迪诺斯
Denox Environment

DENOX ENVIRONMENTAL & TECHNOLOGY HOLDINGS LIMITED
迪諾斯環保科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1452

INTERIM REPORT 2017

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Ms. ZHAO Shu *(Chairlady)*
Mr. KONG Hongjun
Mr. LI Ke

Non-executive Directors

Mr. LI Xingwu
Mr. TEO Yi Dar

Independent non-executive Directors

Mr. LI Junhua
Mr. LAM Yiu Por
Mr. ONG Chor Wei

Audit Committee

Mr. LAM Yiu Por *(Chairman)*
Mr. LI Junhua
Mr. ONG Chor Wei

Remuneration Committee

Mr. LI Junhua *(Chairman)*
Ms. ZHAO Shu
Mr. ONG Chor Wei

Nomination Committee

Ms. ZHAO Shu *(Chairlady)*
Mr. LI Junhua
Mr. ONG Chor Wei

Joint Company Secretaries

Mr. LIU Lianchao
Mr. CHAN Chung Kik, Lewis

Authorised Representatives

Ms. ZHAO Shu
Mr. LIU Lianchao

Auditor

PricewaterhouseCoopers

Legal Advisers

As to Hong Kong laws

Woo Kwan Lee & Lo

As to Cayman Islands laws

Conyers Dill & Pearman

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong

17th Floor, 80 Gloucester Road
Wanchai
Hong Kong

PRC

Room 1507, Block 2, Nuode Center
No. 128 Nansi Huan Xi Road
Fengtai District, Beijing
100070, PRC

Cayman Islands Principal Share Registrar and Transfer Office

Codan Trust Company (Cayman) Limited
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre
No. 183 Queen's Road East
Hong Kong

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
China Construction Bank Corporation
Industrial and Commercial Bank of China Limited
China Merchants Bank

Website

www.china-denox.com

Stock Code

01452

BUSINESS REVIEW

OVERVIEW

Denox Environmental & Technology Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") is an investment holding company with its principal subsidiaries engaged in design, development, manufacture and sales of plate-type DeNOx catalysts in the People's Republic of China (the "**PRC**"). In the first half of 2017, there were no significant changes in the nature of the Group's principal activities.

Industry analysis

In the first half of 2017, the DeNOx catalysts markets, in particular for power industry, were generally subject to the pressure in terms of sales volume and price, which was mainly represented by (1) the substantial decrease in new DeNOx facilities due to the national strict restriction against new thermal power projects; and (2) that the ultra-low emission transformation in most regions in the PRC was drawing to a close. The project information collected by the Group and the projects for which the Group bid indicated an obvious decline.

With the recovery of diesel-powered vehicle industry, the demands for DeNOx catalysts in the vehicle industry increased continuously. The Group constantly increased technology input into catalysts for diesel-powered vehicles and achieved certain progress in product research and development. It will become the most important profit driver in the future.

Sales and Marketing

Due to the further intensified market competition, the Group faced severe challenges in its sales and marketing. In the first half of the year, the Group completed the catalyst scheme and enquiry for 50 projects and completed biding for 25 projects, of which the Group won 13 projects with the bid winning rate of 52%. (In the same period of 2016, the Group participated in the scheme design and enquiry for 90 projects and officially bid for 71 projects, of which the Group won 14 projects with the bid winning rate of 20%.) For 2017 and 2016, we can see that, despite of substantial increase in the bid winning rate of project in half a year, the total amount of projects decreased sharply. In the first half of 2017, the Group finally entered into technology agreement and business contract for 16 projects (including overseas projects). Of which:

(1) The Group signed orders for export to Poland for the first time and the Group's product quality was continuously recognized by customers in Europe;

(2) Domestically, BEIH and China Shenhua became the customers of the Group for the first time;

(3) The Group entered the glass kiln industry for the first time; and

(4) The Group won the bid for the large binding bids project of Huaneng Group.

In the first half of the year, the Group completed the installation of catalysts for seven generating units of seven customers. However, the preliminary acceptance certificate was only signed with two power plants, resulting in a decrease in the operating revenue of the Group for the first half of the year. It is expected that the Group will sign more preliminary acceptance certificates in the second half of the year, which will contribute to an increase in operating revenue.

Production management

(1) Since the second quarter, the Group's orders have increased. The production department proactively coped with the situation and completed the production tasks in the first half of the year as scheduled. All deliveries were made as scheduled. In the first half of the year, the Group arranged 15 production projects and achieved no accidents in production;

(2) In light of the grim market situation, the Group continuously increased cost control efforts in all aspects including cost control of production process, control of product reject ratio, enhancement of automation through strengthening equipment transformation, more efforts for control of staff cost, etc.; and

(3) To solve the problems of shortage of plant and warehouse, the Group completed the expansion of plant and warehouse in the first half of the year. The internal partition and upgrade of monitoring system of plants will also be completed soon.

Research and development of catalysts for vessels and diesel-powered vehicles and other technologies

(1) Having produced basically qualified samples of catalysts for vessels, the Group is proactively seeking for customers in the domestic and overseas vessel industries and engine industry;

(2) As at the end of June, the installation of equipment for production of catalysts for vessels and diesel-powered vehicles has been basically completed. The Group conducted debugging and process exploration for equipment; after the exploration in the first half of the year, the Group has gained a preliminary understanding of the requirements on all procedures on the processes required. The Group will further stabilise the product quality, and improve and consolidate all production processes; and

(3) The Group participated in the preparation of industry standards of extrusion catalysts for diesel-powered vehicles and sent personnel to participate in the vehicle exhaust emission transformation project in the European Union, striving to enter the two vehicle markets in the PRC and Europe as soon as possible.

FINANCIAL REVIEW

Revenue

The Group's revenue for the six months ended 30 June 2017 decreased to approximately RMB2.7 million, representing a decrease of 90.8% from approximately RMB29.9 million of the same period last year, which was primarily attributable to the 92.6% decrease in sales volume of plate-type DeNOx catalysts from 2,912 m^3 of the same period last year to 215 m^3 for the period under review.

Cost of sales

Cost of sales of the Group decreased by approximately 74.8% from approximately RMB35.3 million for the six months ended 30 June 2016 to RMB8.9 million for the six months ended 30 June 2017. Excluding the inventory write-down of RMB5.6 million for the six months ended 30 June 2017 (for the six months ended 30 June 2016: RMB3.8 million), the decrease in cost of sales was mainly due to a decrease in sales volume of plate-type DeNOx catalysts.

Gross profit and gross profit margin

The Group incurred a gross loss of approximately RMB6.2 million for the six months ended 30 June 2017 (for the six months ended 30 June 2016: RMB5.5 million) due to severe market competition.

Selling and marketing expenses

Selling and marketing expenses primarily consist of bidding service fee, consulting service expenses, transportation cost and employee benefit expenses. For the six months ended 30 June 2017, the selling and marketing expenses of the Group increased to approximately RMB2.9 million from approximately RMB2.3 million of the same period last year, which was primarily due to the increase in consulting services expenses of RMB0.7 million as result of expansion of overseas operation.

Administrative expenses

Administrative expenses mainly consist of employee benefit expenses, depreciation and amortization, research and development expenses and professional fees. For the six months ended 30 June 2017, the Group's administrative expenses increased by 112.9% to approximately RMB17.1 million from RMB8.0 million in the same period last year which was primarily attributable to the increase in research and development expenses for vessels and diesel-powered vehicles.

Other gains (net)

Other gains (net) primarily consist of government grants, foreign exchange gains and interest income. For the six months ended 30 June 2017, the Group's other gains (net) decreased to approximately RMB0.3 million from approximately RMB2.9 million in the same period last year. Such decrease was mainly due to the absence of government grants for the period under review. The Group received approximately RMB2.0 million from local government of Hebei Province for the successful listing of the shares of the Company ("**Shares**") on the Main Board of the Stock Exchange in the same period last year.

Income tax (expenses)/benefits

The Group is subject to the PRC and Hong Kong income tax. The enterprise income tax rate generally levied in the PRC and Hong Kong is 25% and 16.5%, respectively. Beijing Denox Environmental & Technology Co., Ltd, a wholly-owned subsidiary of the Company ("**Beijing Denox**"), was designated as "High and New Technology Enterprise" and enjoyed a preferential tax rate of 15% for the period under review. The Group recorded income tax expenses of approximately RMB0.6 million for the six months ended 30 June 2017 and an income tax benefits of approximately RMB2.9 million in the same period last year.

The effective tax rate changed from 21.7% for the six months ended 30 June 2016 to a negative 2.4% for the six months ended 30 June 2017 was primarily due to the fact that deductible temporary differences and tax losses were not recognized as deferred income tax assets as the Group recorded loss in the first half of 2017.

Loss attributable to the shareholders of the Company

As a result of the foregoing, the loss attributable to the shareholders of the Company for the six months ended 30 June 2017 increased by 143.2% to approximately RMB26.6 million from RMB10.9 million in the same period last year.

Liquidity and Capital Resources

The Group's financial position remains solid and the Group possessed sufficient cash to meet its commitments and working capital requirements. As at 30 June 2017, the Group had net current assets of approximately RMB269.7 million (31 December 2016: approximately RMB305.0 million) of which cash and cash equivalents were approximately RMB186.9 million (31 December 2016: approximately RMB223.8 million) and were denominated in RMB, US$, Euro€, and HK$.

The Group had no bank borrowings as at 30 June 2017 (31 December 2016: Nil).

As at 30 June 2017, the Group had no bank guarantees in favor of its customers with respect to the contract penalties or obligations in connection with its product quality and tender (31 December 2016: approximately RMB0.6 million). As at 30 June 2017, the unutilised bank facilities amounted to approximately RMB0.3 million (31 December 2016: approximately RMB15.7 million).

Use of net proceeds from the Listing

As at 30 June 2017, net proceeds not utilised of approximately RMB101.6 million were deposited into interest bearing bank accounts with licensed commercial banks and will be applied according to the section headed "Use of proceeds" of the Company's prospectus dated 30 October 2015.

	Planned Amount RMB'million	Amount utilised up to 30 June 2017 RMB'million	Balance as at 30 June 2017 RMB'million
Development of DeNOx catalysts for diesel-powered vehicles	78.6	20.4	58.2
Acquisition of potential target companies in the Group's industry that can help to expand the Group's market coverage or key raw material suppliers	46.2	21.9	24.3
Research and development	17.1	3.7	13.4
Expansion of the Group's sales network and establishment of the Group's regional sales offices in China as well as Europe	6.9	2.8	4.1
Replacement of the Group's No. 1 production line	5.1	3.5	1.6
Working capital and general corporate purposes	17.1	17.1	–
	171.0	69.4	101.6

Pledged assets

As at 30 June 2017, the Group had pledged assets with an aggregate carrying value of approximately RMB0.3 million to secure banking facilities (31 December 2016: approximately RMB17.8 million).

Capital expenditure and commitments

The Group incurred capital expenditure to expand its operations, maintain its equipment and increase its operational efficiency. For the six months ended 30 June 2017, the Group invested approximately RMB6.4 million (31 December 2016: RMB16.0 million) for the prepayment and purchase of property, plant and equipment and nil for intangible assets (31 December 2016: RMB15.4 million). These capital expenditures were financed by internal resources of the Group.

As at 30 June 2017, the Group had no future capital expenditures contracted but not provided for (31 December 2016: approximately RMB4.5 million).

Contingent liabilities

As at 30 June 2017, the Group did not have any material contingent liabilities (31 December 2016: Nil).

Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures, and Future Plans for Material Investments or Capital Assets

There were no other significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2017.

Save as disclosed in this report, there was no plan authorised by the board (the "**Board**") of the directors (the "**Directors**") of the Company for other material investments or additions of capital assets at the date of this report.

Important events affecting the Group after the reporting period

No important events affecting the Group has taken place since 30 June 2017 and up to the date of this report.

Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions originally denominated and settled in RMB, of which foreign exchange risk is considered insignificant. The Group is exposed to foreign exchange risk primarily with respect to certain of its bank deposits which were denominated in HK$, US$ and Euro€. The Group did not carry out any hedging activity against foreign currency risk during the six months ended 30 June 2017. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may have a financial impact on the Group.

Employees

As at 30 June 2017, the Group had 104 employees (31 December 2016: 140). Remuneration of the employees of the Group amounted to RMB7.4 million for the six months ended 30 June 2017 (the year ended 31 December 2016: RMB14.1 million). Remuneration policies are reviewed regularly to ensure that the Group is offering competitive employment packages to employees. Remuneration of the Group's employees includes salaries, pension, discretionary bonus, medical insurance scheme and other applicable social insurance. The Group's remuneration policy for the directors, senior management and employees was based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the profit performance of the Group and the individual performance of the Directors, senior management members and employees. Further, the Group adopted the share option scheme on 14 October 2015. Further information of such share option scheme is available in the annual report of the Company for 2016. The Group's growth is dependent upon the skills and dedication of employees. The Group recognises the importance of human resources in competitive industry and has devoted resources to provide training to employees. The Group has established an annual training program for its employees so that new employees can master the basic skills required to perform their functions and existing employees can upgrade or improve their production skills.

PROSPECTS

1. Strengthen efforts in marketing

(1) The Group expects that the power market will still not be optimistic in the forthcoming year, and it will get aware of project information, in particular in petroleum, petrochemistry, chemical industry, coal, metallurgy and other industries except the power industry, through various channels and earnestly deal with every project provided that the risk is controllable;

(2) At present, approximately 200 domestic power plants using plate-type catalysts have been registered by the Group. The Group aims at collecting the information of 300 power plants to support its target results. In this regard, the Group will conduct preliminary contact with and place the focus on the power plants with a large installed capacity and using plate-type catalysts in the second half of 2017. The Group will attempt to achieve gradual coverage of power plants through understanding the actual situation of power plants, conduct technological exchange with power plants and exploring the timing and model for intervention;

(3) The Group will further increase efforts for development of international market to increase the share of export orders and continue to conduct in-depth exploration for the markets in Europe, Taiwan and India and other overseas markets to seek for participation opportunities; and

(4) The Group will further intensify advertising and use the Internet and other new media to increase promotion efforts and Baidu, Google and other search engines to promote business at home and abroad.

2. Further enhance production management capacity and rectification of production environment

(1) The Group will strengthen 6S management for production including:

- To establish and improve the 6S management system, conduct publicity on 6S activities, strengthen inspection and supervision, and make the work site more clean and orderly through the "tidying, rectification, sweeping, cleaning, quality, safety" activities;

- To re-set management for production site, e.g. lineation on ground, regional settings, labeling management, addition of three-dimensional shelves in new warehouse. Promotional banners and management boards will be set on the site to improve the production environment and further standardize the production management; and

- To further strengthen production safety management, implement standardization of production safety management, increase safety propaganda slogans, banners and warning signs on production site, and regularly inspect and improve safety protection facilities.

(2) Rectification of production environment

The rectification of production environment by the Group mainly includes:

- To intensify environmental management of production site and implement the Heavy Pollution Emergency Response Program with the focus on the control of dust and other emissions management;

- To increase wastewater treatment facilities for treatment of production wastewater to ensure satisfaction of national level three emission standards;

- To strengthen the maintenance and management of environmental protection facilities, such as dust collector, exhaust fan, etc., to ensure the normal operation of relevant equipment. Waste and solid waste warehouses will be subject to sealed management and installed with shutter doors to prevent dust from wastes; and

- To strengthen occupational health management, regularly organise physical examination for staff, improve relevant systems, add publicity banners and slogans, and strengthen the daily management of labor insurance products.

3. New products and new technologies

(1) The Group plans to cooperate with the relevant enterprises as soon as possible by the end of the year to provide qualified samples of catalysts for diesel-powered vehicles and conduct relevant emission tests; and

(2) Based on the results of trial production, the Group will improve and optimise the process, develop operational standards and cultivate production and R&D personnel.

Directors' and Chief Executive's Interests in Shares, Underlying Shares and Debentures

As at 30 June 2017, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the SFO, which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and chief executive of the Company were taken or deemed to have under such provisions of the SFO, or which are recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Directors	Capacity	Number of Shares held	Approximate percentage of shareholding *(Note 2)*
Ms. Zhao Shu	Beneficial owner	14,812,477 (L)	2.96%
	Interest in controlled corporation *(Note 3)*	152,031,609 (L)	30.41%
Mr. Li Xingwu	Interest in controlled corporation *(Note 4)*	51,075,015 (L)	10.22%
Mr. Kong Hongjun	Interest in controlled corporation *(Note 5)*	8,887,475 (L)	1.78%
Mr. Li Ke	Interest in controlled corporation *(Note 6)*	2,962,474 (L)	0.59%

Notes:

1. *The letter "L" denotes the person's long position in the Shares.*
2. *The percentages are calculated based on 500,000,000 Shares in issue as at 30 June 2017.*
3. *These 152,031,609 Shares are held by Advant Performance Limited ("**Advant Performance**") which is wholly owned by Ms. Zhao. Ms. Zhao is deemed to be interested in these Shares by virtue of the SFO.*
4. *These 51,075,015 Shares are held by EEC Technology Limited ("**EEC Technology**") which is wholly owned by Mr. Li. Mr. Li is deemed to be interested in these Shares by virtue of the SFO.*
5. *These 8,887,475 Shares are held by Global Reward Holdings Limited which is wholly owned by Mr. Kong. Mr. Kong is deemed to be interested in these Shares by virtue of the SFO.*
6. *These 2,962,474 Shares are held by Fine Treasure Asia Holdings Limited which is wholly owned by Mr. Li Ke. Mr. Li Ke is deemed to be interested in these Shares by virtue of the SFO.*

Save as disclosed above, as at 30 June 2017, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning 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, or were recorded in the register required to be kept pursuant to section 352 of the SFO, or is otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DISCLOSURE OF INTERESTS

Directors' Right to Acquire Shares or Debentures

Save for the share option scheme of the Company as disclosed in its annual report for the year ended 31 December 2016, at no time during the six months ended 30 June 2017 was the Company, its subsidiaries, holding companies or fellow subsidiaries a party to any arrangements to enable Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders' Interests in Securities

As at 30 June 2017, so far as the Directors were aware, the following persons' (other than the Directors and chief executive of the Company) interests or short position in the shares and underlying shares of the Company, being interests of 5% or more, as recorded in the register required to be kept pursuant to section 336 of the SFO were as follows:

Name of Shareholder	Capacity	Number of Shares held	Approximate percentage of shareholding *(Note 2)*
Advant Performance	Beneficial owner	152,031,069 (L)	30.41%
EEC Technology	Beneficial owner	51,075,015 (L)	10.22%
Kickstart Holdings Limited	Beneficial owner	40,188,996 (L)	8.03%
Spring Capital Asia Fund, L.P.	Interest in controlled corporation *(Note 3)*	40,188,996 (L)	8.03%

Notes:

1. *The letter "L" denotes the person's long position in the Shares.*
2. *The percentages are calculated based on the 500,000,000 Shares in issue as at 30 June 2017.*
3. *Kickstart is beneficially and wholly owned by Spring Capital Asia Fund, L.P.. Spring Capital Asia Fund, L.P. is deemed to be interested in these Shares held by Kickstart by virtue of the SFO.*

Save as disclosed above, as at 30 June 2017, the Directors were not aware of any other person (other than the Directors or chief executive of the Company) having an interest or short position in shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

OTHER INFORMATION

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") during the six months ended 30 June 2017.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry with all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code during the six months ended 30 June 2017.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2017, the Company complied with the applicable code provisions of the Corporate Governance Code with the exception of code provision A.2.1. The Board is of the view that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group's business strategies which are in the best interests of the Company. For further details of such exception, please refer to section headed "Corporate Governance Report – (D) Chairman and Chief Executive" of the annual report of the Company for the year ended 31 December 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2017.

DISCLOSURE OF INFORMATION ON DIRECTORS PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Mr. Lam Yiu Por resigned as a non-executive director of Zhong Ao Home Group Limited (stock code: 1538) with effect from 4 May 2017.

AUDIT COMMITTEE

The audit committee of the Board has reviewed with management and external auditor the accounting policies, accounting standards and practices adopted by the Group and the unaudited consolidated interim financial information and results of the Group for the six months ended 30 June 2017.

By Order of the Board
Zhao Shu
Chairlady

Hong Kong, 30 August 2017

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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羅兵咸永道

TO THE BOARD OF DIRECTORS OF
DENOX ENVIRONMENTAL & TECHNOLOGY HOLDINGS LIMITED
(incorporated in Cayman Island with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 15 to 40, which comprises the condensed consolidated balance sheet of Denox Environmental & Technology Holdings Limited (the "**Company**") and its subsidiaries (together, the "**Group**") as at 30 June 2017 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information 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 International 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.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 August 2017

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2017

	Note	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**66,560**	57,921
Land use right	7	**15,860**	16,036
Intangible assets	8	**32,782**	34,837
Long-term prepayments	12	**991**	2,995
Restricted cash	13	**2,772**	2,104
Total non-current assets		**118,965**	113,893
Current assets			
Inventories	10	**58,776**	39,402
Trade and bills receivables	11	**44,709**	56,258
Prepayments, deposits and other receivables	12	**17,568**	18,421
Available-for-sale financial assets	14	**11,000**	2,000
Restricted cash	13	**869**	2,558
Cash and cash equivalents	13	**186,923**	223,805
Total current assets		**319,845**	342,444
Total assets		**438,810**	456,337
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	15	**31,802**	31,802
Share premium	16	**851,181**	851,181
Capital reserves	16	**(552,410)**	(552,410)
Other reserves	16	**32,485**	35,669
Retained earnings		**8,370**	35,232
		371,428	401,474
Non-controlling interests		**13,712**	13,651
Total equity		**385,140**	415,125

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2017

	Note	**Unaudited 30 June 2017 RMB'000**	Audited 31 December 2016 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income	18	**100**	130
Deferred income tax liabilities	9	**3,394**	3,614
Total non-current liabilities		**3,494**	3,744
Current liabilities			
Trade payables	17	**7,882**	6,918
Advances from customers		**13,810**	6,035
Accruals and other payables	18	**22,816**	19,268
Current income tax liabilities		**5,668**	5,247
Total current liabilities		**50,176**	37,468
Total liabilities		**53,670**	41,212
Total equity and liabilities		**438,810**	456,337

The notes on pages 22 to 40 form an integral part of this interim consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Note	Unaudited Six months ended 30 June **2017** **RMB'000**	 2016 RMB'000
Revenue	19	**2,738**	29,881
Cost of sales	20	**(8,918)**	(35,343)
Gross loss		**(6,180)**	(5,462)
Selling and marketing expenses	20	**(2,934)**	(2,263)
Administrative expenses	20	**(17,064)**	(8,016)
Other gains – net	21	**323**	2,909
Operating loss		**(25,855)**	(12,832)
Finance income	22	**105**	317
Finance costs	22	**(196)**	(704)
Finance costs – net		**(91)**	(387)
Loss before income tax		**(25,946)**	(13,219)
Income tax (expenses)/benefits	23	**(612)**	2,863
Loss for the period		**(26,558)**	(10,356)
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences	16	**(3,427)**	4,019
Other comprehensive (loss)/income for the period		**(3,427)**	4,019
Total comprehensive loss for the period		**(29,985)**	(6,337)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Note	Unaudited Six months ended 30 June 2017 RMB'000	2016 RMB'000
Loss attributable to:			
– Shareholders of the Company		**(26,619)**	(10,947)
– Non-controlling interests		**61**	591
		(26,558)	(10,356)
Total comprehensive loss attributable to:			
– Shareholders of the Company		**(30,046)**	(6,928)
– Non-controlling interests		**61**	591
		(29,985)	(6,337)
Loss per share (expressed in RMB per share)			
Basic losses per share	24	**(0.05)**	(0.02)

The notes on pages 22 to 40 form an integral part of this interim consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

For the six months ended 30 June 2017

	Note	Unaudited Attributable to shareholders of the Company							
		Share capital RMB'000	Share premium RMB'000	Capital reserves RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017		**31,802**	**851,181**	**(552,410)**	**35,669**	**35,232**	**401,474**	**13,651**	**415,125**
Comprehensive loss									
Loss for the six months ended 30 June 2017		**–**	**–**	**–**	**–**	**(26,619)**	**(26,619)**	**61**	**(26,558)**
Other comprehensive income									
Currency translation differences		**–**	**–**	**–**	**(3,427)**	**–**	**(3,427)**	**–**	**(3,427)**
Total comprehensive loss		**–**	**–**	**–**	**(3,427)**	**(26,619)**	**(30,046)**	**61**	**(29,985)**
Transaction with shareholders of the Company, recognised directly in equity									
Non-controlling interests arising from acquisition of a subsidiary		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Appropriation to statutory reserves	16	**–**	**–**	**–**	**243**	**(243)**	**–**	**–**	**–**
Total transaction with shareholders of the Company, recognised directly in equity		**–**	**–**	**–**	**243**	**(243)**	**–**	**–**	**–**
Balance at 30 June 2017		**31,802**	**851,181**	**(552,410)**	**32,485**	**8,370**	**371,428**	**13,716**	**385,140**

CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

For the six months ended 30 June 2017

		Unaudited Attributable to shareholders of the Company							
	Note	Share capital RMB'000	Share premium RMB'000	Capital reserves RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2016		31,802	851,181	(552,410)	23,100	95,657	449,330	–	449,330
Comprehensive loss									
Loss for the six months ended 30 June 2016		–	–	–	–	(10,947)	(10,947)	591	(10,356)
Other comprehensive income									
Currency translation differences		–	–	–	4,019	–	4,019	–	4,019
Total comprehensive loss		–	–	–	4,019	(10,947)	(6,928)	591	(6,337)
Transaction with shareholders of the Company, recognised directly in equity									
Non-controlling interests arising from acquisition of a subsidiary		–	–	–	–	–	–	14,092	14,092
Appropriation to statutory reserves	16	–	–	–	225	(225)	–	–	–
Total transaction with shareholders of the Company, recognised directly in equity		–	–	–	225	(225)	–	14,092	14,092
Balance at 30 June 2016		31,802	851,181	(552,410)	27,344	84,485	442,402	14,683	457,085

The notes on pages 22 to 40 form an integral part of this interim consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Note	Unaudited Six months ended 30 June 2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Cash used in operations		**(18,626)**	(34,585)
Interest received		**105**	409
Income tax paid		**(411)**	(2,794)
Net cash used in operating activities		**(18,932)**	(36,970)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(6,357)**	(2,959)
Payment to acquire available-for-sale financial assets		**(11,000)**	–
Proceeds from disposal of available-for-sale financial assets		**2,000**	–
Decrease/(increase) in pledged deposits		**1,020**	(1,331)
Prepayment and purchases of intangible assets		**–**	(15,391)
Proceeds from disposals of property, plant and equipment		**–**	13
Acquisition of a subsidiary, net of cash acquired		**–**	(19,741)
Proceeds from decrease in short-term fixed income deposit		**–**	85,430
Interest received		**11**	–
Net cash (used in)/generated from investing activities		**(14,326)**	46,021
Cash flows from financing activities			
Proceeds from bank borrowings		**–**	2,400
Repayments of bank borrowings		**–**	(2,300)
Interest paid		**–**	(41)
Payment of ordinary shares issuance costs		**–**	(1,322)
Net cash generated used in financing activities		**–**	(1,263)
Net (decrease)/increase in cash and cash equivalents		**(33,258)**	7,788
Cash and cash equivalents at beginning of period	13	**223,805**	229,433
Exchange (loss)/gains on cash and cash equivalents		**(3,624)**	2,706
Cash and cash equivalents at end of period	13	**186,923**	239,927

The notes on pages 22 to 40 form an integral part of this interim consolidated financial information.

1. GENERAL INFORMATION

Denox Environmental & Technology Holdings Limited (the "**Company**") was incorporated in the Cayman Islands on 7 November 2014 as an exempted company with limited liability under the Companies Law Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company and its subsidiaries (collectively, the "**Group**") are principally engaged in design, development and manufacture of plate-type DeNOx catalysts in the People's Republic of China (the "**PRC**").

This condensed consolidated interim financial information is presented in Renminbi (the "**RMB**"), unless otherwise stated. This condensed consolidated interim financial information was approved by the board of directors of the Company for issue on 30 August 2017.

This condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with International Accounting Standard ("**IAS**") 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Amendments to IFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group.

A number of new standards and amendments to standards and interpretations have been issued but not yet effective for the financial year ending on 31 December 2017, and have not been applied in preparing this condensed consolidated interim financial information. None of these are expected to have a significant effect on the condensed consolidated interim financial information of the Group.

4. ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated interim financial information do not include all financial risk management 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 2016.

There have been no changes in the risk management policies since 31 December 2016.

5.2 Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents and has available funding through adequate amount of committed credit facilities to meet its working capital requirements.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining year at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 6 months RMB'000	Between 6 months and 1 year RMB'000	More than 1 year RMB'000	Total RMB'000
As at 30 June 2017				
Trade payables	7,882	–	–	7,882
Accruals and other payables (excluding payroll payable and tax payable)	20,342	–	–	20,342
	28,224	–	–	28,224
As at 31 December 2016				
Trade payables	6,918	–	–	6,918
Accruals and other payables (excluding payroll payable and tax payable)	16,430	–	–	16,430
	23,348	–	–	23,348

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2017.

	Level 1 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total** RMB'000
Assets:				
– Available-for-sale financial assets	–	–	11,000	11,000
	–	–	11,000	11,000

There were no other changes in valuation techniques during the period.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

5.3 Fair value estimation *(Continued)*

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2016.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets:				
– Available-for-sale financial assets	–	–	2,000	2,000
	–	–	2,000	2,000

5.4 Fair value measurements using significant unobservable inputs (Level 3)

The following table presents the changes in level 3 instruments as at 30 June 2017.

	Available-for-sale financial assets RMB'000
Opening balance at 1 January 2017	2,000
Addition	11,000
Disposals of available-for-sale financial assets	(2,000)
	11,000

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Vehicles RMB'000	Office equipment and others RMB'000	Leasehold improvements RMB'000	Construction -in-progress ("CIP") RMB'000	Total RMB'000
Six months ended 30 June 2017							
Opening net book value as at 1 January 2017	**28,802**	**17,590**	**721**	**686**	**147**	**9,975**	**57,921**
Additions	**27**	**20**	**–**	**95**	**–**	**11,054**	**11,196**
Transferred from CIP	**6,508**	**70**	**–**	**–**	**–**	**(6,578)**	**–**
Depreciation charge	**(1,023)**	**(1,113)**	**(208)**	**(171)**	**(42)**	**–**	**(2,557)**
Closing net book value	**34,314**	**16,567**	**513**	**610**	**105**	**14,451**	**66,560**
As at 30 June 2017							
Cost	**40,523**	**43,714**	**1,611**	**1,662**	**423**	**14,451**	**102,384**
Accumulated depreciation	**(6,209)**	**(14,086)**	**(1,098)**	**(1,052)**	**(318)**	**–**	**(22,763)**
Impairment	**–**	**(13,061)**	**–**	**–**	**–**	**–**	**(13,061)**
Net book value	**34,314**	**16,567**	**513**	**610**	**105**	**14,451**	**66,560**
Six months ended 30 June 2016							
Opening net book value as at 1 January 2016	21,593	22,517	652	419	232	–	45,413
Acquisition of a subsidiary	–	6,951	174	47	–	6,471	13,643
Additions	128	285	203	170	–	5,166	5,952
Transferred from CIP	5,271	–	–	–	–	(5,271)	–
Disposals	–	–	(4)	–	–	–	(4)
Depreciation charge	(625)	(1,847)	(179)	(118)	(42)	–	(2,811)
Closing net book value	26,367	27,906	846	518	190	6,366	62,193
As at 30 June 2016							
Cost	30,745	41,856	1,518	1,273	423	6,366	82,181
Accumulated depreciation	(4,378)	(12,651)	(672)	(755)	(233)	–	(18,689)
Impairment	–	(1,299)	–	–	–	–	(1,299)
Net book value	26,367	27,906	846	518	190	6,366	62,193

7. LAND USE RIGHTS

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Opening net book value	**16,036**	8,202
Acquisition of a subsidiary	**–**	8,143
Amortisation charge	**(176)**	(134)
Closing net book value	**15,860**	16,211

The Group's land use rights are located in Gu'an and Wu Xi, the PRC, both with an original lease year of 50 years.

8. INTANGIBLE ASSETS

	Goodwill	Patent rights	Software	Technical know how	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Six months ended 30 June 2017					
Opening net book value at 1 January 2017	**7,262**	**1,274**	**6**	**26,295**	**34,837**
Additions	**–**	**–**	**–**	**–**	**–**
Amortisation charge	**–**	**(212)**	**(1)**	**(1,842)**	**(2,055)**
Closing net book value	**7,262**	**1,062**	**5**	**24,453**	**32,782**
As at 30 June 2017					
Cost	**7,262**	**8,124**	**7**	**31,640**	**47,033**
Accumulated amortisation	**–**	**(5,494)**	**(2)**	**(6,121)**	**(11,617)**
Impairment	**–**	**(1,568)**	**–**	**(1,066)**	**(2,634)**
Net book value	**7,262**	**1,062**	**5**	**24,453**	**32,782**
Six months ended 30 June 2016					
Opening net book value at 1 January 2016	–	3,786	–	2,289	6,075
Acquisition of a subsidiary	7,262	2	–	11,040	18,304
Additions	–	–	7	–	7
Amortisation charge	–	(473)	(1)	(524)	(998)
Closing net book value	7,262	3,315	6	12,805	23,388
As at 30 June 2016					
Cost	7,262	8,125	7	14,607	30,001
Accumulated amortisation	–	(4,810)	(1)	(1,802)	(6,613)
Net book value	7,262	3,315	6	12,805	23,388

9. DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Deferred income tax assets		
– to be recovered after more than 12 months	**–**	–
– to be recovered within 12 months	**–**	–
	–	–
Deferred income tax liabilities		
– to be recovered after more than 12 months	**2,956**	3,176
– to be recovered within 12 months	**438**	438
	3,394	3,614
Deferred income tax liabilities – net	**3,394**	3,614

The movements of the deferred income tax assets are as follows:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Opening balance as at 1 January	**–**	3,126
Acquisition of a subsidiary	**–**	–
Credited the consolidated statement of comprehensive income	**–**	2,035
Closing balance as at 30 June	**–**	5,161

9. DEFERRED INCOME TAX *(Continued)*

The movements of the deferred income tax liabilities are as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Opening balance as at 1 January	**3,614**	–
Acquisition of a subsidiary	**–**	3,943
Charged to the consolidated statement of comprehensive income	**(220)**	(109)
Closing balance as at 30 June	**3,394**	3,834

As at 30 June 2017, no deferred income tax liability had been provided for the PRC withholding tax that would be payable on the undistributed profits of approximately RMB20,190,000 (The six months ended 2016: RMB83,080,000). Such earnings are expected to be retained by the PRC subsidiaries and not to be remitted in the foreseeable future based on management's estimation of overseas funding requirements.

10. INVENTORIES

	As at 30 June 2017	As at 31 December 2016
	RMB'000	RMB'000
Raw materials	**18,518**	15,972
Work-in-progress	**3,603**	3,770
Finished goods	**9,414**	8,333
Goods in transit	**27,241**	11,327
	58,776	39,402

For the six months ended 30 June 2017, the cost of inventories recognised as expenses and included in "cost of sales" amounted to approximately RMB8,854,000 (The six months ended 30 June 2016: RMB35,149,000), which included inventory write-down of RMB5,564,000 (The six months ended 30 June 2016: RMB3,765,000).

11. TRADE AND BILLS RECEIVABLES

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Bills receivable	**6,420**	4,150
Trade receivables	**46,215**	59,473
	52,635	63,623
Less: provision for impairment	**(7,926)**	(7,365)
	44,709	56,258

Aging analysis of gross trade receivables at the respective balance sheet dates is as follows:

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Less than 3 months	**929**	7,551
3 months to 6 months	**127**	3,395
6 months to 1 year	**9,301**	14,074
1 year to 2 years	**15,161**	21,237
2 years to 3 years	**20,697**	12,826
Over 3 years	**–**	390
	46,215	59,473

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Included in non-current assets		
Prepayments for acquisition of property, plant and equipment	**155**	1,744
Long-term prepaid expenses	**836**	1,251
	991	2,995
Included in current assets		
Value-added tax recoverable	**6,715**	4,764
Deposits	**4,006**	2,667
Prepayments to suppliers	**2,813**	1,945
Amount due from a third party agent	**927**	927
Prepayment for marketing service fee	**841**	1,040
Staff advance	**375**	202
Prepaid employees' housing subsidy	**360**	360
Prepayment for professional service fee	**316**	2,395
Compensation receivable	**–**	1,580
Export tax refund	**–**	842
Others	**1,215**	1,699
	17,568	18,421
Total	**18,559**	21,416

13. CASH AND BANK BALANCES

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Current		
Cash at bank and on hand	**186,923**	223,805
Restricted cash (a)	**869**	2,558
	187,792	226,363
Non-current		
Restricted cash (a)	**2,772**	2,104
Total cash and cash equivalents and restricted cash	**190,564**	228,467

(a) Restricted bank deposits were held as guarantee for bidding, product quality and performance of the Group's sales contracts.

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets include the following:

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Beginning of the year	**2,000**	–
Addition	**11,000**	2,000
Repayment	**(2,000)**	–
End of the year	**11,000**	2,000

The Group's available-for-sale financial asset comprises a RMB-denominated structured principal guaranteed deposit with expected floating interest rate of approximately 3.7% per annum and maturity period within 1 year. This structured deposit is placed at a large state-owned commercial bank in the PRC. The fair value of the current available-for-sale financial asset approximated its carrying amount as at 30 June 2017.

15. SHARE CAPITAL

	Number of shares issued	Share capital RMB'000
As at 31 December 2016 and as at 30 June 2017	500,000,000	31,802

The Company was incorporated on 7 November 2014 with an initial authorised capital of US$50,000 divided into 5,000,000 shares with a par value of US$0.01 each.

According to the special resolution by the shareholders on 23 January 2015, the authorized share capital was increased to US$50,000,000 divided into 5,000,000,000 shares at a par value of US$0.01 each.

16. SHARE PREMIUM, CAPITAL RESERVES AND OTHER RESERVES

	Share premium RMB'000	Capital reserves RMB'000	Statutory reserves RMB'000	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Total RMB'000
Balance at 1 January 2017	851,181	(552,410)	12,406	10,214	13,049	334,440
Appropriation to statutory reserves(a)	–	–	243	–	–	243
Currency translation differences	–	–	–	–	(3,427)	(3,427)
Balance at 30 June 2017	851,181	(552,410)	12,649	10,214	9,622	331,256
Balance at 1 January 2016	851,181	(552,410)	12,397	10,214	489	321,871
Appropriation to statutory reserves(a)	–	–	225	–	–	225
Currency translation differences	–	–	–	–	4,019	4,019
Balance at 30 June 2016	851,181	(552,410)	12,622	10,214	4,508	326,115

(a) In accordance with the respective articles of association and board resolutions, the PRC Subsidiaries appropriate certain percentage of the annual statutory net profits, after offsetting any prior year losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing any dividends. The statutory surplus reserve fund can be used to offset prior year losses, if any, and may be converted into paid-in capital. For the six months ended 30 June 2017 and 2016, RMB243,000 and RMB225,000 were appropriated from retained earnings to the statutory surplus reserve fund.

17. TRADE PAYABLES

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Third party	**7,882**	6,918

Ageing analysis of trade payables as at 30 June 2017 and 31 December 2016 was as follows:

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Within 6 months	**7,441**	6,524
6 months to 1 year	**188**	–
1 to 2 years	**67**	123
Over 2 years	**186**	271
	7,882	6,918

18. ACCRUALS AND OTHER PAYABLES

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Included in current liabilities		
Payables for purchases of property, plant and equipment and CIP	**11,283**	7,157
Payroll and welfare payables	**2,398**	2,838
Payables for purchases of land use right	**2,573**	2,573
Dividend payables to original shareholder of Wuxi Taidi before the business combination	**1,726**	1,726
Payables for consulting service fee	**916**	1,006
Payables for audit fees	**780**	623
Accruals and payables for utilities and transportation fee	**670**	980
Warranty provision	**618**	657
Amount due to non-controlling interest	**475**	475
Payable for professional service fee	**18**	180
Value-added and other taxes payables	**77**	78
Others	**1,282**	975
	22,816	19,268
Included in non-current liabilities		
Deferred government grants	**100**	130
	22,916	19,398

19. REVENUE

	Six months ended 30 June 2017 RMB'000	Six months ended 30 June 2016 RMB'000
Sales of goods	**2,738**	28,066
Provision of services	**–**	1,815
	2,738	29,881

20. EXPENSES BY NATURE

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress	**(25,282)**	(15,219)
Raw materials consumed and consumable used	**19,546**	37,965
Employee benefit expenses	**7,351**	6,433
Research and development expenses	**6,234**	1,334
Inventory write-down (Note 10)	**5,564**	3,765
Depreciation, amortisation and impairment charges (Notes 6,7,8)	**4,788**	3,943
Professional services fees	**2,993**	904
Travelling, communication and entertainment expenses	**1,474**	832
Utilities charges and office expenses	**1,416**	1,627
Consulting service fees	**1,225**	649
Transportation and warehouse expense	**903**	1,027
Auditors' remuneration	**700**	400
Provision/(Reversal of) for impairment of receivables (Note 11)	**561**	(468)
Operating lease rentals	**483**	443
Stamp duty, property tax and other surcharges	**371**	749
Bidding service expenses	**243**	45
Conference fee	**12**	64
Reversal of for warranty	**(36)**	(334)
Others	**370**	1,463
	28,916	45,622

21. OTHER GAINS- NET

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Government grants	**136**	2,030
Interest income	**11**	293
Foreign exchange gains, net	**180**	577
Gains on disposal of property, plant and equipment	**–**	9
Others	**(4)**	–
	323	2,909

22. FINANCE COSTS – NET

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Finance income		
Interest income on cash and cash equivalents and restricted cash	**105**	317
Finance costs		
Net foreign exchange losses on financing activities	**(196)**	(663)
Interest expense on bank borrowings	**–**	(41)
	(196)	(704)
Finance costs – net	**(91)**	(387)

23. INCOME TAX EXPENSES

The Group is not subject to taxation in the Cayman Island. Hong Kong profits tax has been provided for at a rate of 16.5% (2016:16.5%) for the period on the estimated assessable profits arising in or derived from Hong Kong. The companies established and operated in the PRC are subject to PRC Enterprise Income Tax ("**EIT**") at a rate of 25% (2016: 25%) and one of which is entitled to preferential EIT rate of 15%.

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current income tax expenses	**832**	(719)
Deferred income tax (Note 9)	**(220)**	(2,144)
	612	(2,863)

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for companies established and operated in the PRC and Hong Kong for the six months ended 30 June 2017 is -3.02% and 16.5% respectively (the estimated tax rate used for companies established and operated in the PRC and Hong Kong for the six months ended 30 June 2016 was 11.51% and 16.5% respectively).

24. LOSS PER SHARE

(a) Basic

Basic losses per share is calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during each interim period.

	Six months ended 30 June	
	2017	2016
Loss attributable to shareholders of the Company (RMB'000)	**(26,619)**	(10,947)
Weighted average number of ordinary shares in issue (thousand shares)	**500,000**	500,000
Basic loss per share (express in RMB per share)	**(0.05)**	(0.02)

(b) Diluted

Diluted loss per share is calculated by dividing the weighted average number of ordinary shares outstanding to assume conversion of all diluted potential ordinary shares.

For the six months ended 30 June 2017 and 2016, the Group has no potentially dilutive ordinary shares in issue.

25. RELATED PARTY TRANSACTIONS

(a) The following companies and persons are related parties of the Group during six months ended 30 June 2017 and 2016:

Names of the related parties	Nature of relationship
Mr. Chen	Close family member of the Controlling Shareholder
Mr. Liu	Close family member of a senior management for a period before his resignation in April 2016
Zhongyu Environmental Engineering (Beijing) Co., Ltd. (中禹環境工程(北京)有限公司)	Controlled by a director of the Company

25. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties

Save as disclosed elsewhere in the financial information, the Group has the following transactions with related parties, which are all discontinued transactions except for operating lease expenses as disclosed in below:

(i) Operating lease expenses charged by related parties

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Mr. Chen	**157**	149
Mr. Liu	**–**	85
	157	234

(ii) Rental fees charged by related parties

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Zhongyu Environmental Engineering (Beijing) Co., Ltd.	**39**	–
	39	–

(c) Balance with related parties

Prepayment of rental fees

	As at 30 June 2017	As at 31 December 2016
	RMB'000	RMB'000
Zhongyu Environmental Engineering (Beijing) Co., Ltd.	**170**	–
	170	–

26. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers (the "**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

The Group's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the CODM. As a result of this evaluation, the Group determined that its business, as a whole, falls into one segment.

27. COMMITMENTS

(a) Capital commitments

As at 30 June 2017 and 31 December 2016, the Group's capital expenditure commitment is shown below:

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Capital expenditure contracted for but not provided in the condensed consolidated interim financial information in respect of:		
Acquisition of property, plant and equipment	**–**	4,482

(b) Operating lease commitment

The future aggregate minimum lease payments under non-cancellable operating leases for the Group's rented premises are as follows:

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
No later than 1 year	**181**	313