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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 incorporated in the People’s Republic of China with limited liability)
(Stock Code: 1527)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

- The revenue of Zhejiang Tengy Environmental Technology Co., Ltd (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) for the six months ended 30 June 2016 (the “**Reporting Period**”) was approximately RMB464.5 million, representing an increase of 38.9% when compared with that of the corresponding period of last year.
- The Group’s profit attributable to owners of the parent for the Reporting Period was approximately RMB58.0 million representing an increase of 155.5% when compared with that of the corresponding period of last year.
- The Board (the “**Board**”) of directors of the Company (the “**Directors**”, each a “**Director**”) does not recommend the payment of any dividend for the Reporting Period.

INTERIM RESULTS

The Board is pleased to announce the unaudited consolidated interim results of the Group for the Reporting Period.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
REVENUE	464,500	334,493
Cost of sales	(349,695)	(276,746)
Gross profit	114,805	57,747
Other income and gains	5,260	5,285
Selling and distribution expenses	(9,596)	(6,961)
Administrative expenses	(28,041)	(11,035)
Other expenses	(590)	(933)
Finance costs	(3,506)	(5,261)
PROFIT BEFORE TAX	78,332	38,842
Income tax expense	(20,308)	(16,130)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	58,024	22,712
Attributable to:		
Owners of the parent	58,024	22,712
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
Basic and diluted (RMB)		
— For profit for the period	0.43	0.23

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at	
	30 June 2016 <i>RMB'000</i> (Unaudited)	31 December 2015 <i>RMB'000</i> (Audited)
NON-CURRENT ASSETS		
Property, plant and equipment	41,243	42,878
Investment property	16,038	16,515
Prepaid land lease payments	11,062	11,549
Intangible assets	279	195
Deferred tax assets	22,528	18,261
Pledged deposits	10,246	17,606
	101,396	107,004
CURRENT ASSETS		
Inventories	35,658	40,788
Gross amounts due from contract customers	723,646	703,831
Trade and bills receivables	492,167	420,875
Prepayments, deposits and other receivables	52,454	43,234
Pledged deposits	107,842	75,272
Cash and cash equivalents	139,601	209,936
	1,551,368	1,493,936
CURRENT LIABILITIES		
Gross amounts due to contract customers	91,345	89,523
Trade and bills payables	432,862	431,431
Advances from customers, other payables and accruals	298,884	263,342
Interest-bearing bank borrowings	119,000	174,000
Tax payable	41,358	31,353
	983,449	989,649
Total current liabilities	983,449	989,649
NET CURRENT ASSETS	567,919	504,287
TOTAL ASSETS LESS CURRENT LIABILITIES	669,315	611,291
Net Assets	669,315	611,291
EQUITY		
Equity attributable to owners of the parent		
Share capital	135,000	135,000
Share premium	239,064	239,064
Reserves	295,251	237,227
	669,315	611,291
Total equity	669,315	611,291

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

The Company is a joint stock company with limited liability established in the People's Republic of China ("China" or "PRC"). The registered office of the Company is located at Yangfu Village, Paitou Town, Zhuji City, Zhejiang Province, PRC.

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

On 12 October 2015, the Company was listed on the Main Board of the Stock Exchange.

In the opinion of the directors, the holding company of the Company is Tengy Group Limited (天潔集團有限公司) ("TGL"), which is established in the PRC. The ultimate controlling shareholders are Bian Yu, Bian Jianguang and Bian Shu.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

The interim condensed consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

3. OPERATING SEGMENT INFORMATION

The Group's revenue during the Reporting Period was mainly derived from the sale of environmental pollution prevention equipment. The products of the Group are subject to similar risks and returns and, therefore, the Group has only one business segment.

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Mainland China	453,347	321,397
Other countries	11,153	13,096
	<u>464,500</u>	<u>334,493</u>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

All non-current assets of the Group are located in Mainland China.

4. REVENUE, OTHER INCOME AND GAINS

Revenue, represents an appropriate proportion of contract revenue of construction contracts and the net invoiced value of goods sold, after allowances for returns and trade discounts during the Reporting Period.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Revenue		
Construction contracts	462,780	332,393
Sale of goods	1,720	2,100
	<u>464,500</u>	<u>334,493</u>
Other income		
Bank interest income	1,138	128
Government grants	742	3,313
Gross rental income	517	542
Compensation income	285	485
Others	45	8
	<u>2,727</u>	<u>4,476</u>
Gains		
Foreign exchange gain	2,533	809
	<u>2,533</u>	<u>809</u>
	<u>5,260</u>	<u>5,285</u>

5. INCOME TAX

Pursuant to the Corporate Income Tax Law of the PRC and the respective regulations, the Group which operates in Mainland China is subject to Corporate Income Tax ("CIT") at a rate of 25% on the taxable income.

The income tax expense of the Group is analysed as follows:

	Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Current tax	24,575	11,424
Deferred tax	(4,267)	4,706
Total tax charge for the periods	<u>20,308</u>	<u>16,130</u>

6. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the Reporting Period.

There were no potentially dilutive ordinary shares in issue during the Reporting Period and for the six months ended 30 June 2015.

The calculations of basic earnings per share are based on:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	<u>58,024</u>	<u>22,712</u>
	Number of shares	
	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<u>135,000,000</u>	<u>100,000,000</u>

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

Our Group

Leveraging around 19 years of industry experience and continual innovation in industrial technologies, we are a well-established integrated atmospheric pollution control solution provider, with a primary focus on particulate emission control by offering mega-sized precipitators to customers in various industries. Precipitators are air-cleaning devices designed to trap and remove particulate matters from the exhaust gas stream of an industrial process. They are widely installed at coal-fired power plants, metallurgical plants, paper mills and other industrial production plants. As such, our customers may be the project owners of power plants and industrial production plants, or contractors who undertake the construction work of power plants and industrial production plants.

Our Products

We mainly offer three types of precipitators: electrostatic precipitators, bag filter precipitators and electrostatic-bag composite precipitators. The majority of precipitators we offered during the Reporting Period were electrostatic precipitators, which accounted for approximately 74.8% of our revenue from the segment of construction contracts for the Reporting Period (84.8% for the six months ended 30 June 2015).

To capture business opportunities arising from the fast-growing atmospheric pollution control industry in the PRC, we, leveraging our experience and expertise in particulate control, started to offer desulfurisation and denitrification solutions to our customers in 2003 and second half of 2013, respectively.

Our Projects

We offer tailor-made atmospheric pollution control solutions to our customers on a project basis, which generally comprise engineering design, equipment procurement and manufacturing, supervision of installation and commissioning, customer training, and repair and maintenance.

Our product specifications and scope of services are customised and made-to-order in accordance with the specific technical requirements of our customers. Depending on the specifications and technical requirements of our customers, we may provide atmospheric pollution control devices, comprising precipitators, desulfurisation system and/or denitrification system, either on an integrated basis or a standalone basis. Our atmospheric pollution control solutions are offered to new installation projects as well as upgrading or modification projects.

Domestic Market

We believe that we have benefited, and will continue to benefit, from the synergies created through our customers' satisfaction and broader market recognition of our brand, which have helped increase our opportunities and ability of securing project bids. Additionally, with our industry qualifications and track record in successfully completing projects for state-owned power plants in the PRC, we believe we have reinforced our reputation among power enterprises as well as customers in other industries as a reliable atmospheric pollution control solution provider, which enable us to draw on their support for new installation and upgrading or modification projects. Project owners, particularly the state-owned power generation enterprises, generally adopt the most economically advantageous tender approach which takes both technical merit and price into consideration in tender assessment, instead of adopting the lowest price approach. Therefore, leveraging our industry experience, we believe we have advantages over new entrants in project bidding in the PRC market.

International Markets

Leveraging our extensive experience in the PRC market, we have expanded into international markets since 2005 through undertaking projects by contracting with PRC subsidiaries of overseas enterprises, including overseas environmental engineering enterprises. This allows our atmospheric pollution control solutions be applied in foreign countries such as Vietnam, South Korea, Thailand, Indonesia, India, Chile, Panama and Russia. Export sales accounted for approximately 2.4% of our total revenue for the Reporting Period (3.9% for the six months ended 30 June 2015). The aforesaid sales information is based on the locations of the customers.

OVERVIEW

We continue our success in the first half of 2016 built on 2015 which was a year of significance for the Group. Leveraging years of industry experience and continual innovation in industrial technologies, the Group is a well-established integrated atmospheric pollution control solution provider, with a primary focus on particulate emission control by offering mega-sized precipitators to customers in various industries. The Group generates our revenue primarily from project construction and sales of goods. Project construction represented tailor-made and integrated atmospheric pollution control solutions offered by the Group to our customers, comprising engineering design, equipment procurement and manufacturing, supervision of installation and commissioning, customer training, and repair and maintenance to our customers on a project basis. The Group mainly offers three types of precipitators: electrostatic precipitators, bag filter precipitators and electrostatic-bag composite precipitators. Our sales of goods represented sales of materials, including raw materials, spare parts and components and scrap materials to related parties or independent third parties.

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 PRC is currently the world's second largest economy. While the economic growth has slowed down in recent years, the growth rate is still among the highest in the world. The sustained increase in demand for energy and electricity in the PRC as a result of the fast economic growth has nonetheless been promoted at the expense of atmospheric environment and air quality. Last year, due to severe atmospheric pollution problems in Beijing and Hebei Province, some schools even suspended classes. Therefore, the PRC Government continues to strengthen its efforts in environmental protection by implementing more stringent environmental protection policies.

The New Environmental Protection Law was officially implemented in the PRC on 1 January 2015. Besides, with the approval of the New Law of the Prevention and Control of Atmospheric Pollution by The Standing Committee of the National People's Congress in August 2015 for the official implementation from January 2016 onwards together with the increasing governmental and public awareness of environmental protection in the PRC, the Group believes that there will be a vast investment demand for environmental protection in the coming years. The increasingly stringent environmental protection regulations also promote the rapid development of the environmental protection industry, particularly the industry of operations and maintenance services for atmospheric pollution control facilities. It is anticipated that there will be exponential growth in atmospheric pollution control equipment market in the coming several years. Therefore, as a leading integrated atmospheric pollution control solution provider in the industry, the Group believes that we can continue to be benefited from the aforementioned policies in order to capture new business and investment opportunities.

The Group believes that we have benefitted from and will continue to benefit from the synergic effects brought about by customers' satisfaction and broader market recognition of our brand in such a way of increasing our opportunity and capability to succeed in the bidding of new projects. Additionally, with the Group's industry qualifications and track record of successfully completing projects for state-owned power plants in the PRC, the Group believes that our reputation among power enterprises as well as customers in other industries as a reliable atmospheric pollution control solution provider enables the Group to become more competitive over new entrants in project bidding.

On 12 October 2015, the Company was officially listed on the Stock Exchange, which marks a milestone for the Group in terms of enhancement of capital, corporate governance and competitive edge.

For the Reporting Period, total revenue and profit of the Group amounted to approximately RMB464.5 million and RMB58.0 million respectively. During the Reporting Period, the Group's gross profit amounted to RMB114.8 million, representing an increase of 99.0% as compared with RMB57.7 million for the same period of 2015; and the gross margin increased by 7.4% from the same period of 2015 to 24.7%.

For the Reporting Period, the value of the Group's new contracts (which represents the aggregate value of the contracts we entered into during a specified period) was approximately RMB877.1 million. As at 30 June 2016, 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 RMB1,779.5 million.

The Group's profit before tax for the Reporting Period amounted to RMB78.3 million and profits attributable to owners of the parent grew to RMB58.0 million, representing an increase of 101.8% and 155.5% respectively when compared to the same period of 2015. The aforesaid growth is mainly generated from the increase in our operation income of 38.9% to RMB464.5 million for the Reporting Period.

At the time of raising the amount of product sales, the Group spent great effort to enhance cost management to make our products and solutions more cost competitive. The atmospheric pollution control solutions offered by our Group mainly comprise the atmospheric pollution control devices designed and manufactured on our own. The Group possesses the qualifications and expertise in manufacture and supply of the key atmospheric pollution control system of the projects undertaken by us based on customised design proposals. The Group is dedicated to improving 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 estimate costs, smoothen project operations and improve operating efficiency.

Based on the strong design and engineering capabilities, the Group primarily provides comprehensive atmospheric pollution control solutions to our customers. We offer a wide range of models of electrostatic precipitators which support electricity generators with capacity spanning from 6.25MW to over 1000MW. 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.

FINANCIAL REVIEW

Revenue

The Group's unaudited revenue for the Reporting Period was approximately RMB464.5 million, representing an increase of approximately 38.9% from approximately RMB334.5 million for the corresponding period of 2015. The aforesaid increase was mainly attributed to, among other things, (1) further enhancement of the bargaining power of the Company over its projects due to the significant increase in market recognition and competitiveness after the listing of the Company on the Main Board of the Stock Exchange; (2) the Company's capability of undertaking more technically demanding projects and larger projects owing to its unremitting efforts in technological research and development.

Cost of Sales

The unaudited cost of sales for the Reporting Period was approximately RMB349.7 million, representing an increase of approximately 26.4% from approximately RMB276.7 million for the corresponding period of 2015. The Company's cost of sales, mainly consisting of costs for raw materials, in which iron and steel were the major raw materials. During the Reporting Period, the cost for raw materials accounted for 71.7% of the total cost of sales. Due to excess capacity of the iron and steel industry and the continuously significant downward trend of the prices of iron and steel during recent years, the Company controlled the procurement prices of steel at reasonably low level during the first half of 2016 by optimising steel supply structure and reasonably managing inventory on the basis of the production demand.

Gross Margin

The unaudited gross profit margin for the Reporting Period was approximately 24.7%, representing an increase of approximately 7.4% from approximately 17.3% for the corresponding period of 2015.

Profit attributable to owners of the parent

The unaudited profit attributable to the owners of the parent for the Reporting Period was approximately RMB58.0 million, representing an increase of 155.5% from approximately RMB22.7 million for the corresponding period of 2015. Weighted average earnings per share amounted to RMB43 cents for the Reporting Period.

WORKING CAPITAL

As at 30 June 2016, the Group's working capital (current assets less current liabilities) amounted to approximately RMB567.9 million (31 December 2015: approximately RMB504.3 million).

INTERIM DIVIDEND

The Directors do not propose to declare an interim dividend for the Reporting Period (six months ended 30 June 2015: Nil).

MATERIAL LITIGATION AND ARBITRATION

As at 30 June 2016, the Group was not involved in any material litigation or arbitration.

MATERIAL ACQUISITION AND DISPOSAL

As at 30 June 2016, the Group was not involved in any material acquisition and disposal.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Accountants' report for the year ended 31 December 2015, except for the adoption of revised standards (such as the Hong Kong Accounting Standards ("HKAS") and the Hong Kong Financial Reporting Standards ("HKFRS")) and new interpretations thereof effective as of 1 January 2016 of which the details are further set out below:

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of HKFRSs

The adoption of these new and revised HKASs and HKFRSs has no significant financial effect on the interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in the preparation of the interim condensed consolidated financial statements.

During the Reporting Period the Group has not adopted any other standards, interpretations or amendments that are in issue but not yet effective.

PROSPECT

Atmospheric pollution has become a serious problem in China and other developing countries, which has posed a serious threat to national public health. Such problem has been considered a by-product of China's economic takeoff in the past few decades, attracting much attention from the national government and citizens. In 74 major cities in the PRC, the air quality in 90% of the cities fail to meet the standards. Given that the PRC Government is increasingly concerned about the environment, it is expected that the rigid societal demand for air pollution control equipment and integrated solutions business in the second half-year of 2016 will be higher than the first half-year. To this end, the Company's main work focuses in the second half of 2016 are as follows:

1. To further strengthen the Company's standardised management, deepen the construction and implementation of internal control systems, strengthen safety production management to ensure stable operation of the production and installation business.
2. To strengthen marketing efforts, and in view of the Company's history of operating track record and experience in the paper making, building materials, iron and steel and non-ferrous metal smelting industry superior to the comparable companies and its expertise and good reputation in coal-fired power generation industry, we expect that the investment and expansion in the air pollution control equipment by relevant industries will bring about good development opportunities for its business development for an extended period in the future.
3. To further improve the gross margin by focusing on (1) the quality projects and quality customer selection, paying special attention to pricing terms and customer reputation; and (2) constantly making cost control, lowering the procurement costs for raw materials and improving labour productivity;
4. To expand production capacity through completion of new production facilities and production organisation in Turpan City, Xinjiang Province as soon as possible. In addition to hardware construction such as land, plants, equipment, etc., to complete the administrative permission necessary for the production, recruit qualified staff to conduct training, and pass the competition for the positions to ensure the steady improvement of new capacity.
5. To continue to increase the investment in research and development, enhance technological innovation, organise an air pollution control and design institute based on the existing design and development team, introduce research and development personnel in coordination with excellent domestic and international industry research institutions, and increase research and development facilities, such that the research and development capabilities of the Company could be fully enhanced.
6. To actively expand financing channels to fund the Company's scale development, and to meet the tremendous growth of the market.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by any members of the Group during the Reporting Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company has complied with the code provisions listed in the Code on Corporate Governance Practices (the “**Corporate Governance Code**”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) throughout the Reporting Period.

AUDIT COMMITTEE

The Company established an audit committee (the “**Audit Committee**”) pursuant to a resolution of the Director passed on 10 November 2014 with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules. The written terms of reference of the Audit Committee was adopted in compliance with paragraphs C.3.3 and C.3.7 of the Corporate Governance Code. Its terms of reference are available on the websites of the Company and the Stock Exchange. The Audit Committee comprises three independent non-executive Directors, namely Ms. Tam Hon Shan Celia (Chairman), Mr. Jiang Yan and Mr. Zhang Bing.

APPROVAL OF FINANCIAL STATEMENTS

The unaudited financial statements of the Group for the Reporting Period were reviewed by the Audit Committee and approved by the Board on 25 August 2016.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.tengy.com). The interim report of the Company for the Reporting Period containing all the information required by the Listing Rules will be despatched to the Shareholders and available on the aforesaid websites in due course.

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

Zhuji City, Zhejiang Province, the PRC
25 August 2016

As at the date of this announcement, the executive Directors are Mr. BIAN Yu, Ms. BIAN Shu and Mr. BIAN Weican; the non-executive Directors are Mr. BIAN Jianguang, Mr. ZHANG Yuanyuan and Ms. ZHU Hong; and the independent non-executive Directors are Ms. Tam Hon Shan Celia, Mr. JIANG Yan and Mr. ZHANG Bing.