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浙江天潔環境科技股份有限公司

Zhejiang Tengy Environmental Technology Co., Ltd

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

(Stock Code: 1527)

CONTINUING CONNECTED TRANSACTION

NEW PROCESSING SERVICES AGREEMENT

On 4 January 2021 (after trading hours of the Stock Exchange), the Company entered into the New Processing Services Agreement with Tianjie General Machinery, pursuant to which Tianjie General Machinery agreed to provide the services of processing mechanical parts and semi-finished products of environmental protection equipment to the Company. The annual cap for the service fees under the New Processing Services Agreement will not exceed RMB4.5 million throughout the term thereof.

LISTING RULES IMPLICATIONS

TGL is the controlling shareholder of the Company, holding approximately 34.20% of the issued share capital of the Company as at the date of this announcement. Tianjie General Machinery is a wholly-owned subsidiary of TGL. Therefore, Tianjie General Machinery is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the New Processing Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As disclosed in the announcement of the Company dated 1 April 2020, the Company has entered into the Rock Wool Processing Services Agreement with Tianjie New Material on 1 April 2020, pursuant to which Tianjie New Material agreed to provide processing services of rock wool to the Company for a term of three years up to 31 March 2023. Since Tianjie New Material and Tianjie General Machinery are both wholly-owned subsidiaries of TGL and the New Processing Services Agreement and the Rock Wool Processing Services Agreement are of a similar nature, the New Processing Services Agreement and the Rock Wool Processing Services Agreement shall be aggregated under Rule 14A.83 of the Listing Rules.

As the highest applicable percentage ratio of the annual caps of the transactions contemplated under the New Processing Services Agreement when aggregated with the Rock Wool Processing Services Agreement is less than 25% and the aggregate annual cap is less than HK\$10,000,000, the transactions contemplated under the New Processing Services Agreement are subject to the reporting, announcement and annual review requirements but are exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the announcement of the Company dated 6 April 2018 in relation to, among other things, the Previous Processing Services Agreement. As the Previous Processing Services Agreement has expired on 31 December 2020, on 4 January 2021 (after trading hours of the Stock Exchange), the Company entered into the New Processing Services Agreement with Tianjie General Machinery to continue the transactions under the Previous Processing Services Agreement for a term of three years. Pursuant to the New Processing Services Agreement, Tianjie General Machinery agreed to provide the services of processing mechanical parts and semi-finished products of environmental protection equipment to the Company. The annual cap for the service fees under the New Processing Services Agreement will not exceed RMB4.5 million throughout the term thereof. The principal terms of the New Processing Services Agreement are set out below.

NEW PROCESSING SERVICES AGREEMENT

Date

4 January 2021 (after trading hours of the Stock Exchange)

Parties

- (a) The Company; and
- (b) Tianjie General Machinery.

Services

Pursuant to the New Processing Services Agreement, Tianjie General Machinery agreed to provide the services of processing mechanical parts and semi-finished products of environmental protection equipment to the Company.

Service fees and payment term

The service fees for the processing services payable by the Company to Tianjie General Machinery will be determined by the parties in accordance with (i) the historical service fees paid by the Company to Tianjie General Machinery for the provision of the processing services; (ii) the prevailing market price; (iii) the process of the processing services; (iv) the relevant labour costs to be incurred by Tianjie General Machinery for the provision of processing services; and (v) the quality requirement of the Company for the provision of processing services.

The service fees under the New Processing Services Agreement shall be payable on a monthly basis and shall be settled by the Company on the last business day of each month.

Term

The New Processing Services Agreement has a term of three years commencing from 1 January 2021 up to 31 December 2023.

Historical figures

The annual caps for the Previous Processing Services Agreement and the historical amount of fees paid by the Company to Tianjie General Machinery under the Previous Processing Services Agreement were as follows:

	For the year ended 31 December 2018 <i>RMB million</i> (Audited)	For the year ended 31 December 2019 <i>RMB million</i> (Audited)	For the year ending 31 December 2020 <i>RMB million</i> (Unaudited)
Fees paid by the Company to Tianjie General Machinery for the provision of processing services	<u>6.13</u>	<u>7.28</u>	<u>6.95</u>
Annual caps	<u><u>8.5</u></u>	<u><u>8.5</u></u>	<u><u>8.5</u></u>

Proposed annual caps and basis of determination

Pursuant to the terms of the New Processing Services Agreement, the proposed annual caps for the continuing connected transactions thereunder will not exceed RMB4.5 million for each of the three years ending 31 December 2023.

In arriving at the above proposed annual caps, the Directors have taken into account the following factors:

- (a) the historical amount of fees paid by the Company to Tianjie General Machinery for the provision of the processing services under the Previous Processing Services Agreement;
- (b) the business development of the members of the Group; and
- (c) the expected decrease in the demand for the processing services of the Company for its daily operation due to the delay of new tenders and decrease of secured contracts resulting from the outbreak of the novel coronavirus disease epidemic.

The Company will continue to closely monitor the implementation of the New Processing Services Agreement, and take prompt actions to make disclosures and/or obtain the approval from its independent Shareholders (if necessary) in the event that any adjustment to the annual caps becomes foreseeable.

Reasons and benefits for the New Processing Services Agreement

The Group is principally engaged in design, development, manufacturing, installation and sale of environmental pollution prevention equipment and electronic products.

Tianjie General Machinery is principally engaged in the business of manufacturing and sales, metal processing for machineries, metallurgical machineries, cement machineries, printing machineries and general components and research and development, manufacturing and sales of wind turbines and equipment. Tianjie General Machinery is a wholly owned subsidiary of TGL. TGL is owned as to 64.08%, 22.81% and 13.11% by Mr. Bian Yu, Mr. Bian Jianguang and Ms. Bian Shu respectively.

The Directors (including the independent non-executive Directors) are of the view that the engagement of Tianjie General Machinery as service provider can help the Group leverage on the extensive experience of Tianjie General Machinery in processing services and ensure a smooth business operation of the Group, thereby bringing benefits to the sustainable development of the Group.

In order to ensure that the terms of the provision of processing services from Tianjie General Machinery are fair and reasonable and in line with market practices, the Company will make regular contacts with independent suppliers to keep the Company abreast of the market conditions. Further, before the Company places any order for the processing services, the Company will also obtain quotations for comparable processing services that may be available from other independent suppliers in order to determine whether viable alternatives of comparable quality can be obtained in a timely manner and at competitive price.

In view of the above, the Directors consider that the entering into the New Processing Services Agreement is in the best interest of the Company and its Shareholders as a whole. They also consider that the New Processing Services Agreement has been negotiated on an arm's length basis and the continuing connected transactions contemplated under the New Processing Services Agreement are entered into in the ordinary and usual course of business of the Company on normal commercial terms and that the terms of the continuing connected transactions under the New Processing Services Agreement and the proposed annual caps thereof are fair and reasonable.

Mr. Bian Yu, Mr. Bian Jianguang and Ms. Bian Shu are the shareholders of TGL, and they are therefore materially interested in the transactions contemplated under the New Processing Services Agreement. They have abstained from voting on the board resolution approving the New Processing Services Agreement and the transactions contemplated thereunder.

LISTING RULES IMPLICATIONS

TGL is the controlling shareholder of the Company, holding approximately 34.20% of the issued share capital of the Company as at the date of this announcement. Tianjie General Machinery is a wholly-owned subsidiary of TGL. Therefore, Tianjie General Machinery is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the New Processing Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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DEFINITIONS

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

“Board”	the board of Directors
“Company”	Zhejiang Tengy Environmental Technology Co., Ltd (浙江天潔環境科技股份有限公司), a joint stock limited liability company established under the laws of the PRC on 28 December 2009, the issued H Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1527)
“connected person(s)”	has the same meaning as ascribed in the Listing Rules
“controlling shareholder”	has the same meaning as ascribed in the Listing Rules
“Director(s)”	the director(s) of the Company

“Group”	the Company and its subsidiaries
“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\$
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Processing Services Agreement”	the processing services agreement dated 4 January 2021 entered into between the Company and Tianjie General Machinery for the provision of processing services by Tianjie General Machinery to the Company
“PRC”	the People’s Republic of China
“Previous Processing Services Agreement”	the processing services agreement dated 6 April 2018 entered into between the Company and Tianjie General Machinery for the provision of processing services by Tianjie General Machinery to the Company
“Rock Wool Processing Services Agreement”	the processing services agreement dated 1 April 2020 entered into between the Company and Tianjie New Material for the provision of processing services of rock wool by Tianjie New Material to the Company
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“TGL”	Tengy Group Limited, also known as Tianjie Group Co., Ltd.* (天潔集團有限公司), a company established in the PRC with limited liability and is a controlling shareholder of the Company holding approximately 34.20% shareholding interest in the Company as at the date of this announcement
“Tianjie General Machinery”	Zhejiang Tianjie General Machinery Co., Ltd.* (浙江天潔通用機械有限公司), a company established in the PRC with limited liability and is wholly owned by TGL
“Tianjie New Material”	Zhejiang Tianjie New Material Co., Ltd.* (浙江天潔新材料有限公司), a company established in the PRC with limited liability and is wholly owned by TGL
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

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

Zhuji City, Zhejiang Province, the PRC, 4 January 2021

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

* For identification purpose only