularly point out that our valuation was based on the information such as the company background and business nature of the Target Company provided to us.

To the best of our knowledge, all data set forth in this report are assumed to be reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied on the historical and/or prospective information provided by the Management and other third parties to a considerable extent in arriving at our opinion of value. The information has not been audited or compiled by us. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

We assumed that the management of the Target Company is competent and perform duties under the company regulation. Also, ownership of the Target Company was in responsible hands, unless otherwise stated in this report. The quality of the management of the Target Company may have direct impact on the viability of the business as well as the market value of the Target Company.

We have not investigated the title to or any legal liabilities of the Target Company and have assumed no responsibility for the title to the Company appraised.

Our conclusion of the market value was derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. The conclusion and various estimates may not be separated into parts, and/or used out of the context presented herein, and/or used together with any other valuation or study.

We assume no responsibility whatsoever to any person other than the directors and the Management in respect of, or arising out of, the content of this report. If others choose to rely in any way on the contents of this report, they do so entirely at their own risk.

No change to any item in any part of this report shall be made by anyone except Roma Appraisals. We have no responsibility for any such unauthorized change. Neither all nor any part of this report shall be disseminated to the public without the written consent and approval of Roma Appraisals through any means of communication or referenced in any publications, including but not limited to advertising, public relations, news or sales media.

This report may not be reproduced, in whole or in part, and utilized by any third parties for any purpose, without the written consent and approval of Roma Appraisals.

The working papers and models for this valuation are being kept in our files and would be available for further references. We would be available to support our valuation if required. The title of this report shall not pass to the Target Company until all professional fee has been paid in full.

15. REMARKS

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

We hereby confirm that we have neither present nor prospective interests in the Company, the Target Company and their associated companies, or the values reported herein.

16. OPINION OF VALUE

Based on the investigation stated above and the valuation method employed, the market value of 100% equity interests in the Target Company as at the Date of Valuation, in our opinion, was reasonably stated as **RMB53,900,000 (RENMINBI FIFTY THREE MILLION AND NINE HUNDRED THOUSAND ONLY)**.

Yours faithfully,
For and on behalf of
Roma Appraisals Limited

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 *(Note 1)*	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 *(Note 2)*	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 the Vendor 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 the Vendor'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 *(Note 1)*	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 the Vendor 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 the Vendor'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 *(Note 1)*	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 Acquisition, 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 the Vendor 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; (ii) 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 the Vendor 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; (iii) 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; (iv) the termination deed dated 14 April 2022 entered into between the Vendor 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; (v) the agreement dated 7 January 2022 entered into between the Vendor 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; (vi) 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 (vii) the agreement dated 8 June 2021 entered into between the Company and the Vendor 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. 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
McMillan Woods (Hong Kong) CPA Limited	Certified Public Accountants
Rainbow Capital	A licensed corporation under the SFO to engage in type 6 (advising on corporate finance) of the regulated activity as defined under the SFO
Roma Appraisals 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 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;

(d) each of (i) the letter from Rainbow Capital; (ii) the accountants' report of the Target Company set out in Appendix II; (iii) the report from McMillan Woods (Hong Kong) CPA Limited on the unaudited pro forma financial information of the Enlarged Group set out in Appendix III; and (iv) the valuation report on the Target Company from Roma Appraisals Limited set out in Appendix V, 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 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 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 Agreement;

(b) the letter from the independent financial adviser, the text of which is set out in the section headed "Letter from the Independent Financial adviser" of this circular;

(c) the report from McMillan Woods (Hong Kong) CPA Limited on the unaudited pro forma financial information of the Group upon Completion, the text of which is set out in Appendix III to this circular;

(d) the valuation report on the Target Company issued by Roma Appraisals Limited as set out in Appendix V to this circular;

(e) the letter from McMillan Woods (Hong Kong) CPA Limited in relation to the profit forecast under the Valuation Report, the text of which is set out in Appendix VII to this circular; and

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

LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a letter from McMillan Woods (Hong Kong) CPA Limited, the reporting accountants of the Company, for the purpose of inclusion in this announcement.

McMillanWoods
Professionalism at the forefront

長青

McMillan Woods (Hong Kong) CPA Limited
24/F., Siu On Centre, 188 Lockhart Road,
Wan Chai, Hong Kong

(香港)會計師事務所有限公司
香港灣仔駱克道188號
兆安中心24樓

25 May 2023

The Board of Directors
Zhejiang Tengy Environmental Technology Co., Ltd
Room 1201, 12th Floor,
Chung Ying Building,
20 Connaught Road West,
Sheung Wan, Hong Kong

Dear Sirs,

Zhejiang Tengy Environmental Technology Co., Ltd ("the Company") and its subsidiaries (collectively referred to as "the Group") on the discounted cash flow forecast in connection with the valuation of equity interest in Zhejiang Tianjie New Energy Co., Ltd

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the "**Forecast**") on which the valuation dated 25 May 2023 prepared by Roma Appraisals Limited in respect of Zhejiang Tianjie New Energy Co., Ltd. (the "**Target Company**") as at 31 March 2023 is based. The valuation is in connection with the acquisition of 95% equity interest in the Target Company, as set out in the Company's announcement dated 25 May 2023 (the "**Announcement**"). The valuation based on Forecast is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' Responsibilities

The directors of the Company (the "**Directors**") are solely responsible for the preparation of Forecast. The Forecast has been prepared using a set bases and assumptions (the "**Assumptions**"), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in the section headed "Valuation Assumptions" of the Announcement.

Our Independence and Quality Control

We have complied with the ethical requirements of the Code of Ethics for Professional Accountants ("**the Code**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the independence requirements in Part 4A, Chapter A of the Code.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1 "Quality Management for Firms that Perform Audits and Reviews of Financial Statements, or Other Assurance or Related Services Engagements", which requires the firm to design, implement and operate a system of quality management including policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibility

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Target Company. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules, and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions as set out in the Announcement.

Yours faithfully,

McMillan Woods (Hong Kong) CPA Limited
Certified Public Accountants
Hong Kong
25 May 2023

LETTER FROM THE BOARD

Listing Division
The Stock Exchange of Hong Kong Limited
12/F, Two Exchange Square
8 Connaught Place, Central, Hong Kong

Dear Sirs,

Re: Zhejiang Tengy Environmental Technology Co., Ltd (the "**Company**")

We refer to the announcement of the Company dated 25 May 2023 (the "**Announcement**"). Unless the context otherwise requires, capitalised terms defined in the Announcement shall have the same meanings when used herein.

Reference is made to the valuation report (the "**Valuation Report**") dated 25 May 2023 prepared by Roma Appraisals Limited, an independent valuer (the "**Valuer**"), in relation to the valuation in respect of the market value of the 100% equity interest in the Target Company as at the Valuation Benchmark Date. The valuation is prepared on the discounted cash flow basis under the income-based approach, which is regarded as a profit forecast under Rule 14.61 of the Listing Rules.

We have discussed with the Valuer and reviewed the assumptions based upon which the Valuation Report was prepared. We have also engaged McMillan Woods (Hong Kong) CPA Limited to report on the arithmetical accuracy of calculations of the forecast used in the Valuation Report and considered the letter from McMillan Woods (Hong Kong) CPA Limited.

Based on the aforesaid, we confirm that the profit forecast as contained in the Valuation Report have been made after due and careful enquiry.

Yours faithfully,
For and on behalf of the board of Directors
Zhejiang Tengy Environmental Technology Co., Ltd
Mr. ZHU Xian Bo
Chairman and non-executive Director

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 Friday, 11 August 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 agreement dated 25 May 2023 entered into between the Company and 天潔集團有限公司 (for transliteration purpose:Tengy Group Limited) (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 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 in the Agreement 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, 7 July 2023

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 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 register of members in Hong Kong will be closed from Tuesday, 8 August 2023 to Friday, 11 August 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 Monday, 7 August 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.