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

ANNUAL REPORT 2016

CONTENTS

2	Corporate Information
4	Chairlady's Statement
6	Corporate Governance Report
17	Directors' Report
37	Directors and Senior Management
43	Environmental, Social and Governance Report
60	Independent Auditor's Report
66	Consolidated Balance Sheet
68	Consolidated Statement of Comprehensive Income
69	Consolidated Statement of Changes in Equity
71	Consolidated Statement of Cash Flows
72	Notes to the Consolidated Financial Statements
133	Financial Summary
134	Glossary

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

Compliance Adviser

WAG Worldsec Corporate Finance Limited

Registered Office

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

CORPORATE INFORMATION

Principal Place of Business
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

Conyers 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

CHAIRLADY'S STATEMENT

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Denox Environmental & Technology Holdings Limited (the "**Company**"), I am pleased to present the results of the Company and its subsidiaries (collectively, the "**Group**" or "**Denox**") for the year ended 31 December 2016.

In 2016, China's macroeconomic growth continued to slow down. Due to the tremendous pressure from air pollution in many regions in the PRC, the state launched ultra-low emission in coal-fired power plants and replacement of DeNOx catalysts in a wide range. Meanwhile, the competition in respect of price of plate-type DeNOx catalysts was intensified. In this context, the Company obtained outstanding achievements in terms of production process, reduction of production costs, development of international market, etc. through the joint efforts of all staff. Besides, the Company introduced the technology of catalysts for vessels and vessel exhaust gas emission system and conducted procurement of equipment for production of catalysts for diesel-powered vehicles, etc. as planned.

Looking into 2017, the Company will continue to intensify development efforts for plate-type DeNOx catalysts for the power generation industry, DeNOx catalysts for vessels, catalysts for diesel-powered vehicles, international catalysts market, etc. In 2017, the Company will focus on the following aspects of operation: (I) the Company will increase sales efforts for plate-type DeNOx catalysts in the European and Southeast Asian markets on the basis of overseas contracts and good reputation obtained in 2016; (II) in terms of research and development, the Company will continue to intensify cooperation with German companies and participate in the study and R&D of new environmental protection technologies and products; (III) in respect of catalysts for vessels and diesel-powered vehicles, the Company will further absorb relevant technologies and speed up the trial production and mass production progress of relevant products, striving to sign orders as soon as possible; and (IV) as to optimisation of industrial chain, in addition to environmental protection, the Company will also focus on energy-saving technologies and products and look for acquisition and reorganisation opportunities.

Finally, on behalf of the Board, I would like to thank all the employees of the Group for their dedication and contribution, and all the Shareholders and partners for their tremendous support. We will continue the efforts to foster growth of the Group's business and create value for our Shareholders.

Zhao Shu
Chairlady

24 March 2017

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report for the Reporting Period.

The Company is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

(A) Corporate Governance Practices

The Company has adopted the CG Code as its own code to govern its corporate governance practices. The Company has been conducting its business according to the principles of the CG Code during the Reporting Period.

Throughout the Reporting Period, the Company has complied with the relevant code provisions of the CG Code with the exception of Code Provision A.2.1 as set out in the Directors' Report below.

The Board will continue to review and monitor the practices of the Company with an aim to maintaining and improving a high standard of corporate governance practices.

(B) Directors' Securities Transactions

The Company has adopted the Model Code as its code of conduct regarding Directors' securities transactions. In response to a specific enquiry made by the Company, all Directors confirmed that they had complied with the Model Code throughout the Reporting Period.

(C) Directors

Board Composition

The Board currently consists of 8 Directors, comprising three executive Directors, two non-executive Directors and three independent non-executive Directors. As at the date hereof, the composition of the Board is set out as follows:

Executive Directors
Ms. ZHAO Shu
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

The biographical information of the Directors and the relationships between the members of the Board (if any) are set out and disclosed in the section headed "Directors and Senior Management" of this annual report.

Roles and Responsibilities

The Board is responsible for determining our business and investment plans, preparing our annual financial budgets and financial reports, formulating proposals for profit distributions as well as exercising other powers, functions and duties as conferred by the memorandum of association and articles of association of the Company (the "**Articles of Association**"). Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operations and management of the Company are delegated to the management.

Directors must dedicate sufficient time and attention to the Group's affairs. Besides, the Company also requested all Directors to disclose to the Company annually the number and the nature of offices held in public companies or organisations and other significant commitments with an indication of the time involved.

Attendance Record of the Directors

The attendance record of each Director at the Board and board committee meetings, and annual general meeting of the Company held for the year of 2016 is set out below:

	Attendance/Number of Meetings				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual general meeting
Executive Directors					
Ms. ZHAO Shu	4/4		1/1	1/1	1/1
Mr. KONG Hongjun	4/4				1/1
Mr. LI Ke	4/4				1/1
Non-executive Directors					
Mr. LI Xingwu	4/4				1/1
Mr. TEO Yi Dar	4/4				1/1
Independent non-executive Directors					
Mr. LI Junhua	4/4	2/2	1/1	1/1	1/1
Mr. LAM Yiu Por	4/4	2/2			1/1
Mr. ONG Chor Wei	4/4	2/2	1/1	1/1	1/1

Independence of the independent non-executive Directors

The Company has appointed three independent non-executive Directors, representing more than one-third of the Board, with one of them possessing appropriate professional qualifications or accounting or related financial management expertise. Based on the foregoing, the Board considers that the balance between executive Directors and independent non-executive Directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of Shareholders and the Group as a whole.

The Company has received from each of the independent non-executive Directors a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board considers that all independent non-executive Directors independent. The Board believes that there is a strong independent element in the Board to safeguard the interest of Shareholders.

All Directors, including independent non-executive Directors, are clearly identified in all corporate communications of the Company. A list of Directors is available on the websites of the Company and the Stock Exchange and will be updated, where necessary.

Induction and Development

Directors must keep abreast of their collective responsibilities. All Directors received an induction package covering the regulatory obligations of a director of a listed company. The Company also plans to provide briefings and other training to develop and refresh the Directors' knowledge and skills. The Company shall provide the Directors updates on the material changes to the Listing Rules and other applicable regulatory requirements. The Directors shall participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Circulars and guidance notes may be issued to Directors and senior management of the Company where appropriate, to ensure awareness of best corporate governance practices.

All Directors have participated in appropriate continuous professional development programs to develop and refresh their knowledge and skills and received regular briefings and updates on the Group's business, operations, risk management and corporate governance matters. All directors are requested to provide the Company with their respective training records pursuant to the CG Code.

(D) Chairman and Chief Executive

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual.

In considering that (a) the day-to-day responsibilities of the chief executive officer have been assumed by Ms. Zhao Shu, who is also the chairlady of the Company; and (b) Ms. Zhao Shu is chairlady of the Group and has extensive experience in the Group's business operations and management in general, there is no separation of the roles of the chairlady and the chief executive officer of the Company. Given the current stage of the development of the Group, 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.

Under the leadership of Ms. Zhao Shu, the Board works efficiently and performs its responsibilities with all key and appropriate issues discussed in a timely manner. In addition, as all major decisions are made in consultation with members of the Board and relevant board committee, and there are three independent non-executive Directors on the Board offering independent perspective, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board shall nevertheless review the structure and composition of the Board from time to time in light of prevailing circumstances, as to maintain a high standard of corporate governance practices of the Company.

(E) Appointment and Re-Election of Directors

Each of the independent non-executive Directors and non-executive Directors entered into a letter of appointment with the Company for a term of three years with effect from 12 November 2015 (the "**Listing Date**"). Whereas, each of the executive Directors entered into a service contract with the Company under which they agreed to act as executive Directors for an initial term of three years commencing from November 2015, the month which the Shares were listed on the Main Board of the Stock Exchange.

Code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. Three Directors will retire in the forthcoming annual general meeting of the Company, and being qualified, have offered to be re-elected at the annual general meeting.

(F) Board Committees

The Board is responsible for performing the corporate governance duties including:

a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

b) to review and monitor the training and continuous professional development of Directors and senior management;

c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

d) to develop, review and monitor the code of conduct applicable to Directors, senior management and employees of the Company; and

e) to review the Company's compliance with the CG Code and disclosure in this report.

In compliance with the CG Code, the Company established three committees, namely the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**") and the nomination committee (the "**Nomination Committee**"). These committees perform their distinct roles in accordance with their respective terms of reference which are available on the websites of the Company and the Stock Exchange.

Audit Committee

The Company established an Audit Committee on 19 October 2015 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the CG Code. As at the date hereof, the Audit Committee consists of three independent non-executive Directors, namely Mr. Lam Yiu Por (being the chairman of the Audit Committee who has a professional qualification in accountancy), Mr. Li Junhua, and Mr. Ong Chor Wei. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process system, internal control and risk management systems of the Group, to oversee the audit process, to develop and review the policies of the Group and to perform other duties and responsibilities as assigned by the Board. In particular, the Audit Committee is empowered under its terms of reference to review any arrangement which may raise concerns about possible improprieties in financial reporting, internal control or other matters.

The Audit Committee held two meetings during the Reporting Period, with all members present, to review, among others, the financial results and reports, financial reporting and compliance procedures, internal control and risk management systems, appointment and scope of work of external auditors.

The Company's annual results for the year ended 31 December 2016 have been reviewed by the Audit Committee.

The attendance records of each member of the Audit Committee are set out below in the section "Attendance Record of the Directors".

Remuneration Committee

The Company established a Remuneration Committee on 19 October 2015 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B1 of the CG Code. The Remuneration Committee consists of three members, being Mr. Li Junhua, Ms. Zhao Shu and Mr. Ong Chor Wei, two of whom are independent non-executive Directors. The Remuneration Committee is chaired by Mr. Li Junhua. The primary duties of the Remuneration Committee include (but without limitation): (i) making recommendations to the Board regarding the policy and structure for the remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (ii) making recommendations to the Board on the remuneration packages of the Directors and senior management; (iii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives; and (iv) considering and approving the grant of share options to eligible participants, if any, pursuant to the Share Option Scheme.

The Remuneration Committee held one meeting during the Reporting Period, with all members thereof present, to review and make recommendations to the Board on the existing remuneration packages of all Directors and senior management. The attendance records of each member of the Remuneration Committee are set out below in the section "Attendance Record of the Directors".

The remuneration of senior management of the Company (other than the Directors) was within the following bands:

	Number of individuals	
The remuneration bands	**2016**	2015
Nil to HK$1,000,000	**1**	3
HK$1,000,001 – HK$2,000,000	**1**	–

Information on the emoluments of the Directors and the five highest paid individuals are set out in notes 35(a) and 24(a) to the consolidated financial statements, respectively.

Nomination Committee

The Company established a Nomination Committee on 19 October 2015 with written terms of reference. The Nomination Committee consists of three members, being Ms. Zhao Shu, Mr. Li Junhua and Mr. Ong Chor Wei. Two of the members are the independent non-executive Directors. The Nomination Committee is chaired by Ms. Zhao Shu. The primary function of the Nomination Committee include (but without limitation): (i) reviewing the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board at lease annually; (ii) reviewing the policy on Board diversity (the "**Policy**"); (iii) making recommendations to the Board on the appointment of members of the Board; and (iv) assessing the independence of independent non-executive Directors;

The purpose of the Policy, which was adopted by the Company on 19 October 2015, is to set out the basic principles to be followed to ensure that the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. Selection of Board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience. The Nomination Committee shall review the policy and the measurable objectives at least annually, and as appropriate, to ensure the continued effectiveness of the corporate governance of the Board.

The Nomination Committee held one meeting during the Reporting Period, with all members present, to assess the independence of independent non-executive Directors, and review the proposed re-appointment of Directors at the annual general meeting of the Company. The Board also discussed the above measurable objectives, including but not limited to skills, knowledge, professional experience and cultural and educational background, and agreed that these measurable objectives were achieved for the diversity of the Board which contributed to the corporate strategy and the business development of the Company.

The attendance records of each member of the Nomination Committee are set out below in the section "Attendance Record of the Directors".

(G) Accountability and Audit

Directors' and Auditor's acknowledgement

The Board acknowledges its responsibilities for the preparation of the financial statements of the Group for each financial year, which should give a true and fair view of the state of affairs of the Company and the Group and of the results and cash flow for that year in compliance with relevant laws and applicable accounting standards.

In preparing the financial statements for the year ended 31 December 2016, the Directors have adopted appropriate and consistent accounting policies and made prudent and reasonable judgments and estimations. The financial statements for the reporting year have been prepared on a going-concern basis.

The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements of the Group prepared by the Board and to report their opinion to the Shareholders. A statement by the auditor about their reporting responsibilities is set out in the Independent Auditor's Report.

Auditor's Remuneration

During the year, the Company engaged PricewaterhouseCoopers as the external auditor of the Group until the conclusion of the Annual General Meeting.

For the year ended 31 December 2016, the fees paid/payable to PricewaterhouseCoopers for the audit and review of the financial statements of the Group are RMB1.44 million.

Fees payable to PricewaterhouseCoopers for non-audit services in relation to agreed-upon procedures on the results announcement for the year ended 31 December 2016 provided to the Group was RMB0.01 million.

Risk Management and Internal Control

The Board is responsible for the risk management and internal control system of the Group and for reviewing its effectiveness.

The Group's internal control system is designed to safeguard assets against misappropriation and unauthorised disposition and to manage operational risks. These systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. Internal control and risk management systems are reviewed annually to ensure its continuous effectiveness. The Group has in place a risk management framework which has the following five components: risk identification, risk assessment, risk treatment, reporting and monitoring.

The Company has outsourced the internal control auditing function as it is more cost-effective. During the Reporting Period, the Company engaged an external internal control consultant to conduct review on the effectiveness of the Group's internal control system and reporting to the Audit Committee and the Board. A review of the effectiveness of the Group's system of internal control covering all key controls, including financial, operational and compliance and risk management controls, is conducted by rotation and performed annually. The examination consisted of enquiry, discussion and validation through observation and inspection. The result of the review has been reported to the Audit Committee and the Board and areas of improvement, if any, have been identified and appropriate measures have been put in place to manage the risks. Based on the reports from the Group's external and internal control consultant, the Audit Committee and the Board consider the Group's risk management and internal control system is adequate and effective and the Group has complied with the provisions on risk management and internal controls as set out in the CG Code.

Whistle Blowing Policy

To achieve and maintain the highest standards of openness, probity and accountability, the Company has adopted a whistle blowing policy on 19 October 2015. This policy aims to govern and deal with fairly and properly concerns raised by the Company's employees about any suspected misconduct or malpractice regarding financial reporting, internal control or other matters within the Company. The Audit Committee shall review such policy regularly and ensure that arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

(H) Joint Company Secretaries

Mr. Liu Lianchao has been appointed as the joint company secretary since 8 May 2015. Mr. Liu is a full time staff of the Group and is responsible for ensuring. and advising the Board on, compliance of all policies and procedures in connection with the applicable rules and regulations. The Company also engaged Mr. Chan Chung Kik, Lewis, as the joint company secretary since 8 May 2015, who will be responsible for assisting Mr. Liu in performing his duties as the company secretary. For the year ended 31 December 2016, each of Mr. Liu and Mr. Chan has received not less than 15 hours of relevant professional training to update their knowledge and skills.

The biographical details of Mr. Liu and Mr. Chan are set out under the section headed "Directors and Senior Management".

(I) Shareholders' Right

Procedures for Shareholders to convene an extraordinary general meeting

- Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "**Eligible Shareholder(s)**") shall at all times have the right, by written requisition to the Board or the company secretary of the Company (the "**Company Secretary**"), to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the extraordinary general meeting.

- Eligible Shareholders who wish to convene an extraordinary general meeting for the purpose of making proposals or moving a resolution at the extraordinary general meeting must deposit a written requisition (the "**Requisition**") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong at 17th Floor, 80 Gloucester Road, Wanchai, Hong Kong, for the attention of the Company Secretary.

- The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an extraordinary general meeting, the agenda proposed to be included and the details of the business(es) proposed to be transacted in the extraordinary general meeting, signed by the Eligible Shareholder(s) concerned.

- The Company will check the Requisition and the identity and the shareholding of each Eligible Shareholder will be verified with the Company's branch share registrar in Hong Kong. If the Requisition is found to be proper and in order, the Company Secretary will ask the Board to convene an extraordinary general meeting within 2 months and/or include the proposal or the resolution proposed by the Eligible Shareholder(s) at the extraordinary general meeting after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an extraordinary general meeting and/or include the proposal or the resolution proposed by the Eligible Shareholder at the extraordinary general meeting.

- If within 21 days of the deposit of the Requisition the Board has not advised the Eligible Shareholder(s) of any outcome to the contrary and fails to proceed to convene such extraordinary general meeting, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the Memorandum and Articles of Association of the Company (as amended from time to time), and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

Procedures for putting forward proposals at general meetings

There are no provisions allowing the Shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law, However, Shareholders who wish to propose resolutions may follow Article 58 of the Articles of Association for including a resolution at an extraordinary general meeting. The requirements and procedures are set out section headed "Procedures for Shareholders to convene an extraordinary general meeting" in this report.

Pursuant to Article 85 of the Articles of Association, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Hong Kong Branch Share Registrar and Transfer Office provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgement of such notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting. If a Shareholder wishes to propose a person (the "**Candidate**") for election as a director of the Company at a general meeting, he/she shall deposit a written notice at the Company's principal place of business at 17th Floor, 80 Gloucester Road, Wanchai, Hong Kong or Hong Kong Branch Share Registrar and Transfer Office at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. The written notice must include the personal information of the Candidate as required by Rule 13.51(2) of the Listing Rules.

The procedures for Shareholders to propose a person for election as director is published on the Company's website.

(J) Constitutional Documents

The constitutional documents of the Company are available on the Company's website and the Stock Exchange's website. There are no changes in the Company's constitutional documents since the Listing Date.

(K) Shareholder and Investor Relations

The Company is committed to providing the Shareholders and other stakeholders (including potential investors) with balanced and understandable information about the Group. The Company uses various communication methods to ensure its Shareholders are kept well informed of key business imperatives. These include general meetings, annual reports, interim reports, various notices, announcements and circulars. To ensure all Shareholders timely access to important corporate information, the Company utilises its corporate website to disseminate to the Shareholders information such as announcements, circulars and annual and interim reports. Any information or documents of the Company posted on the Stock Exchange's website are also published on the Company's website (www.china-denox.com) under the section headed "Investor Relations". Other corporate information about the Company's business developments, goals and strategies, corporate governance and risk management are also available on the Company's website.

The Board continues to maintain regular dialogue with institutional investors and analysts to keep them informed the Group's strategy, operations, management and plans.

The annual general meeting and other general meetings of the Company provide a useful forum for Shareholders to exchange views with the Board. The Company provides Shareholders with relevant information on the resolution(s) proposed at a general meeting in a timely manner in accordance with the Listing Rules. The information provided shall be reasonably necessary to enable Shareholders to make an informed decision on the proposed resolution(s). Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at the meetings for and on their behalf if they are unable to attend the meetings. The chairlady of the Board and other Directors, the chairman/chairlady of board committees or their delegates, and the external auditors are available to answer Shareholders' questions at the annual general meeting. The chairman of the independent board committee or his/her delegate is also available to answer questions at any general meeting and to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

Shareholders may put forward their written enquiries to the Board. In this regard, the Shareholders may send those enquiries or requests as mentioned to the following:

Address:	17th Floor, 80 Gloucester Road, Wanchai, Hong Kong
Fax:	(852) 3915 0505
Telephone:	(852) 3914 5053

(L) Competing business

The Company has received an annual written confirmation from each of the controlling Shareholders in respect of the compliance by them and their close associates with the Deed of Non-Competition (as defined below). For further details, please refer to the section headed "Competing Business" in the directors' report.

The Directors are pleased to present their report together with the audited financial statements of the Group for the year ended 31 December 2016.

Principal Activities

The Company 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**"). During the year, there were no significant changes in the nature of the Group's principal activities.

The activities of the subsidiaries of the Company are set out in note 9 to the consolidated financial statements.

Business Review

In 2016, although air pollution in the PRC improved as indicated by the statistics of the year, the haze over nearly a half of the territory of the PRC represented by Beijing, Tianjin and Hebei in the autumn and winter of 2016 gave people a feeling of deterioration. Therefore, the market demands for DeNOx catalysts for eliminating nitrogen oxide, one of the main causes for haze, are beyond doubt. However, we have also noted that, although few manufacturers in the PRC are able to produce plate-type DeNOx catalysts, the fierce industry competition commenced in the second half of 2015 has not ended, and the price of catalysts hit the bottom, resulting in continued operational pressure over the Group. At the same time, by virtue of high quality products, the Group made great breakthroughs in respect of sales of catalysts in the European market, and overseas market will also be a key area for development of the Group. The main operations of the Group in 2016 are as follows:

1. Sales and Marketing

In 2016, the market competition of DeNOx catalysts for the power generation industry was extremely fierce, all staff of the sales and marketing department, through cooperation, completed technical proposals of catalysts for approximately 90 projects; and submitted 71 official bids to power generation groups, local electricity authorities and other customers. In addition, the sales and marketing department conducted early-stage technical exchange, product introduction, customer communication, design liaison, etc. with customers for a number of times, and prepared information on catalysts and teaching materials on operation and maintenance of catalysts for all projects and offered trainings on operation and maintenance of DeNOx catalysts to customers. In 2016, the sales and marketing department completed a total of 13 projects and conducted communication before delivery for 23 units to ensure arrival of goods at installation sites without delay and satisfaction of customers' requirements.

2. After-sales Service

In 2016, the Group completed implementation of projects for 13 customers, signed 13 final acceptance certificates and 21 preliminary acceptance certificates, and finished catalyst sampling for 19 projects. All staff of the department maintained an upright and positive attitude. Whenever customers called for after-sales service, the staff would arrive at the scene right away and customers' needs have always been the Group's top priority. With the joint efforts of all staff, the Group received no complaint from the customers throughout the year, and individual projects were highly recognised and praised in writing by customers. While accomplishing the provision of customer services, the after-sales department also strengthened the training for internal staff, particularly new comers, to continuously enhance the overall service awareness and after-sales service skills of after-sales personnel.

3. Products Production

In 2016, the Group completed production of catalysts for 13 power plant projects, the completion rate of both production plan and delivery was 100%. During the year, the Group strengthened production safety management, and earnestly conducted screening of accident potentials, maintenance of safety facilities, preparation of emergency response plan and drills to ensure no accident in production throughout the year. The department also completed annual evaluation for front-line staff and production management personnel at all levels, and offered training to certain staff for the diesel-powered vehicle project during the period from August to October 2016. The department applied dynamic management methods for production personnel including survival of the fittest and awarding excellent staff and punishing lazy ones to greatly arouse staff's enthusiasm and initiative. Meanwhile, rational proposals and technical innovation were adopted to enhance staff's working efficiency, reduce rejection rate of products and improve product quality.

4. Innovation of Production Technology

2016 is the year for technology innovation for the Group. With the great support of the Group, the research team took the lead in fully arousing the enthusiasm of all staff through a number of ways. All staff including front-line staff, grassroots shift leaders and all functional departments were engaged in the innovation. 45 rational proposals and improvement proposals were made by full utilisation of existing equipment, staff, materials and other resources and conditions based on production orders, covering reduction of production consumption, improvement of working efficiency, environmental improvement, recycling of waste, etc. Real achievements were obtained in technology innovation.

5. Research and Development in Technology

In order to further improve product quality, the Group conducted extensive testing on the raw materials, semi-finished products and finished products. After a year of exploration and practices, the testing procedures were refined and improved. Meanwhile, referring to national and industry standards and many other standards, the Group worked out its own standards for the testing of plate-type catalysts, formulated testing standards and inspection reports. The management of laboratories was further refined while standards were made for managing the instrument use in the laboratories. In order to further meet customers' requirements on compulsory test, the Group further optimised production process, which satisfied customers' requirements and reduced production cost.

Key Work Arrangements for 2017

1. The Group will continue to make great efforts in marketing and after-sales services

- The Group will put in greater efforts in promotion and expansion of sales channels, sales and aftersales teams in order to better serve the existing customers and attract new customers.

- The Group will put in greater efforts in after-sales services by setting up project files for each customer, establishing the mechanism for regular contacts through telephone and SMS and building basic information management and life management files for catalysts of customers.

- Relying on our office in the Europe and other overseas agents, the Group will continue to put in greater efforts to develop overseas market striving to enter into more export contracts in 2017.

2. The Group will accelerate commissioning of equipment for catalysts for diesel-powered vehicles and production

Catalysts for diesel-powered vehicles are vigorously developed by the Group and also the principle products and source of profit of the Group in the future. The Group established a preparation team in 2016, striving to achieve production and profiting purposes as soon as possible to lay a solid foundation for the Group's development in a new stage. At present, the progress of diesel-powered vehicles project is delayed to a certain extent due to the higher requirements of catalysts for diesel-powered vehicles on technology and, more importantly, the serious haze in Beijing, Tianjin and Hebei, in which the production bases of the Group are located, in recent years. The Group's production was frequently subject to restriction and suspension as required by local governments. As such, the Group intends to purchase a land in other places to build plants for the purpose of avoiding production restriction as imposed by the government.

3. The Group will continue to track and store new environmental protection technologies and products

In accordance with the Group's strategic planning, the Group will continue to make greater efforts to track, introduce, digest and transform new environmental protection technologies. In addition to the current plate-type catalysts and catalysts for diesel-powered vehicles, the Group will intensify the development of catalysts for vessels and other environmental protection technologies and products that could be used for air pollution prevention and control. The Group intends to send staff to the company of a German partner for study, and will need to keep its competitive advantage as a result of its environmental protection technologies and strive to eventually transform these leading technologies into high-quality products and profits for the Company.

4. The Group will continue to intensify the storage and cultivation of human resources

In order to meet the rapid development needs of the Group's business in the future, the Group will continue to intensify the recruitment and cultivation of various talents. In 2017, the Group will further conduct assessment and screening of staff and award the teams and individuals who have played a prominent role in technology innovation and project of catalysts for diesel-powered vehicles or achieved outstanding performance. The Group will gradually build a talent team and provide a good development platform for all staff as ever.

5. The Group determines 2017 as the year for refined management

Currently, the PRC is experiencing industrial transformation. The overall macroeconomic situation and industrial competition pressure are not optimistic. All industries are confronted with crises of varying degrees. However, we have also profoundly realised that the current crises are also opportunities for certain excellent enterprises. The Company wants to usher in a new development stage by converting crises into opportunities through its own effects. The Group determines 2017 as the year for refined management, which will be consolidated in terms of human resources, administrative logistics, materials procurement, funds, etc.

6. The Group will continue its efforts for acquisition and reorganisation in the field of energy conservation and environment protection

Subsequent to the acquisition of the majority of equity interest in Wuxi Denox Environmental & Technology Co., Ltd. in the first half of 2016, in order to solve the problem of single product, the Group will continue to look for acquisition and reorganisation opportunities in the field of energy conservation and environment protection, striving to improve the profitability and risk resistance capacity of the Group.

Financial Review

Revenue

The following table sets forth revenue generated from sale of goods and provision of services in absolute amount and as percentages of total revenue for the years indicated:

	Year ended 31 December			
	2016		2015	
	Revenue	**% of revenue**	Revenue	% of revenue
	RMB'000	**%**	RMB'000	%
Sales of goods	**69,780**	**100.0**	149,291	99.8
Provision of services	**–**	**–**	313	0.2
Total	**69,780**	**100.0**	149,604	100.0

The revenue of the Group primarily from sales of plate-type DeNOx catalysts products

The Group recorded a total revenue of approximately RMB69.8 million in 2016, which was generated from sales of plate-type DeNOx catalysts products. The decrease in sales of plate-type DeNOx catalysts products by 53.3% as compared to 2015 was primarily attributable to a drop in the selling price of plate-type DeNOx catalysts in the PRC as a result of severe market competition, the average selling price decreased by approximately 53.2% from RMB20,120 per m^3 in 2015 to RMB9,414 per m^3 in 2016.

Cost of sales

Cost of sales of the Group decreased by 7.7% from approximately RMB100.9 million in 2015 to approximately RMB93.1 million in 2016. Through sustained efforts in technical transformation while maintained the high level quality of products, the average cost of production decreased by approximately 7.6% from RMB13,593 per m^3 in 2015 to RMB12,562 per m^3 in 2016.

Gross (loss)/profit

The Group recorded the gross loss of approximately RMB23.3 million in 2016 while recording gross profit of approximately RMB48.7 million in 2015, which was mainly due to the decrease in selling price of plate-type DeNOx catalysts in the PRC.

Selling and marketing expenses

Selling and marketing expenses primarily consist of transportation cost, consulting service expenses and bidding service fee. The Group's selling and marketing expenses increased by 73.0% from approximately RMB3.7 million in 2015 to approximately RMB6.4 million in 2016, which was primarily due to the increase in transportation cost of approximately RMB1.6 million as a result of the increase in shipping costs for overseas sales and consulting services expenses of RMB0.6 million, which was in line with the expansion of overseas operation.

Administrative expenses

Administrative expenses mainly consist of employee benefit expenses, depreciation and amortization, impairment of property, plant and equipment and intangible assets, research and development expenses and professional fees. The Group's administrative expenses decreased by 33.2% from approximately RMB55.1 million in 2015 to approximately RMB36.8 million in 2016. The decrease was primarily attributable to the one-off expenses incurred in the same period last year such as listing expenses of approximately RMB28.0 million and share-based compensation expenses of approximately RMB10.2 million arising from the repurchase of 138,889 ordinary shares and 138,889 ordinary shares from Advant Performance Limited and EEC Technology Limited respectively (the "**Repurchase**"), which was partially offset by impairment of property, plant and equipment and intangible assets incurred in 2016. In view of the unsatisfactory results of plate-type DeNOx catalysts business in 2016 and the sustained low selling price of plate-type DeNOx catalysts, the Group made an impairment loss in respect of property, plant and equipment and intangible assets of approximately RMB15.7 million.

Other gains (net)

Other gains (net) primarily consist of government grants, foreign exchange gains or losses, loss on disposal of property, plant and equipment and compensation income. The Group's other gains (net) increased from approximately RMB2.5 million in 2015 to approximately RMB9.2 million in 2016. Such increase was mainly due to the receipt of approximately RMB5.0 million in 2016 (2015: RMB2.0 million) from local government of Hebei Province for the successful listing of the shares of the Company on the Main Board of the Stock Exchange and recorded a compensation income of RMB2.0 million from a customer for breaching a sales contract in 2016.

Finance costs/income (net)

Finance costs/income (net) primarily consist of finance income and finance costs. Finance costs include the costs for issuance of preferred shares of the Company and net foreign exchange losses on financing activities. Finance income includes interest income on cash and cash equivalents and restricted cash; and net foreign exchange gains on financing activities. The Group recorded finance costs/income (net) of approximately RMB2.0 million in 2016, which was mainly attributable to approximately RMB2.4 million foreign exchange losses in banks deposits. In 2015, the Group recorded finance costs/income (net) of approximately RMB1.1 million which was primarily due to the expenses incurred for issuance of the preferred shares of approximately RMB3.8 million, partially offset by approximately RMB2.4 million foreign exchange gains in US$ denominated banks deposits.

Income tax credits/(expenses)

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 are 25% and 16.5%, respectively. Beijing Denox Environmental & Technology Co., Ltd, a wholly owned subsidiary of the Company ("**Beijing Denox**"), was designated as a "High and New Technology Enterprise" and enjoyed a preferential tax rate of 15% for three years ending 31 December 2017. The Group's income tax expenses decreased from approximately RMB5.7 million in 2015 to approximately RMB1.5 million in 2016. The effective tax rate changed from 18.2% in 2015 to a negative 2.6% in 2016 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 2016.

(Loss)/profit attributable to the shareholders of the Company

As a result of the foregoing, the Group recorded a loss attributable to the shareholders of the Company of RMB60.4 million in 2016 while recording a profit attributable to the shareholders of the Company of RMB25.5 million in 2015.

Other performance indicators

The following table sets forth other performance indicators of the Group as at the dates or for the years indicated:

	As at or for the year ended 31 December	
	2016	2015
Current Ratio *(Note 1)*	**9.1 times**	9.9 times
Quick Ratio *(Note 2)*	**8.1 times**	8.8 times
Return on equity *(Note 3)*	**N/A**	9.6%
Return on total assets *(Note 4)*	**N/A**	6.9%

Notes:

(1) Current ratio is calculated based on total current assets of the Group divided by total current liabilities of the Group as at the end of the respective year.

(2) Quick ratio is calculated based on total current assets less inventories of the Group divided by total current liabilities of the Group as at the end of the respective year.

(3) Return on equity is calculated by dividing net profit of the Group for the year attributable to shareholders of the Company by the arithmetic mean of the opening and closing balance of total equity attributable to shareholders of the Company.

(4) Return on total assets is calculated by dividing net profit for the year attributable to shareholders of the Company by the arithmetic mean of the opening and closing balance of total assets of the Group.

Current ratio and quick ratio

The Group's current ratio and quick ratio as of 31 December 2016 remained relatively stable at 9.1 times (2015: 9.9 times) and 8.1 times in 2016 (2015: 8.8 times), respectively.

Return on equity and return on total assets

The Group did not record return on equity and return on total assets in 2016 as it recorded a loss attributable to the shareholders of the Company for the year ended 31 December 2016.

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 31 December 2016, the Group had net current assets of approximately RMB305.0 million (2015: approximately RMB383.4 million) of which cash and cash equivalents were approximately RMB223.8 million (2015: approximately RMB229.4 million) and were denominated in RMB, US$, HK$ and Euro€ as at 31 December 2016.

The Group had no bank borrowings as at 31 December 2015 and 2016. The Group had bank guarantees of RMB5.9 million and RMB0.6 million in favor of its customers with respect to the contract penalties or obligations in connection with its performance, product quality and tender as at 31 December 2015 and 2016. Unutilised bank facilities amounted to approximately RMB19.1 million and approximately RMB15.7 million as at 31 December 2015 and 2016, respectively.

In February 2015, the Company issued a total of 742,550 and 403,452 Series A Preferred Shares to Kickstart Holdings Limited ("**Kickstart**") and Sea of Wealth International Investment Company Limited ("**Sea of Wealth**", together with Kickstart, the "**Series A Investors**") at the consideration of approximately US$15.0 million and US$8.1 million, respectively as part of the Pre-IPO investments (as defined below). The aggregate nominal value of the 1,146,002 Series A Preferred Shares was US$11,460.02. The cost per Series A Preferred Share and net cost per Series A Preferred Share was approximately US$0.37 and US$0.36. Such issue price was calculated based on the amount of the consideration paid by the Series A Investors, divided by the number of Shares held by them immediately following completion of the Initial Public Offering (as defined below). As disclosed in the prospectus of the Company dated 30 October 2015 (the "**Prospectus**"), US$6.15 million shall be used for the Repurchase and the remaining balance shall be used for the business expansion, operations and development of the Group. As at 31 December 2015, US$6.15 million and US$12.25 million were utilised for the Repurchase and general working capital, respectively. The remaining balance of US$4.7 million has been utilised as at 31 December 2016.

On 12 November 2015, the Company successfully listed its shares on the Main Board of the Stock Exchange (the "**Listing**") and allotted and issued 125,000,000 shares at HK$2.10 in relation to its initial public offering (the "**Initial Public Offering**"). Net proceeds from the Initial Public Offering (after deducting the underwriting fees and related expenses) amounted to approximately RMB171.0 million. The success of the Listing marked a new milestone and granted the Group an access to the international capital markets. As a result, The Group now has the financial agility to capture additional growth opportunities in the plate-type DeNOx catalyst industry.

Use of net proceeds from the Listing

As at 31 December 2016, net proceeds not utilised of approximately RMB109.3 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 Prospectus.

	Planned Amount RMB'million	**Amount utilised up to 31 December 2016** RMB'million	**Balance as at 31 December 2016** RMB'million
Development of DeNOx catalysts for diesel-powered vehicles	78.6	14.3	64.3
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	2.5	14.6
Expansion of the Group's sales network and establishment of the Group's regional sales offices in China as well as in Europe	6.9	2.5	4.4
Replacement of the Group's No. 1 production line	5.1	3.5	1.6
Working capital and general corporate purposes	17.1	17.0	0.1
	171.0	61.7	109.3

Borrowings

As at 31 December 2016, the Group had no outstanding bank loans and other borrowings (2015: Nil).

Pledge assets

As at 31 December 2016, the Group pledged assets with an aggregate carrying value of approximately RMB17.8 million (31 December 2015: approximately RMB13.1 million) to secure banking facilities.

Capital expenditure and commitments

The Group incurred capital expenditure to expand its operations, maintain its equipment and increase its operational efficiency. For the years ended 31 December 2015 and 2016, the Group had invested approximately RMB4.1 million and RMB16.0 million for the purchase of property, plant and equipment and RMB2.0 and RMB15.4 million for intangible assets, respectively. These capital expenditures were financed by internal resources of the Group.

As at 31 December 2016, the Group's future capital expenditures contracted but not provided for amounted to approximately RMB4.5 million (31 December 2015: RMB3.1 million).

Contingent liabilities

As at 31 December 2015 and 2016, the Group did not have any material contingent liabilities.

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

In April 2016, Beijing Denox acquired 51% equity interest in Wuxi Denox Environmental & Technology Co., Ltd. (formerly known as Wuxi Taidi Metal Products Co., Ltd.* (無錫市泰迪金屬製品有限公司)) ("**Wuxi Denox**") at a total consideration of approximately RMB21.9 million. Wuxi Denox became an indirect non-wholly owned subsidiary of the Company and its financial results were consolidated into the financial results of the Group.

Save as disclosed above, there were no other significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2016.

Save as disclosed in this report, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this report.

Important events affecting the Group after the reporting period

On 17 February 2017, the Company signed a non-legally binding memorandum of understanding with Nobao Energy Holdings (China) Limited (挪寶能源控股(中國)有限公司) to acquire 99% equity interest of its subsidiary.

Save as disclosed above, no other important events affecting the Group has taken place since 31 December 2016 and up to the date of this report.

Employees

As at 31 December 2016, the Group had 140 employees (2015: 119). Remuneration policies are reviewed regularly to ensure that the Group is offering competitive employment packages to its 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, please refer to the section headed "Share Option Scheme" for details. 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 training 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.

Principal Risks and Uncertainties

The Group's business, financial condition, results of operations and prospects may be affected by a number of risks and uncertainties.

The following section lists out the principal risks and uncertainties identified by the Group. It is a non-exhaustive list and there may be other risks and uncertainties further to the principal risk areas outlined below which are not presently known to the Group, or that the Group currently deems to be immaterial but could turn out to be material in the future.

Risk pertaining to the market price of plate-type DeNOx catalysts

The average selling price of plate-type DeNOx catalysts per m^3 has experienced a drop from RMB25,080 per m^3 in 2014 to RMB9,414 per m^3 in 2016 due to market competition. To compete effectively and maintain the Group's market share, the Group has reduced its selling prices. The Group's business and revenue growth is dependent on favourable market conditions in the PRC and therefore any potential decline in selling prices in the PRC could have a material adverse effect on its business, results of operations and financial condition.

Risks pertaining to the reliance on the major customers

The customer base of the Group is highly concentrated. Most of its customers are major coal-fired power plants, DeNOx EPC service providers and boiler manufacturers. For the year ended 31 December 2016, sales to the largest customer and five largest customers of the Group, which are the large state-owned power generation groups in China in aggregate accounted for approximately 28.7% and 85.7% of the Group's total revenue, respectively. Failure to maintain relationships with its major customers, adverse change in their business, investment strategies and/or reduction in the growth rate of their investment in DeNOx equipment may pose an adverse significant impact on the Group's business, financial conditions or results of operations.

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 EUR€. RMB experienced certain fluctuation against HK$ and US$ during the year 2016 which is the major reason for the exchange losses recognised by the Group. During the year ended 31 December 2016, the Group did not carry out any hedging activity against foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against RMB may have a financial impact on the Group.

Environmental Protection

The business operations of the Group are subject to various environmental, health and safety laws and regulations, which require it to undergo environmental impact assessments and review processes and implement environmental, health and safety programs and procedures to control risks associated with the design, construction and operation of the production facilities of the Group. Further, the Group has established an environmental protection and responsibility system, including adoption of effective measures to prevent and control exhaust gas, sewage, waste residues, dust or other waste materials, to discharge waste properly and to pay certain discharge fees in accordance with the PRC Environmental Protection Law and related regulations.

Compliance with Laws and Regulations

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. The Audit Committee is delegated by the Board to monitor the Group's policies and practices on compliance with legal and regulatory requirements and such policies are regularly reviewed. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

The Board also paid attention to the Group's policies and practices on compliance with legal and regulatory requirements. The Group would seek professional legal advice from its legal advisers to ensure transactions and business to be performed by the Group are in compliance with the applicable laws and regulations.

The Group's operations are mainly carried out by the Company's subsidiaries in the mainland China while the Company itself is listed on the Stock Exchange. As far as the Company is aware, the Group has complied in material aspects with the relevant laws and regulations which have a significant impact on the business and operations of the Group during the year ended 31 December 2016.

Key Relationships with the Group's Employees, Customers and Suppliers

Workplace Quality

The Group is an equal opportunity employer and does not discriminate on the basis of personal characteristics. With an aim to enhancing the quality of the Board's performance by diversity, the board diversity policy was adopted in October 2015. Details of such board diversity policy are set out in the corporate governance report. Further, the Group has employee handbooks outlining terms and conditions of employment, expectations for employees' conduct and behaviour, employees' rights and benefits. The Group establishes and implements policies that promote a harmonious and respectful workplace.

The Company believes that the Directors, senior management and employees are instrumental to the success of the Group and that their industry knowledge and understanding of the market will enable the Group to maintain the competitiveness in the market. As such, the share option scheme was adopted by the Company on 14 October 2015 for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations. The Group provides on-the-job training and development opportunities to enhance its employees' career progression. Through different trainings, staff's professional knowledge in corporate operations, occupational and management skills are enhanced. The Group also organised charitable and staff-friendly activities for employees, such as annual dinner, to promote staff relationship. The Group provides on providing a safe, effective and congenial working environment. Adequate arrangements, trainings and guidelines are implemented to ensure the working environment is healthy and safe. The Group provided health and safety communications for employees to present the relevant information and raise awareness of occupational health and safety issues.

The Group values the health and well-being of its staff. In order to provide employees with health coverage, its employees are entitled to medical insurance benefits.

Relationships with the Group's other stakeholders

The Group maintains good relationships with existing and potential customers (including the major customers) as understanding of the market trends would enable the Group to monitor and respond to the change in a timely manner, which are crucial to the development and success of the Group.

The Group places effort to build up and maintain good and stable relationships with its suppliers. It entered into an exclusive long-term procurement agreement for a term until 31 December 2020 with Wuxi Taidi, its supplier of stainless steel mesh and non-fixed term agreements with its key suppliers of TiO2 and AHM. To further strengthen such cooperation and to complement its existing operations, it acquired 51% equity interest in Wuxi Taidi as disclosed in this report.

Results and Appropriations

The results of the Group for the year ended 31 December 2016 are set out in the accompanying financial statements on page 68.

Final Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

Closure of Register of Members

For determining the entitlement of the Shareholders to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from 26 June 2017 to 27 June 2017, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the Annual General Meeting, all transfers documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 23 June 2016.

Financial Summary

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years is set out on page 133.

Property, Plant and Equipment

Details of the movements in property, plant and equipment during the year ended 31 December 2016 are set out in note 5 to the consolidated financial statements.

Share Capital and Reserves

Details of the share capital and reserves of the Group and the Company are set out in notes 16 and 17 to the consolidated financial statements, respectively.

Major Customers and Suppliers

For the year ended 31 December 2016, the aggregate sales attributable to the largest customer and the five largest customers of the Group accounted for approximately 28.7% and 85.7% of the Group's aggregate revenue respectively, while the aggregate purchases attributable to the largest supplier and the five largest suppliers of the Group accounted for approximately 19.3% and 63.4% of the Group's aggregate purchases respectively.

None of the Directors, their close associates or any Shareholder (whom to the knowledge of the Directors owns more than 5% of the total number of the issued Shares) had any interests in the Group's five largest customers or suppliers.

Share Option Scheme

On 14 October 2015, the Company adopted a share option scheme (the "**Share Option Scheme**") whereby the Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares to (a) full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; (b) any directors (including independent non-executive Directors) of the Company or any of its subsidiaries; and (c) any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries (the "**Eligible Participants**") as described in the Share Option Scheme in order to serve as incentives or rewards for their contribution or potential contribution to the Company and/or any of its subsidiaries. An option may be accepted by an Eligible Participant not later than 30 days after the date on which such option is offered in writing to such Eligible Participant.Upon acceptance of the option, the grantee shall pay HK$1 (or an equivalent amount in RMB) to the Company by way of consideration for the grant. Details of the Share Option Scheme are set out below:

(a) Maximum number of Shares available for issue

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 50,000,000 Shares, representing 10% of the total number of Shares as at the date of this report, respectively, excluding for this purpose Shares which may have been issued upon the exercise of the options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may: (i) renew this limit at any time to 10% of the Shares in issue as of the date of the approval by the Shareholders in general meeting; and/or (ii) grant options beyond the 10% limit to Eligible Participants specifically identified by the Board.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of the Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditor of the Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of the Company in accordance with the terms of the Share Option Scheme whether by way of consolidation, capitalisation issue, rights issue, sub-division or reduction of the share capital of the Company but in no event shall exceed the limit prescribed in this paragraph.

(b) Maximum number of options to each Eligible Participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to: (i) the issue of a circular by the Company which shall comply with Rules 17.03(4) and 17.06 of the Listing Rules containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rule 17.02(2)(d) and the disclaimer required under 17.02(4) of the Listing Rules; and (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his/her close associates (as defined in the Listing Rules) (or his/her associates if such Eligible Participant is a connected person) abstaining from voting.

(c) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of: (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

(d) Granting options to connected persons

Any grant of options to a Director, chief executive or substantial shareholder of the Company or any of their respective associates is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). If the Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Listing Rules of the Shares in issue; and (ii) having an aggregate value in excess of HK$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of the Shares at the date of each grant, such further grant of options will be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting by way of a poll at which all connected persons of the Company shall abstain from voting in favor of the resolution concerning the grant of such options at the general meeting, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

(e) Time of exercise of Option and duration of the Share Option Scheme

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from 14 October 2015.

(f) Details of any options granted under the Share Option Scheme

During the Reporting Period and up to the date hereof, no option had been granted or agreed to be granted under the Share Option Scheme.

Directors

The Directors during the Reporting Period and up to the date of this report were:

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

Biographical details of the Directors and senior management of the Group are set forth in the section headed "Directors and Senior Management" of this report.

In accordance with Article 84(1) of the Articles of Association, one-third of the Directors for the time being shall retire from their offices by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Further to Article 83(3) of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. As such, Ms. Zhou Shu, Mr. Li Xingwu and Mr. Lam Yiu Por shall retire from office and being eligible, offer themselves for re-election at the Annual General Meeting.

Disclosure of Information on Directors pursuant to Rule 13.51B(1) of the Listing Rules

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors subsequent to the date of the 2016 interim report of the Company are set out below:

Mr. Lam Yiu Por was appointed as an independent non-executive director of JNBY Design Limited (Stock code: 3306) and China Tontine Wines Group Limited (Stock code: 389) on 13 October 2016 and 18 November 2016, respectively.

Save as disclosed above, there is no other change in the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Confirmation of Independence

The Company has received, from each of the independent non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors independent.

Directors' Service Contracts

Each of the executive Directors entered into a service contract with the Company for a term of three years commencing from the Listing Date. Such service contract can be terminated by either party thereto serving at least three months' notice prior to the expiry of the term thereof. Each of the independent non-executive Directors and non-executive Directors signed an appointment letter with the Company for a term of three years with effect from the Listing Date.

None of the Directors (including any Director who may be proposed for re-election at the forthcoming Annual General Meeting) has entered into any service agreement with the Company which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Retirement Benefit Schemes

The Group operates a mandatory provident fund scheme (the "**MPF Scheme**") in Hong Kong. The Group also participates in an employee social insurance plan as required by the regulations in the PRC, under which the Group is required to contribute a specific percentage of the salaries of its employees to the retirement scheme. Details of the retirement benefits schemes of the Group are set out in note 2.22 to the consolidated financial statements.

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

As at 31 December 2016, 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)*	149,887,609 (L)	29.98%
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 31 December 2016.*

3. *These 149,887,609 Shares are held by Advant Performance Limited 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 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 ("**Global Reward**") 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 ("**Fine Treasure**") 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 31 December 2016, 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.

Directors' Right to Acquire Shares or Debentures

Save for the Share Option Scheme as disclosed in this annual report, at no time during the year ended 31 December 2016 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 31 December 2016, so far as the Directors were aware of, 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 Limited	Beneficial owner	149,887,609 (L)	29.98%
EEC Technology Limited	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 31 December 2016.*
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 31 December 2016, 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 the 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.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

Directors' Interests in Transactions, Arrangements and Contracts

No transactions, arrangements or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director or his/her connected entity had a material interest, whether directly or indirectly, subsisted at any time during the Reporting Period.

Controlling Shareholders' Interests in Contracts

No contracts of significance between the controlling shareholder of the Company or any of its subsidiaries and the Group has been made during the Reporting Period.

Permitted Indemnity Provision

Under the Articles of Association, every Director or other officers of the Company acting in relation to any of the affairs of the Company shall be entitled to be indemnified against all actions, costs, charges, losses, damages and expenses which he/she may incur or sustain in or about the execution of his/her duties in his/her office. The Company has arranged appropriate insurance cover in respect of legal action against its Directors and officers.

Competing Business

A deed of non-competition dated 25 October 2015 (the "**Deed of Non-Competition**") was entered into between the Company and the controlling Shareholders, namely Ms. Zhao Shu and Advant Performance Limited, who have undertaken to the Company that she/it would not, and would procure her/its close associates (other than members of the Group) not to directly or indirectly be involved in or undertake any business (other than the Group's business) that directly or indirectly, competes, or may compete, with the Group's business or undertaking, or hold shares or interest in any companies or business that compete directly or indirectly with the business engaged by the Group from time to time, unless otherwise permitted according to the Deed of Non-Competition. The Company has received an annual written confirmation from each of the controlling Shareholders in respect of the compliance by them and their close associates with the Deed of Non-Competition.

Each of Ms. Zhao Shu and Advant Performance Limited, the controlling shareholders (within the meaning of the Listing Rules) of the Company, has confirmed to the Company that each of them and its close associates has complied with the non-compete undertaking given by her/it to the Company under the Deed of Non-competition. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the year ended 31 December 2016.

Other than the Group's business, none of the Directors or their respective associates have any interests in any business that competes or is likely to compete with the Group's business during 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 Reporting Period.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

Compliance with the Model Code

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules during the year. Having made specific enquiries with all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code during the Reporting Period.

Compliance with Code on Corporate Governance Practices

The Company is committed to high standards of corporate governance and recognises that good corporate governance is important for the long-term success of the Company's business.

During the Reporting Period, the Company has complied with the applicable code provisions of the CG Code with the exception of code provision A.2.1 as set out below.

According to code provision A.2.1 of the CG Code, the role of the chairman and chief executive of the Company should be separate and should not be performed by the same individual. In considering that (a) the day-to-day responsibilities of the chief executive officer have been assumed by Ms. Zhao Shu, who is also the chairlady of the Company; and (b) Ms. Zhao Shu is the chairlady of the Group and has extensive experience in the business operation and management in general, there is no separation of the roles of the chairlady and the chief executive officer of the Company. Given the current stage of the development of the Group, 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.

The Board will continue to review and monitor the practices of the Company with an aim to maintaining high standards of corporate governance.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this report, the Company has maintained the prescribed public float as required by the Listing Rules during the Reporting Period.

Review by the Audit Committee

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Li Junhua, Mr. Lam Yiu Por and Mr. Ong Chor Wei. The Audit Committee has reviewed the audited financial statements for the year ended 31 December 2016 in conjunction with the Company's auditors and management and has also discussed auditing, risk management, internal control and financial reporting matters including accounting practices and principles adopted by the Group.

Auditor

The financial statements have been audited by PricewaterhouseCoopers which has indicated its willingness to continue in office as the Group's external auditor for 2017 for Shareholders' approval at the Annual General Meeting.

Professional Tax Advice Recommended

If any shareholder of the Company is unsure about the taxation implications of purchasing, holding, disposing of, dealing in or the exercise of any rights in relation to the Shares, it is advised to consult an expert.

On behalf of the Board
Zhao Shu
Chairlady

Hong Kong, 24 March 2017

BOARD OF DIRECTORS

Executive Directors

Ms. Zhao Shu (趙姝), aged 51, was appointed as a Director on 7 November 2014 and was re-designated as an executive Director on 19 October 2015. She is primarily responsible for the overall management of the Group. Ms. Zhao is the chairlady of the Board, the chief executive officer and authorised representative of the Company, the chairlady of the Nomination Committee and a member of the Remuneration Committee. Ms. Zhao is also the general manager of Beijing Denox and Gu'an Denox Environmental Equipment Manufacturing Co., Ltd. ("**Gu'an Denox**"). Ms. Zhao has over 20 years of experience in the environmental protection industry. Prior to joining the Group, Ms. Zhao held various positions in the 5th Design and Research Institute of China Ordinance Industry (中國兵器工業第五設計研究院), now known as China Wuzhou Engineering Corporation Ltd. (中國五洲工程設計有限公司), a company providing integrated services for engineering construction, from August 1988 to February 1998 where she last served as an engineer and was primarily responsible for coordinating with different professionals to complete the whole design of power projects. From February 1998 to December 2004, Ms. Zhao held various positions in China Huadian Engineering Co., Ltd. (中國華電工程（集團）有限公司), a prime contractor for project construction and service applied in the industry of electronic power, petrifaction, harbor, metallurgy, mining, civilian and new energy engineering where she last served as executive deputy general manager of its desulphurization business department and was primarily responsible for the implementation of the prime contracts and procurement contracts. From February 2005 to February 2006, Ms. Zhao served as the general manager assistant of Guohua Ebara Environmental Engineering Co., Ltd. (國華荏原環境工程有限責任公司), a company engaging in environmental engineering projects where she was primarily responsible for handling commercial and legal matters. From March 2006 to May 2011, Ms. Zhao held various positions in China Datang Technologies & Engineering Co., Ltd. (中國大唐集團科技工程有限公司), a prime contractor for the projects related to environmental protection for the power industry, including denitrification in power plants where she served as the general manager of its environmental affairs department until late 2010 and was primarily responsible for the management of the desulphurization and denitrification business. Ms. Zhao received her bachelor of engineering, majoring in engineering for thermal power conversion, from Shanghai Institute of Mechanism (上海機械學院), now known as the University of Shanghai for Science and Technology (上海理工大學) in July 1988. Ms. Zhao obtained the qualification as a senior project manager (高級項目管理師) granted by the Occupational Skills Appraisal Center from the Ministry of Labor and Social Security (勞動和社會保障部職業技能鑒定中心) in November 2006. Ms. Zhao is interested in 14,812,477 Shares. By virtue of the SFO, Ms. Zhao was deemed to be interested in 149,887,609 Shares held by Advant Performance Limited , a company wholly owned by Ms. Zhao. For further details, please refer to the section headed "Directors' and chief executive's interests in Shares, Underlying Shares and Debentures" in the directors' report.

Mr. Kong Hongjun (孔紅軍), aged 49, was appointed as the Director on 9 February 2015 and was re-designated as an executive Director on 19 October 2015. Mr. Kong is also the deputy general manager of Beijing Denox, Gu'an Denox and the Company and is primarily responsible for the cost management of raw materials and equipment procurement of, and provision of technical support to, the Group. Prior to joining the Group, Mr. Kong served as procurement manager of the environmental protection department of China Huadian Engineering Co., Ltd. (中國華電工程（集團）有限公司), a company principally engaged in for project construction and service applied in the industry of electronic power, petrifaction, harbor, metallurgy, mining, civilian and new energy engineering, from May 1993 to April 2006, where he was primarily responsible for the procurement of machinery. From June 2006 to April 2008, he served as the general manager of Beijing Mixwell Mixing Equipment Co., Ltd. (北京邁士華混合設備有限公司), a manufacturer of mixers, where he was primarily responsible for management of the company. Mr. Kong held various positions in China Datang Technology & Engineering Co., Ltd. (中國大唐集團科技工程有限公司) from May 2008 to February 2011 where he last served as deputy manager of the environmental affairs department and was primarily responsible for procurement management, project management and cost control. Mr. Kong received his bachelor of engineering from China University of Mining and Technology (中國礦業大學) in July 1990, majoring in engineering for thermal power engineering (電廠熱能動力工程) of power plants. He received his master of engineering from Southeast University (東南大學) in February 1993, majoring in thermal power engineering (電廠熱能動力工程) of power plants. Mr. Kong obtained the qualification as an engineer granted by the Ministry of Electric Power Industry of the PRC (中華人民共和國電力工業部) in September 1996. By virtue of the SFO, Mr. Kong was deemed to be interested in 8,887,475 Shares held by Global Reward. For further details, please refer to the section headed "Directors' and chief executive's interests in Shares, Underlying Shares and Debentures" in the directors' report.

Mr. Li Ke (李可), aged 49, was appointed as the Director on 9 February 2015 and was re-designated as an executive Director on 19 October 2015. Mr. Li is also the deputy general manager of Beijing Denox, Gu'an Denox and the Company. He is primarily responsible for the production management, equipment management, research and development and quality control of the Group. Prior to joining the Group, he was the assistant engineer of Scivic Engineering Corporation (機械工業第四設計研究院), a company engaged in the engineering management and supervision, from July 1991 to January 1994 where he was primarily responsible for the design of power stations. From February 1994 to January 2010, Mr. Li held various positions in Kurabo Denim (Zhuhai) Textile Co., Ltd. (倉紡（珠海）紡織有限公司), a company engaged in manufacturing of textile products, where he last served as the head of its engineering works department and was primarily responsible for the set-up and maintenance of the equipment and enhancement of technical alterations. Mr. Li received his bachelor of engineering from Southeast University (東南大學) in July 1991, majoring in thermal power engineering (電廠熱能動力工程) of power plants. Mr. Li was awarded the China Machinery Industry Science and Technology Award (Third Class) in October 2012. By virtue of the SFO, Mr. Li was deemed to be interested in 2,962,474 Shares held by Fine Treasure. For further details, please refer to the section headed "Directors' and chief executive's interests in Shares, Underlying Shares and Debentures" in the directors' report.

Non-executive Directors

Mr. Li Xingwu (李興武), aged 50, was appointed as the Director on 7 November 2014 and was re-designated as a non-executive Director on 19 October 2015. Prior to joining the Group, Mr. Li held various positions in China National Electric Equipment Corporation (中國電工設備總公司), now known as China National Electric Engineering Co., Ltd. (中國電力工程有限公司), a company engaged in EPC contracting, complete equipment supply, engineering consultation, engineering design, project management and supervision, installation and commissioning, technical service, power plant maintenance and operation from July 1988 to January 2000 where he last served as project manager and was primarily responsible for providing technical support and advice to major projects and helping to promote technological innovation. From January 2000 to July 2009, Mr. Li served as project manager of General Machinery Development Co., Ltd. (通達機械有限公司), a trading company engaged in the sale of various types of general machinery, electrical equipment and instrument products, where he was primarily responsible for implementation and management of the transportation and water supplies projects. Since August 2009, Mr. Li founded Yu The Great Environmental Engineering (Beijing) Co., Ltd. (中禹環境工程（北京）有限公司), a contractor for construction projects where he serves as the chairman and is primarily responsible for strategic planning. Mr. Li received his bachelor of engineering, majoring in engineering for thermal conversion, from Shanghai Institute of Mechanism (上海機械學院), now known as University of Shanghai for Science and Technology (上海理工大學) in July 1988. Mr. Li obtained the qualification as a senior engineer (高級工程師) in respect of construction of the thermal conversion granted by the Ministry of Mechanical Industry (機械工業部) in October 1998. By virtue of the SFO, Mr. Li was deemed to be interested in 51,075,015 Shares held by EEC Technology Limited. For further details, please refer to the section headed "Directors' and chief executive's interests in Shares, Underlying Shares and Debentures" in the directors' report.

Mr. Teo Yi-Dar (張毅達), aged 46, was appointed as the Director on 9 February 2015 and was re-designated as a non-executive Director on 19 October 2015. Mr. Teo has over 16 years of direct investment experience. From 1996 to 1997, Mr. Teo served as a manufacturing engineer in SGS-Thomson Microelectronics Pte. Ltd. (now known as ST Microelectronics), a company engaged in the manufacturing of semiconductors, where he was primarily responsible for manufacturing. From 1997 to 1999, Mr. Teo served as a business development executive of Keppel Corporation Limited (Stock Code: BN4), a company engaged in the marine, property, and infrastructure businesses and whose shares are listed on the Singapore Exchange, where he was primarily responsible for business development. Since 1999 till 2016, Mr. Teo joined SEAVI Advent Private Equity Group, a capital firm, where he is currently an investment director and is primarily responsible for managing direct investment activities in Asia. Currently, Mr. Teo is the Managing Director of Kenyon Group Limited, a boutique investment firm conducting direct investment in Asia. Mr. Teo was, or has been, a non-executive director of the following companies in the last three years preceding the date of this annual report:

DIRECTORS AND SENIOR MANAGEMENT

Period of Services	Name of the Companies	Principal business activities	Position	Responsibilities
July 2006 to present	Yangzijiang Shipbuilding (Holdings) Ltd., whose shares are listed on the Singapore Exchange (Stock Code: BS6)	Agency service for shipbuilding and related activities	Independent non-executive director	Overseeing the management independently
March 2007 to present	China Yuanbang Property Holdings Limited, whose shares are listed on the Singapore Exchange (Stock Code: B2X)	Development of real estate	Independent non-executive director	Overseeing the management independently
February 2010 to April 2015 *(Note 1)*	Net Pacific Financial Holdings Limited ("**Net Pacific**"), whose shares are listed on the Singapore Exchange (Stock Code: 5QY)	Provision of financial services	Independent non-executive director	Overseeing the management independently
February 2013 to present	Smartflex Holdings Ltd., whose shares are listed on the Singapore Exchange (Stock Code: 5RE)	Provider of IC module assembly and testing services	Independent non-executive director	Overseeing the management independently
November 2014 to present	HG Metal Manufacturing Limited, whose shares are on the Singapore Exchange (Stock Code: 526)	Trading of steel products	Non-executive Director	Overseeing the management

Notes:

(1) Mr. Teo retired as an independent non-executive director of Net Pacific at the annual general meeting held in April 2015 and did not stand for re-election in order to focus on his other commitments.

Mr. Teo received his bachelor of engineering (electrical), master of science, majoring in industrial and systems engineering, and master of science, majoring in applied finance, from the National University of Singapore in July 1996, June 1998 and August 2000, respectively. Mr. Teo obtained his qualification as a chartered financial analyst granted by the Association for Investment Management and Research in September 2001.

Independent Non-executive Directors

Mr. Li Junhua (李俊華), aged 47, was appointed as the independent non-executive Director on 18 October, 2015. Mr. Li is the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee. Since December 2007, Mr. Li has been a researcher in the school of environment of Tsinghua University where he is currently a professor and is primarily responsible for teaching and researching air pollution control. His research projects are related to environmental catalysis, adsorbent materials and observation of air pollution complex and formation mechanism. Mr. Li received his doctorate's degree in engineering, majoring in natural circulation and nuclear materials (核燃料循環與材料), from the China Institute of Atomic Energy in July 2001. Mr. Li is the co-author of a book entitled "Environmental Catalysis: Principle and Application" published by Science Press in 2008. Mr. Li is also an author of a book entitled "Development and Application of Key Technologies for Selective Catalytic Reduction of NOx from Flue Gas" published by Science Press in 2015. He was awarded the National Science Progress award (Second Class) in November 2010 by the State Council of the PRC.

Mr. Lam Yiu Por (林曉波), aged 40, was appointed as the independent non-executive Director on 18 October 2015. Mr. Lam is the chairman of the Audit Committee. Mr. Lam has more than 16 years of experience in the field of finance and accounting. He has been the vice president and chief financial officer of L'sea Resources International Holdings Limited (a company listed on the Main Board of the Stock Exchange (stock code: 195)) since November 2013. He is also a non-executive director of Zhong Ao Home Group Limited (a company listed on the Main Board of the Stock Exchange (stock code: 1538), an independent non-executive director of JNBY Design Limited (Stock code: 3306) and an independent non-executive director of China Tontine Wines Group Limited (Stock code:389). Mr. Lam graduated from the Hong Kong Polytechnic University with a Bachelor of Arts in Accountancy in November 1997. He is also a fellow member of the Association of Chartered Certified Accountants, a certified public accountant of the Hong Kong Institute of Certified Public Accountants, a chartered financial analyst of the CFA Institute and an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. Mr. Lam was an independent non-executive director of Yat Sing Holdings Limited (stock code: 3708), during the period of December 2014 to March 2016 and was an independent non-executive director of GR Properties Limited (formerly known as Buildmore International Company Limited (stock code:108) during the period of June 2012 to February 2014, both companies which are listed on the Main Board of the Stock Exchange.

Mr. Ong Chor Wei (王祖偉), aged 47, was appointed as an independent non-executive Director on 18 October 2015. Mr. Ong is a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Mr. Ong has over 26 years of experience in finance and accounting. Mr. Ong is currently an executive director of Net Pacific Financial Holdings Limited (Stock Code: 5QP) and a non-executive director of Joyas International Holdings Limited (Stock Code: E9L), both companies are listed on the Singapore Exchange Securities Trading Limited. Mr Ong is an executive director of Zibao Metals Recycling Holdings Plc (Stock: BO), a company trading on AIM, a market operated by the London Stock Exchange. Mr. Ong is an independent non-executive director of Man Wah Holdings Limited (Stock Code: 1999), O-Net Technologies (Group) Limited (Stock Code: 877) (formerly known as O-Net Communications (Group) Limited), Nameson Holdings Limited (Stock Code: 1982), respectively, all of which are listed on the Stock Exchange.

Previously, he served as a non-executive director of Jets Technics International Holdings Limited, a company which is listed on the Singapore Exchange Securities Trading Limited, and Hong Wei (Asia) Holdings Company Limited (Stock Code:8191) which is a company listed on the Growth Enterprise Market of the Stock Exchange.

Mr. Ong holds a Master of Business Administration degree that was jointly awarded to him by the University of Wales and the University of Manchester in March 2000. Mr. Ong also holds a Bachelor of Laws degree from The London School of Economics and Political Science, University of London in August 1990. Mr. Ong is an associate member of The Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants.

SENIOR MANAGEMENT

Mr. Liu Lianchao (劉連超), aged 42, is one of the joint company secretaries and the authorised representative of the Company. Mr. Liu is also the deputy general manager of Beijing Denox, Gu'an Denox and the Company. Mr. Liu is primarily responsible for the management of human resources and company secretarial matters. Prior to joining the Group, Mr. Liu served as a technician of Daimler Chrysler Railway System Signal (Shenyang) Co., Ltd. (瀋陽戴姆勒克萊斯勒鐵路系統信號有限公司), a company principally engaged in the design of railway signaling system from June 1999 to March 2001, where he was primarily responsible for technical works. From April 2004 to April 2005, Mr. Liu served as a manager of the human resources department of Zhejiang Putong Fuwu Shichang Co., Ltd. (浙江普通服務市場有限公司), a company providing the storage and distribution services, where he was responsible for the set-up of the distribution center and management of human resources. From February 2006 to April 2012, Mr. Liu served as an officer of the department of planning and development of China Datang Technologies & Engineering Co., Ltd. (中國大唐集團科技工程有限公司) where he was primarily responsible for planning and development. Mr. Liu received his bachelor of engineering, majoring in fluid power transmission and control, from Beijing University of Aeronautics and Astronautics (北京航空航天大學), now known as Beihang University, in July 1998. Mr. Liu received his master of business administration from Tongji University (同濟大學) in November 2004. Mr. Liu received his doctorate's degree of management, majoring in corporate management, from Renmin University of China (中國人民大學) in January 2011. Mr. Liu obtained the qualification as economist granted by the Personnel Bureau in November 2006.

Mr. Chan Chung Kik, Lewis (陳仲戟), aged 44, is the chief financial officer of the Group and one of the joint company secretaries of the Company since May 2015, and is primarily responsible for the overall financial management functions of the Group. Prior to joining the Group, he had worked in international accounting firms and other company listed on the main board of the Stock Exchange. He has over 20 years of experience in auditing, accounting and corporate finance. He received his bachelor's degree in accounting from the University of Canberra, Australia in September 1997 and is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Certified Practising Accountants of Australia.

Messages from Denox

Denox is in compliance with the enterprise culture of 'integrity, responsibility, gratitude, innovation, comprehensiveness, social commitment and teamwork', developing its business considering several aspects including safety, quality, innovation, employees, environment and society and actively fulfilling its environmental and social responsibilities. The Group specializes in the development and production of products for atmospheric pollutant control and takes the denitration catalysts used for abating smog resulting from industries and automobiles operations as a core product. The Group is the first high-tech corporation that can manufacture plate-type denitration catalysts in China and the third manufacturer in the world. The Group strictly abides by the relevant standards to establish a series of processes, such as the formula of denitration catalysts, production techniques, quality assurance and quality control. The products of Denox have been verified by a third-party professional institution as reaching the international advanced level.

The headquarters of the Company are located in Hong Kong and Beijing, and the sales offices are located in Europe. Moreover, we have production facilities in Gu'an economic development zone in Hebei Province and Wu'xi economic development zone in Jiangsu Province, with a gross floor area of approximately 50,000 square meters and an annual production capacity of plate-type denitration catalysts of 36,000 square meters. The Group has advanced production facilities and automatic production lines as well as advanced analysis and testing methods for raw materials and finished products. Up until the publication date of this ESG Report, the Group has signed over 60 projects involving supply contracts of catalysts for a total of 115 generating units which is equivalent to supply denitration catalysts for coal-fired boilers with approximately 30 gigawatt power generating. The products manufactured by Denox serve the downstream industries covering electric power industry, petrochemical industry, metallurgical industry, etc. in 20 provinces of China and the products have made prominent contributions to air pollution abatement in China by reducing 2,600 kilotons nitrogen oxide pollutants in the atmosphere and decreasing the release of 500 kilotons particulate matter 2.5 (PM 2.5) annually. Besides, as the first Chinese company selling plate-type catalysts to the developed countries in Europe, the Group signed several export orders to Germany, Italy and Netherlands and won favorable comments from foreign clients because of the quality of its products.

Looking into the future, the Group will continuously promote its sustainable company culture, take 'providing clean air, enjoying healthy life together' as its duty and devote itself to becoming a domestic first-class and international renowned high-tech environmental protection company. The Group is determined to make more contributions to energy conservation and emission reduction cause and development of a living environment with clean water and blue sky in China.

Employees and Community

Employees are not only the foundation of development of the Group, but also the essential assets of the Group. The Group believes that its directors, senior managers and employees are the keys and basis to maintaining the sustainable development and market competitiveness of the Group. The Group always persists in integrating the concept 'People First' into the development strategy of the Group in order to develop human resource management strategies involving employee management, development and training and community communication.

Employees Management

The Group holds the premise that strict compliance with the local laws and regulations relevant to employment issues is the best guarantee to labor rights. In addition, we formulate and institute several measures, such as sound labor contract systems, comprehensive remuneration and benefit policies, compliant working hours, people-oriented leave and holidays systems in order to maintain a long-term and steady labor relationship. Besides, for the sake of firmly prohibiting the occurrence of forced labor and hiring child labor who is under 16 years of age, the Group formulates and implements relevant regulations accordingly. The Group also adopts the policies regarding equal employment opportunities without discrimination against any employees based on their individual characteristics.

The Group attaches great importance to talent recruitment. The Group recruits employees from universities and technical schools to build up a team armed with high technical skills and good education. The Group will enter into employment contracts with successful candidates, covering matters such as salaries, employee benefits, health and safety of employees, confidentiality obligations and grounds for termination. To ensure the provision of an attractive workplace for its employees, the Group regularly reviews the employment policies, including salaries, retirement pensions, discretionary bonus, medical insurance plans and other applicable social insurances. For example, in accordance with the relevant Chinese laws and regulations, such as the *Social Insurance Law of the People's Republic of China*, Denox contributes to social insurance funds (including pension insurance, unemployment insurance, medical insurance, work-related injuries insurance and childbirth insurance) and housing provident funds for its employees. Work Attendance Regulation is developed by the Group to ensure that its employees enjoy paid leaves, maternity leaves, paternity leaves and other statutory holidays. Apart from these, marriage leaves and bereavement leaves are provided to its employees as well.

Figure 1. Denox Company Trip 2016 – Jinsha Bay

Figure 2. Photo of Employees in Denox Annual Meeting 2016

The health, both physical and psychological, of its employees is of great importance for the Group. On the one hand, the Group formulates periodic physical examination measures to ensure physical examinations are organized for its employees annually; on the other hand, the Group regularly organizes company trips for its employees to enrich their life and encourage them to relax and release stress. The Group creates a workplace suitable for employees to work at and grow in together.

Figure 3. Denox Employee Meeting 2016

The Group attaches great importance to establishing a democratic channel to communicate with its employees, and has set up procedures to select employee representatives and feedback management systems with the aim of promoting the communication between labor and the Group on issues of life and work of employees. Therefore, on the one hand, the comments and suggestions of our employees will be heard and treated timely and properly, thereby increasing organizational commitment of employees; on the other hand, it will favor the propagation and implementation of the enacted policies, regulations, welfare and culture of Denox and promote the publicity of factory affairs.

Development and Training

In order to actively build a team equipped with high technical skills and good educational as well as cultivate organizational commitment and enhance loyalty of employees, the Group has set up and been continuously optimizing its systems in respect of employee training and promotion, aiming at providing in-service trainings and opportunities for career development to its employees, stimulating their progressive development and passion for work.

Taking the improvements of position competency and professionalism of new employees and the occupational developments of current employees as primary considerations, Denox has drawn up company annual training programs and *Company Exterior Training Policy*. Moreover, the occupational training courses cover the contents of orientation training, professional ethics, fire safety and other trainings related to the knowledge of denitration catalyst industry, such as sales and manufacture, customer service, quality control and exhibition planning. The establishment of a sound occupational development channel is inseparable from a practical system of vocational promotion. Adhering to the spirit of being fair, justice and open, the Group formulates a democratic management approach for assessment of employees according to their development and performance to improve the company personnel regulatory framework.

Figure 4. Denox Work Safety Training 2016

Figure 5. Denox Fitter Training 2016

Combat Corruption and Uphold Integrity

Denox strictly adheres to the relevant laws and regulations of China, listing rules and fair competition rules, and on this basis Denox has formulated *Measures for the Administration of Combating Corruption and Countering Bribery* so as to implement anti-corruption and anti-bribery work in commercial activities, thereby reinforcing the internal control of the Group. On the basis of the situation of the Group and the core principles of 'compliance, integrity and quality service', Denox has enhanced supervision and management over its systems and employees with key links and key positions to ensure the implementation of the undertaking that then are no commercial bribery misconducts and to guide managers and relevant stakeholders of the Group to be legally compliant and honest. Therefore, a healthy cooperate image is fostered.

The Board of Directors is responsible for the internal control of the Group. In order to achieve and maintain a highest level of openness, transparency and accountability in the Group, we implement reporting policies that require any suspected misconducts or derelictions in financial reporting, internal supervision or other intracompany affairs to be regulated and treated fairly and properly.

Not only has the Group set up on Administration Department to prevent and control commercial bribery, but also, it has prepared opinion boxes and hotlines for reporting commercial bribery from employees and corporations that it has business with. Upon receipt of the bribery reporting, the Administration Department will instantly execute an investigation on the source of commercial bribery and develop countermeasures for commercial bribery prevention. For the violation of commercial bribery laws and regulations, the case shall be treated in a timely manner and reported to the supervisory authority. Furthermore, for the case suspected of constituting a crime, it shall be transferred to the judicial authority. Besides, a *Statement of Undertaking Combating Bribery/Corruption* shall be signed by the individuals at key position, while a *Statement of Undertaking Combating Bribery/Corruption for Supplier* has to be signed by suppliers, facilitators and contractors who have business with the Group. During the Reporting Period, the Group has not been notified of any litigation or complaints against its employees related to bribery, extortion and money-laundering.

Connecting with Community

Corporate social responsibilities and sustainable development are two of the essential elements of the culture of Denox. What the Group always takes as own duties are fulfilling corporate responsibilities, boosting the developments of environmental protection industry, building a green brand with high technology, and improving the technologies for energy conservation and emission reduction. The Group also strives to enhance communications with the surrounding community and shows its positive energy as a green corporate thereby encouraging the public to participate in the establishment of a green life with clean water and blue sky.

Care for Community

Gaining and maintaining trust in relationship with the community is essential to the sustainable development of Denox. The Group takes the opportunities to communicate with the relevant parties in the community according to their circumstances. Apart from illustrating the *Integrated Management System of Quality, Environment and Occupational Health and Safety* (hereafter refer as the '*Integrated Management System*'), the Group actively hears from the community on their concerns about the safety and environmental protection issues of the Group. If there are complaints received from the community, the Group will instantly and actively start an investigation and evaluation regarding the complaints, their potential or existing environmental factors and relevance of the source of danger. If the complaints are verified, rectification measures will be planned and executed accordingly. The method and result of rectification will be explained to complainant in detail.

Recognition from Community

The Group is committed to making contributions to the energy conservation and emission reduction industry in China and creation of an environment-friendly life. It is the Group's honor to receive recognition and rewards from the community in return for contributions of the Group.

Table 1. Denox Major Rewards 2016

Awardees Company	Time	Award	Issuer
Gu'an Denox Environment & Technology Co. Ltd.	February 2016	Brand Product in Small and Medium Enterprise Certificate	Industry and Information Technology Department of Hebei Province Committee of Hebei Province for Appraisal of Small and Medium Brand
Gu'an Denox Environment & Technology Co. Ltd.	April 2016	'Expert and Creative' Small and Medium Enterprise of Hebei Province	Industry and Information Technology Department of Hebei Province
Gu'an Denox Environment & Technology Co. Ltd.	September 2016	'Brand of Hebei Province'	Brand Appraisal Committee of Hebei Province
Gu'an Denox Environment & Technology Co. Ltd.	October 2016	Research and Development Center of Langfang City	Bureau of Science and Technology of Langfang City

Safety and Quality

The management goal of the Group is to win the trust of the customer with first-class services by promoting pollution prevention and health care, as well as to contribute to the society with quality products by constant legal compliance and consistent improvement. Denox has a strong sense of responsibilities towards the safety and quality of its products and the safety of employees. Pursuant to the *Quality Management Systems—Requirements of National Standard of the People's Republic of China (GB/T 19001-2008, identical to ISO 9001:2008, Quality Management Systems—Requirements), Environmental Managements System—Requirements with Guidance for Use of National Standard of the People's Republic of China (GB/T 24001-2004, identical to ISO 14001:2004, Environmental Managements System—Requirements with Guidance for Use)* and *Occupational Health and Safety Management System (GB/T 28001:2011)*, the Group effectively abides by the safety requirements in every operation procedure. The Group spares no effort to achieve the goals of 100% of contract fulfilment rate, 100% of product unit qualification rate and 0% of employee accident rate.

Occupational Health and Safety

In accordance with the safety regulations and procedures of the Group formulated on the basis of local safety laws and regulations, the Group has set up and implemented the *Company Administrative Regulations on Work Safety of Production*, which is developed based on the premise of safe production, prioritized precaution and full participation. It is of great significance for the Group to raise the safety awareness of employees in potential safety hazards, implement every safety management measure and to ensure a normal and safe operation.

Not only are operational safety manual and operation guidance provided to all employees covering every production procedure, but also orientation trainings and education with the aim of controlling and reducing occupational health hazards are arranged for employees before operation commencement. Besides, for the purpose of making arrangement and improvement for the training plan accordingly, the Group keeps tracking the understanding of safety education of employees by conducting assessments on occupational education and training. On the other hand, full-range safety inspections as well as irregular random examinations on a monthly basis are conducted and regular safety evaluation meetings on safety issues are held. Furthermore, in order to ensure compliance with relevant safety laws and regulations, safety inspectors of the Group will be assigned to conduct safety inspections and implement safety measures in the work sites of clients. Meanwhile, engineering team will conduct inspection and equipment maintenance on operational infrastructures. Regarding the implementation of fundamental management of occupational diseases prevention, regular physical examinations for employees are arranged and occupational health archives of employees are established by the Group.

The Group has established and has been improving emergency response measures against fire, various kinds of emergency incidents and occupational accidents, etc. In response to occupational casualty accidents during operations, the Group will strictly follow related regulations to conduct reporting, investigation, analysis, treatment, etc. In response to general casualty accidents, those who are in charge will instantly rescue the injured and undertake effective measures to prevent such accidents from escalating and protecting and preserving the accident scene with appropriate treatments and reporting. Measures for hazard identification and evaluation have been established, in which the exposure and consequence assessment measure (EC) to quantify the extent of danger has been applied for scientific hazard evaluation.

Due to the effort to establish a full range of safe and secure workplaces, the Group achieved the *Occupational Health and Safety Management System Certification* (OHSAS 18001:2007) in 2011 which was renewed successfully in 2014.

Figure 6. Denox Fire Drill 2016

Figure 7. Denox Fire Fighting Training 2016

Product Management System

The Group believes that the performance, quality, and safety of its products are critical to our customers and, ultimately, its success. Therefore, we have established and maintained stringent quality assurance standards and inspection procedures, including quality control for raw materials purchased from suppliers and our production processes.

Sustainable Supply Chain

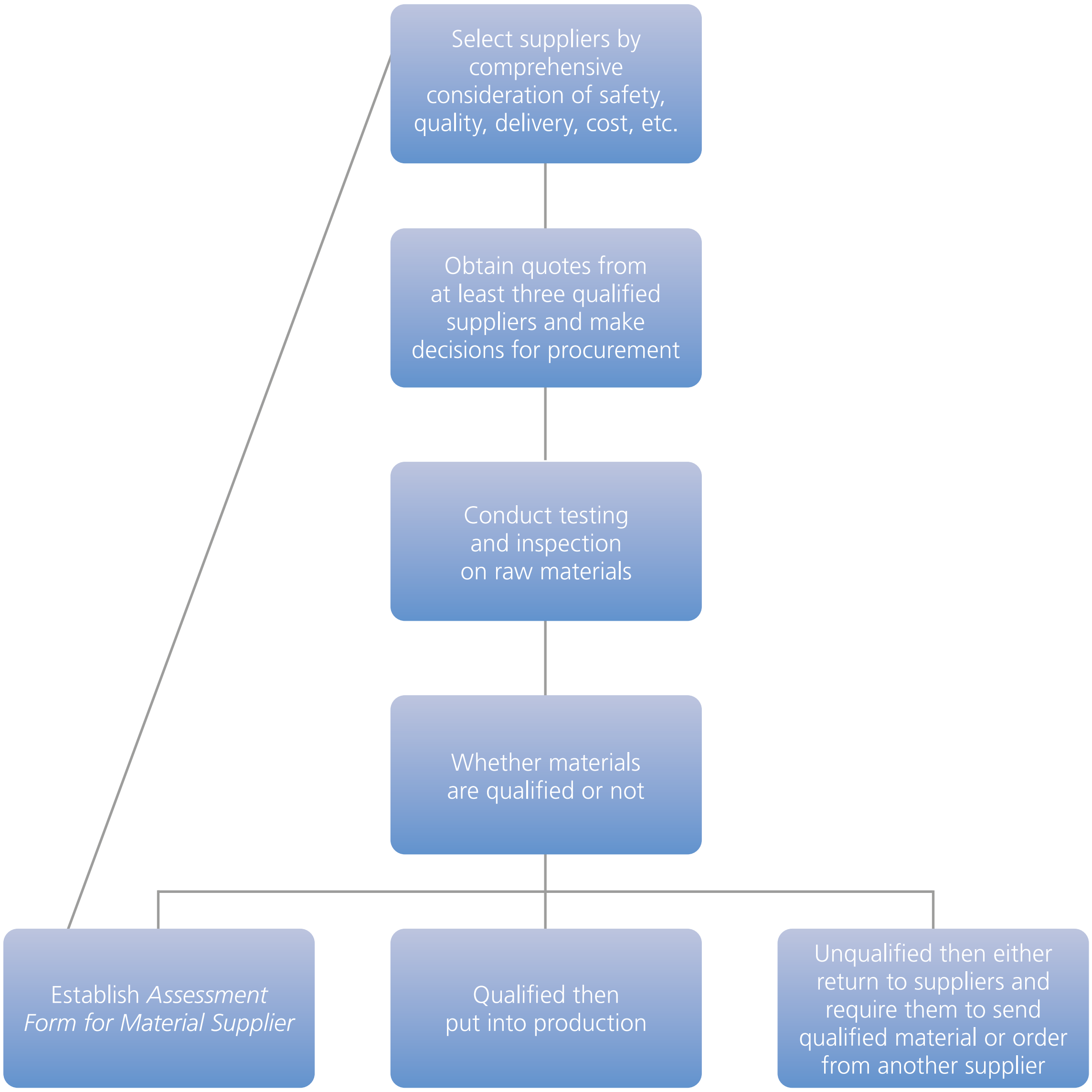

Figure 8. Supplier Selection and Evaluation Process of Denox

As a responsible corporate, the Group aims at not only taking greater corporate responsibilities, but, more importantly, encouraging related corporates in its supply chain to promote social responsibilities as well. It is crucial for the Group to select a supplier who shares the same concept of sustainable development. There are a number of supplier selection standards used by the Group which refers to the requirements of its corporate social responsibilities, which include the integrity of suppliers, respect towards employees, prohibition of child labor in any forms, equal treatment of employees, application of environmental treatments during production and compliance with laws and regulations, etc. For example, when verifying the raw materials and equipments, the Group will require the suppliers to provide the product safety and technology instructions and occupational health and safety management system certification to ensure its selection standards regarding environment and safety have been reached. It is the hope of Denox that it creates a responsible, clean and green supply chain with suppliers together.

The primary raw materials for the plate-type denitration catalysts of the Group consist of stainless steel mesh, titanium dioxide and ammonium hetamolybdate. The Group, therefore, has a well-managed procurement system and strict processes for supplier selection, including qualification authentication, laboratory testing, production examinations and annual review and reassessment.

As for supplier selection, the Group determines the selection by taking into account the factors of safety, quality, delivery and cost of the materials. Our research and development department and quality control department take charge of the quality of raw materials. Testing and inspection of the raw materials will be conducted to ensure that they meet the requirements of the Group before utilization in production. Meanwhile, the suppliers are required to provide raw material inspection reports each time upon delivery. If such material fails to meet the standards of the Group, we will either return such materials to the suppliers and require them to send qualified raw materials, or we may directly order from another supplier. In order to optimize the supplier selection and avoid the adverse impact of reliance on major suppliers and to assure the best price and quality, the Group procures various raw materials from multiple suppliers and, for each procurement, we usually obtain quotes from at least three qualified suppliers. Having formulated *Evaluation Form for Material Supplier* as one of the references for supplier selection, the Group has maintained relationships with its principal suppliers of raw materials and key components, thereby creating a good environment for regulatory operation.

Quality Control

To maintain steady product quality and a high sense of responsibility towards its products, all activities of production and sales of the Group are compliant with both the *Product Quality Law of the People's Republic of China* and the *Regulations on Quality Responsibilities for Individual Products*. On the basis of these, according to relevant national and industrial standards, the Group has formulated a set of criteria for product testing and implemented quality control measures at each critical step of the production processes. Besides, inspection reports will be published according to the results of on-site inspections at the suppliers' factories.

The Group strives for achieving product quality improvements and satisfaction from customers. Moreover, by conducting a large quantity of inspections over the raw materials, in-process products and finished products, the Group has standardized and optimized the producing and testing processes. Apart from this, the Group recognizes that a responsible product management system should not be limited to the management of finished products. For this reason, we have established product identification methods, which make the products traceable with a unique label. The quality of products in every aspect of production, from the procurement of raw materials to delivery, will be recorded for providing the best services to our customers. Moreover, for the purpose of ensuring an effective implementation of quality control, assurance standards and inspection procedures, the Group maintains policies requiring that each of its quality control personnel to be properly trained before being staffed.

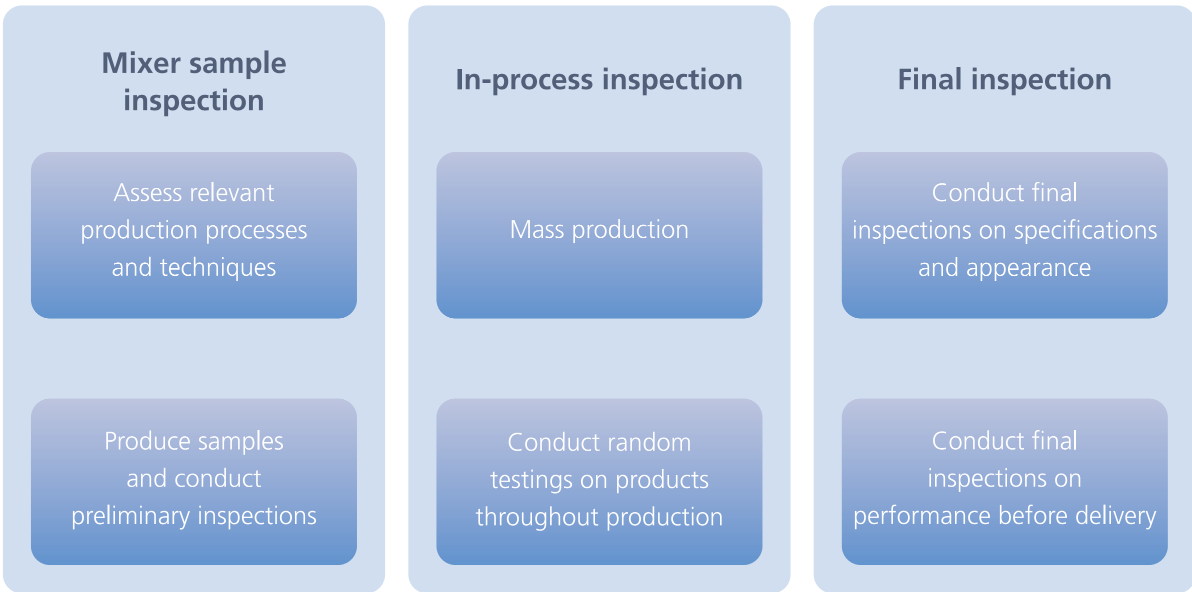

Figure 9. Quality Control Measures on Production Process

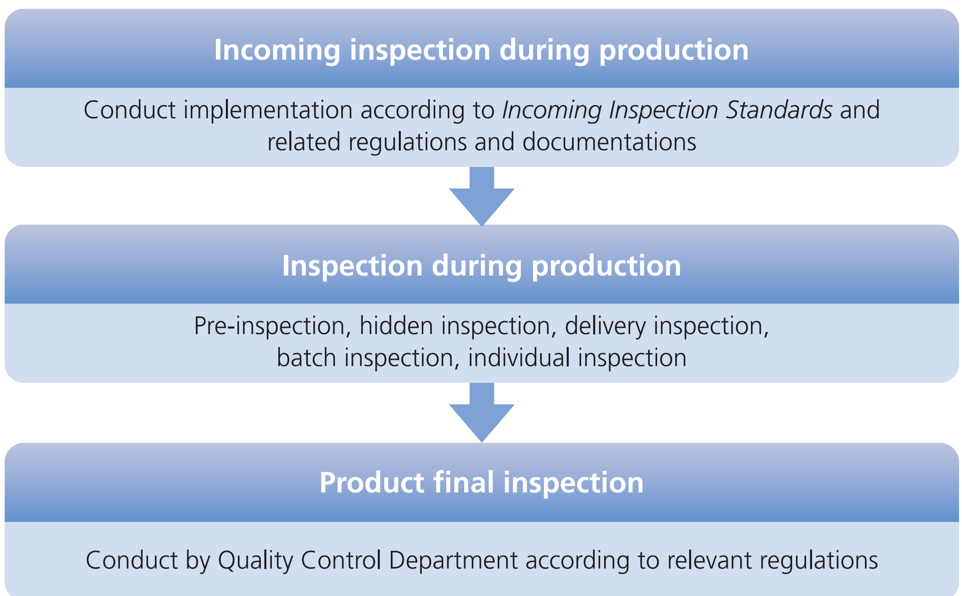

Figure 10. Product Inspection Process

The high credibility of our brand originates from our stringent requirements and consistent pursuit towards product quality. Not only is our product quality recognized by our customers, but also certified by the third-party quality system, *Quality Management Systems–Requirements (ISO 9001:2008)*, which shows the determination and capability of the Group to consistently provide qualified and satisfactory products to customers.

Product Complaint and Feedback Mechanism

The Group has established sound complaint handling procedures, *Non-conforming Product Control Procedure* and *Non-conforming, Correction and Prevention Management Procedure* as well as a comprehensive complaint and feedback mechanism. If complaints are received from customers, the Group will take records in detail, conduct investigation of the contents of the complaints and analysis of the specific causes and then finally actively propose specific solutions to the complainants based on the result of mutual communications. It is necessary for the Group to learn from complaint handling, so as to standardize and improve the management and operation processes constantly.

Record complaints from customers

↓

Determine validity of the complaints

If invalid, communicate with the customers and seek their understanding and clear up any misunderstanding

↓

Determine responsible department and start analysis

↓

Propose suggestions and solutions

according to the fact and requirements of customers

↓

Report to directors and get instructions

↓

Implement solutions in a timely manner

↓

Make conclusions and assessments

Figure 11. Customer Complaint Handling Procedure

According to the general warranty policy, the Group provides an one-year warranty for its products. During the Reporting Period, neither was there any complaint received, nor was our product recalled, while recognition and commendation from customers were obtained. Many customers expressed that the catalyst products of the Group will still be their first choice when new catalysts are needed.

Table 2. Complaints that Denox Received

Financial year	Sold quantity/units	Complaint/cases
2016	23	0

Value-Added Service

It is a great importance for Denox to pay close attention to market trends and customer needs as well as to maintain a strong relationship with existing and potential customers. The Group, therefore, has established the comprehensive value-added service and corresponding customer flies for each project to provide satisfactory products and after-sale services. Our after-sale services include on-site installation consultation, free examination during the testing period of our products, on-site support, maintenance training, continuous monitoring of product quality, regular telephone follow-up and on-site visit and annual sampling.

In addition, the Group is a customer-oriented company. Pursuant to the privacy protection measures, we will take good care of the properties and data of customers through the process of unique identification, verification, protection and maintenance. Last but not least, control measures of customer service satisfaction are set up to conduct customer satisfaction survey on product quality by phone or text message. Improvements on the company management system are constantly taking place.

Intellectual Property Protection

Technological advancement provides a distinctive strength for Denox in the denitration catalysts industry. In the face of the ever-changing market, the Group never ceases innovating but focuses on researches and developments to improve its technology and knowledge with great effort. Moreover, we build on the researches to promote the transformation of scientific and technological advances into practical productive forces. The Group encourages its employees to be innovative. We also formulate intellectual property protection measures to improve the technological innovation system and will award employees according to their contributions to any innovation projects. We believe that, with our extensive industry experience, deep understanding of customer needs, and continuous innovation and improvement of technologies, the Group will continue to sustain its leading position in the denitration catalyst industry in China.

The Group has several registered relevant patents registration rights of plate-type denitration catalyst and registration right as well as registered and authorized trademarks. As for the non-registered relevant patents of its technologies, in order to protect the accomplishments of the Group and relevant personnel, the Group enters into confidentiality agreement with the core personnel who have access to our research and development data as well as relevant technologies development. In addition, certain protection measures are adopted to prevent the core technology or proprietary intellectual property of the Group from being violated and ensure its effectiveness.

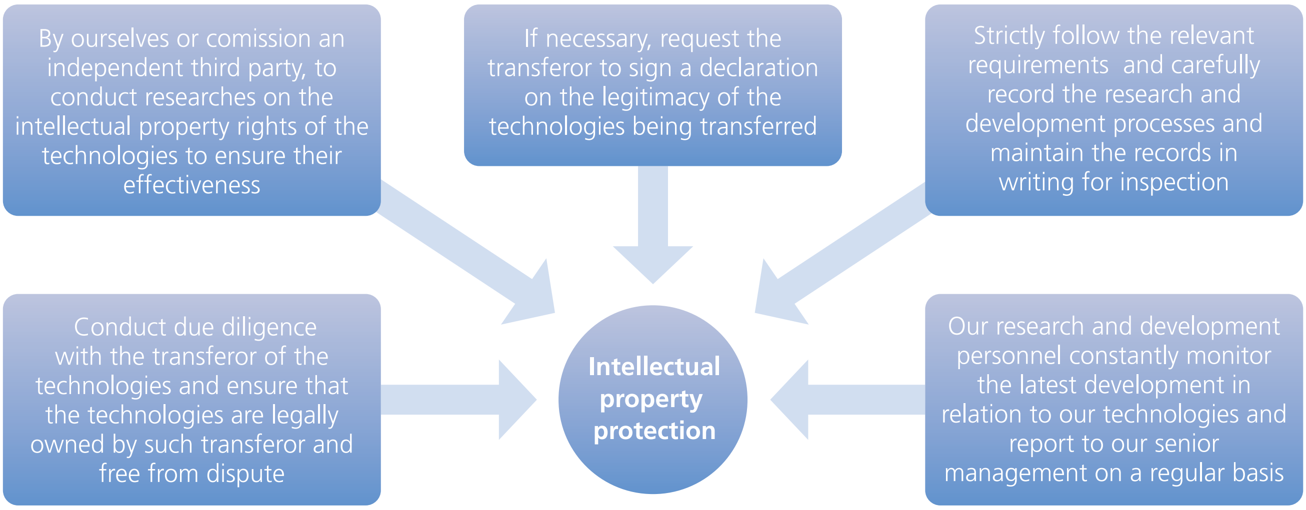

Figure 12. Denox Intellectual Property Protection Measures

Green Waters and Blue Sky

Environmental Policies

The Group persists in actively responding to the call of China and following the development pace of China closely. The Group is determined to create an environment-friendly enterprise and prevent and control the pollution emission since the promulgation of a series of environmental protection policies, such as *National '12th Five-Year Plan' for Environmental Protection' and '12th Five-Year' Energy Conservation and Environmental Protection Industry Development Plan'* by the Chinese government to push forward the comprehensive work of energy conservation and emission reduction. The Group reacts accordingly to the issuance of national environmental policies, such as '*13rd Five-Year' Comprehensive Plan for Energy Conservation and Emission Reduction*', to further strengthen the work of energy conservation and emission reduction. Also, in order to strictly comply with the national environmental protection laws and regulations and relevant industrial policy requirements, such as the *Environmental Protection Law of the People's Republic of China*, the Group has set up environmental protection measures for operation management and the *Integrated Management System* to promote the idea on environmental protection and resources conservation among all its employees.

Research Development on Eco-Friendly Product

Denox takes 'providing clean air and sharing a healthy life together' as its responsibility to develop denitration catalyst products. Meeting the environment policies issued by the Chinese government, the Group provides eco-friendly products to customers as well as contributes to the improvement in environment quality. The Group's products serve the downstream industries covering electric power industry, petrochemical industry and metallurgical industry in 20 provinces of China, and the products make prominent contribution to air pollution abatement in China by reducing 2,600 kilotons nitrogen oxide pollutants in the atmosphere and decreasing the release of 500 kilotons PM 2.5 annually.

To address the concerns of the market and the community about air pollution, the Group concentrates on researches and developments of novel environmental protection technologies and the transformation from technological advances into practical production. On the one hand, utilizing the present developed technologies, the Group not only offers disposal services for denitration catalysts, but also provides customized one-stop denitration solutions, which consists of production, sales, replenishment, regeneration and disposal of the denitration catalysts. As for the regeneration service, in favor of energy conservation and emission reduction, the Group regenerates the denitration catalysts once or twice before final disposal for their life extension, which can postpone the disposal time of the plate-type denitration catalysts and abate the disposal intensity of solid waste. On the other hand, the present products of the Group are industrial catalysts used for thermal power. Automobile exhaust is one of the major sources of air pollutants. For the sake of maintaining our advances upon environmental protection technologies, the Group further develops denitration catalyst products for diesel-powered vehicles, thereby satisfying the market needs brought by the promulgated national industry policies in relation to denitration emission requirements of diesel-powered exhaust. Besides, the research and development strategy of the Group also includes developing environmental protection technologies and catalyst products for diesel-powered vessels and other air pollution sources.

Environmental Management System

There are three types of major emission, namely wastewater, exhaust gas and solid waste, that will cause significant impacts on environmental and natural resources generated from the operations of the Group. Thus, on the basis of scientific management of environment protection and health safeguarding, the Group spares no effort to create an eco-friendly environment and healthy life for its customers, employees and the surrounding community. The Group persists in promoting the *Integrated Management System and Environmental Management Systems* (ISO 14001:2004) from multi-perspective. Certain environmental management institution of the Group has been established to record the operation data and build up specific archives of the environmental protection infrastructure, guaranteeing its normality and stability. According to the *Integrity Management Manual of Quality, Environment and Occupational Health and Safety*, the Group applies environmental factors identification methods to comprehensively evaluating the surrounding on a regular basis, considering three statuses, three tenses and nine aspects (including discharges into the water, atmosphere and soil, utilization of raw material and natural resources, energy utilization, energy wastage, generation of disposals and by-products, environmental issues and natural characteristics of local or community environment). In addition, a multi-parameter assessment method is applied for environmental assessment by quantifying the impacts of wastewater, gas emission, noise, solid waste and energy and resource consumption from our production and operation team. The Group insists in drawing up practical management plans and measures according to the investigated pollution incidents, followed by a gradual implementation of solutions in a planned way so as to ensure that the satisfaction of surrounding citizens and employees towards our environmental protection measures reaches 90% or above.

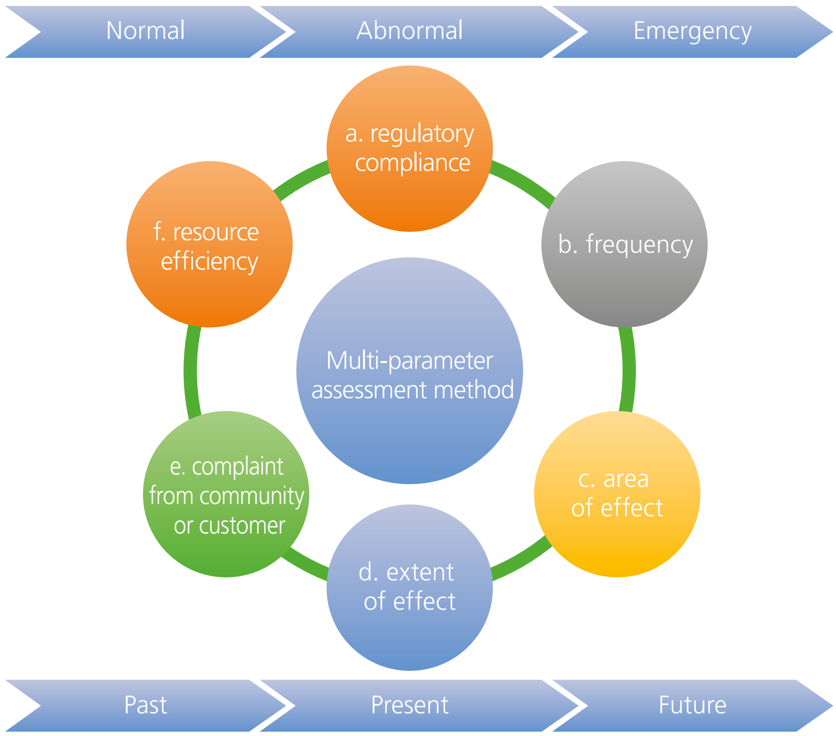

Figure 13. Denox Multi-Parameter Assessment Method

Wastewater Treatment

The Group's operations involve wastewater generation from its production, domestic usage and canteen. As for wastewater discharge, wastewater treatments will be conducted according to the *Integrated Wastewater Discharge Standard (GB 8978-1996)* issued by National Environmental Protection Bureau of the People's Republic of China and water quality requirements of Gu'an Sewage Treatment Plant. The wastewater generated from productions will be treated by chemical precipitation method before being discharged into municipal sewage system. In addition, before discharging into municipal sewage system through sewage pipelines, sewage will be treated in oil separation tanks and septic tanks, while wastewater produced from canteen will be treated in oil separation tanks before discharging. The Group conducts monitoring on the treated wastewater parameters, such as chemical oxygen demand (COD) and ammonia-nitrogen concentration, to ensure all wastewater meeting the water quality requirements of the sewage treatment plant.

Emission Treatment

The Group guarantees that the emission quality of air pollutants generated from operations will comply with the requirements of *Integrated Emission Standard of Air Pollutants (GB 16294-1996)* issued by National Environmental Protection Bureau of the People's Republic of China and the *Emission Standard of Air Pollutants for Industrial Kiln and Furnace (DB 13/1640-2012)*. The air pollutants generated from our operations mainly consist of the dust produced from mixing and assembling, small amounts of volatilized ammonia from mixing and drying, combustion emissions generated from burner, furnace and lampblack from the canteen. Several measures have been undertaken to sustain a clean environment complying to related environmental regulations in the domain of factories. For example, drying dust will be treated through bag-type dust collectors before releasing into tall gas pipes. Product units will be sealed before packaging. Raw material and product handling will be conducted by automatic loading and unloading facilities with sealing function so as to reduce the risks of gas leakage and prevent chemical substance from evaporation.

Solid Waste Treatment

In general, solid wastes disposal is one of the important environmental issues in materials industry. Actively pursuant to the *Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes* issued by National Environmental Protection Bureau of the People's Republic of China, the Group enforces the *Measures for the Administration of Permit for Operation of Dangerous Wastes* under the guidance of the notions of all-time preparedness, close cooperation, pollution prevention and environment protection. For ensuring all employees of the Group can respond and react quickly and efficiently to environmental emergencies, the Group has formulated and implemented contingency plans for environmental emergencies.

For the purpose of treating solid wastes properly and effectively, the Group categorizes them as recyclable, unrecyclable and dangerous waste according to their characteristic and as office waste and operation waste according to their source. As for the office wastes, the responsible department will process categorization, collection and storage accordingly and hand over to property management company for integrated treatment; while as for the operation wastes, after systematized classification, they will be sent to qualified waste collection institution for harmless and centralized treatment. It is our goal to ensure the safe treatment rate of industrial solid waste (such as the raw material remains from mixing) and hazardous waste reaches 100%.

Green Operation

The Group strives to be a backbone of green industry for making consistent contributions to sustainable developments through developing air pollutant control products and reducing energy consumptions during the Group's operations. In order to utilize resource and energy scientifically and properly, the Group has established control measures for saving energy, which includes: 1. turning off the light before leaving; 2. preventing wasting water from leaking and dripping; 3. centralizing office waste paper and applying office automation system for paper usage reduction.

As a manufacturing enterprise aiming at saving energy and environment protection, the Group persists in putting sustainable operation into every aspect of production thoroughly. On the one hand, the Group optimizes production processes under the guidance of 3R principle (Reduce, Reuse and Recycle). On the other hand, the Group promotes new technologies for saving energy and developing eco-friendly products for more customers to use, thereby enlarging its market influence. Moreover, considering the layout of the infrastructures, the Group has planted trees, lawns and flowers on both sides of the roads and the periphery of its factories so as to not only lower the environmental impacts of emission and noise, but also to beautify the factory environment.

Denox's Hope

The Chinese dream is also a dream of Denox, which will be achieved in a beautiful environment with green waters and blue sky. Looking into 2017, air pollution is still an environmental concern in China. Struggling with difficulties and challenges, Denox is committed to having sustainable development as the core of enterprise culture, taking 'providing clean air, sharing healthy life together' as its duty and making more contributions to the energy conservation and emission reduction industry.

Next, apart from continuously improving production technologies and product quality by reinforcing the control and management of production processes together with providing denitration catalyst for thermal power industry, the Group will reinforce the research and development of catalyst for diesel-powered vehicles and vessels and strives to meet the needs of the catalyst market for diesel-powered vehicles and vessels industry in order to comply with the environmental protection requirements.

INDEPENDENT AUDITOR'S REPORT

pwc

羅兵咸永道

To the Shareholders of Denox Environmental & Technology Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Denox Environmental & Technology Holdings Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 66 to 132, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of this report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
Tel: +852 2289 8888, Fax: +852 2810 9888, www.pwchk.com

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Identification and valuation of intangible asset arising from business combination
- Impairment of long-term assets

Key Audit Matter	How our audit addressed the Key Audit Matter
#1 Identification and valuation of intangible asset arising from business combination	
Refer to note 4 and note 8 to the consolidated financial statements In April 2016, the Group completed acquisition of a 51% equity interests in Wuxi Taidi Metal Products Co., Ltd. ("**Wuxi Taidi**"). Management, with the assistance of an independent valuation expert, determined the fair value of identifiable assets acquired and liabilities assumed at the acquisition date. As a result of such acquisition, the Group recognised an identifiable intangible asset, i.e. a technical know-how. Management applied significant judgements in determining the fair value of the technical know-how. The key assumptions adopted in the calculation of fair value include: • remaining useful lives and attrition rate; • royalty rate; • discount rate. We focus in this area because of the magnitude of intangible assets balance, and the significance of management judgements and assumptions used in the identification and valuation of intangible asset.	Our procedures in relation to the identification and valuation of intangible assets arising from business combination include: • We assessed the competency and independence of the external valuation expert engaged by the Group; • We held discussions with management and the external valuation expert to understand management's process in identifying the assets acquired and the liabilities assumed at the acquisition date; • We assessed management's process in determining fair value of the technical know-how, including: – assessing the reasonableness of the valuation methodology by reference to market practices; – assessing management's best estimates on remaining useful lives and attrition rate and royalty rate based on our understanding of the underlying business and industry; – assessing the discount rate by reference to market data, including the risk factor of comparable companies and market premium; – testing the mathematical accuracy of the calculations of fair value. Based on the procedures performed, we considered that the reasonableness of management's judgements and assumptions in the determination of fair value of the identifiable intangible asset were supported by evidences we obtained.

Key Audit Matter	How our audit addressed the Key Audit Matter

#2 Impairment of long-term assets

Refer to note 4, note 5 and note 7 to the consolidated financial statements

Long-term assets are measured at recoverable amount, which is the higher of its fair value less cost to sale and value in use.

During the year, the Group incurred loss from operations, indicating that the carrying value of long-term assets in relation to plate-type DeNOx catalysts may be impaired.

Management performed impairment assessment at cash generating unit (the "**CGU**") level. Impairment losses were identified and allocated to relevant assets including equipment, technical know-how and patent right.

Management applied significant judgements in determining the value in use of the relevant CGU, of which the key assumptions adopted in the calculation of value in use include:

- certain growth rates within the budget period;
- remaining useful lives of the long-term assets; and
- discount rate.

We focused in this area because of the magnitude of impairment provision amount and significance of management judgements and assumptions applied.

Our procedures in relation to impairment of long-term assets include:

- We assessed the reasonableness of management's decision of performing the impairment assessment at CGU level instead of at asset level based on our knowledge of the business including the use of the assets and internal reporting process;
- We assessed management's calculation of the CGU's value in use, including:
  - assessing the reasonableness of growth rates by comparing the historical operating results and future operating plans of the CGU, taking into consideration of the economic and industry outlook;
  - assessing management's best estimates on remaining useful lives of the long-term assets based on our understanding of the underlying business and industry;
  - assessing the discount rate by reference to market data, including the risk factor of comparable companies and market premium;
  - assessing the reasonableness of other key input data such as capital expenditure by comparing with the management budget;
  - testing the mathematical accuracy of the discounted cash flows and the allocation of impairment losses to relevant assets.

Based on the procedures performed, we considered that the reasonableness of management's judgements and assumptions in impairment assessment of long-term assets were supported by evidences we obtained.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with the audit committee all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Leung Po Wah.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2017

CONSOLIDATED BALANCE SHEET

As at 31 December 2016
(All amounts in RMB unless otherwise stated)

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	**57,921**	45,413
Land use right	6	**16,036**	8,202
Intangible assets	7	**34,837**	6,074
Long-term prepayments	13	**2,995**	4,840
Deferred income tax assets	10	**–**	3,126
Restricted cash	14	**2,104**	358
Total non-current assets		**113,893**	68,013
Current assets			
Inventories	11	**39,402**	49,249
Trade and bills receivables	12	**56,258**	54,766
Prepayments, deposits and other receivables	13	**18,421**	91,660
Available-for-sale financial assets	15	**2,000**	–
Restricted cash	14	**2,558**	1,244
Cash and cash equivalents	14	**223,805**	229,433
Total current assets		**342,444**	426,352
Total assets		**456,337**	494,365
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	16	**31,802**	31,802
Share premium	17	**851,181**	851,181
Capital reserves	17	**(552,410)**	(552,410)
Other reserves	17	**35,669**	23,100
Retained earnings		**35,232**	95,657
		401,474	**449,330**
Non-controlling interests		**13,651**	–
Total equity		**415,125**	449,330

CONSOLIDATED BALANCE SHEET

As at 31 December 2016
(All amounts in RMB unless otherwise stated)

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income	19	**130**	2,090
Deferred income tax liabilities	10	**3,614**	–
Total non-current liabilities		**3,744**	2,090
Current liabilities			
Trade payables	18	**6,918**	6,435
Advances from customers		**6,035**	8,861
Accruals and other payables	19	**19,268**	19,516
Current income tax liabilities		**5,247**	8,133
Total current liabilities		**37,468**	42,945
Total liabilities		**41,212**	45,035
Total equity and liabilities		**456,337**	494,365

The notes on pages 72 to 132 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 66 to 132 were approved by the Board of Directors on 24 March 2017 and were signed on its behalf:

ZHAO Shu
Director

KONG Hongjun
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016
(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	21	**69,780**	149,604
Cost of sales	22	**(93,117)**	(100,860)
Gross (loss)/profit		**(23,337)**	48,744
Selling and marketing expenses	22	**(6,404)**	(3,701)
Administrative expenses	22	**(36,826)**	(55,051)
Other gains– net	23	**9,213**	2,460
Operating loss		**(57,354)**	(7,548)
Finance income	25	**488**	2,692
Finance costs	25	**(2,447)**	(3,823)
Finance costs – net		**(1,959)**	(1,131)
Fair value gain of series A convertible redeemable preferred shares	20	**–**	39,892
(Loss)/profit before income tax		**(59,313)**	31,213
Income tax expenses	26	**(1,544)**	(5,667)
(Loss)/profit for the year		**(60,857)**	25,546
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences	17	**12,560**	282
Other comprehensive income for the year		**12,560**	282
Total comprehensive (loss)/income for the year		**(48,297)**	25,828
(Loss)/profit attributable to:			
– Shareholders of the Company		**(60,416)**	25,546
– Non-controlling interests		**(441)**	–
		(60,857)	25,546
Total comprehensive (loss)/income attributable to:			
– Shareholders of the Company		**(47,856)**	25,828
– Non-controlling interests		**(441)**	–
		(48,297)	25,828
(Losses)/Earnings per share (expressed in RMB per share)	27		
Basic (losses)/earnings per share		**(0.12)**	0.08
Diluted losses per share		**(0.12)**	(0.04)

The notes on pages 72 to 132 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016
(All amounts in RMB unless otherwise stated)

		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 equity RMB'000
Balance at 1 January 2015		–	–	(1,981)	10,783	71,932	80,734
Comprehensive income							
Profit for the year		–	–	–	–	25,546	25,546
Other comprehensive income							
Currency translation differences		–	–	–	282	–	282
Total comprehensive income		–	–	–	282	25,546	25,828
Transaction with shareholders							
Issuance of shares to Zymmetry Investments Ltd.	16	–	–	34	–	–	34
Completion of Reorganization	16	342	550,121	(550,463)	–	–	–
Repurchase of ordinary shares	16	(17)	(37,868)	–	–	–	(37,885)
Share-based compensation	17	–	–	–	10,214	–	10,214
Issuance of shares to shareholders	16	31	62,692	–	–	–	62,723
Appropriation to statutory reserves	17	–	–	–	1,821	(1,821)	–
Conversion of series A convertible redeemable preferred shares to ordinary shares	16	73	106,965	–	–	–	107,038
Capitalisation of share premium		23,420	(23,420)	–	–	–	–
Issuance of ordinary shares upon IPO	16	7,953	192,691	–	–	–	200,644
Total transaction with shareholders, recognised directly in equity		31,802	851,181	(550,429)	12,035	(1,821)	342,768
Balance at 31 December 2015		31,802	851,181	(552,410)	23,100	95,657	449,330

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016
(All amounts in RMB unless otherwise stated)

	Note	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 2016		31,802	851,181	(552,410)	23,100	95,657	449,330	–	449,330
Comprehensive loss									
Loss for the year		–	–	–	–	(60,416)	(60,416)	(441)	(60,857)
Other comprehensive income									
Currency translation differences		–	–	–	12,560	–	12,560	–	12,560
Total comprehensive income		–	–	–	12,560	(60,416)	(47,856)	(441)	(48,297)
Transaction with shareholders									
Non-controlling interests arising from acquisition of a subsidiary		–	–	–	–	–	–	14,092	14,092
Appropriation to statutory reserves	17	–	–	–	9	(9)	–	–	–
Total transaction with shareholders, recognised directly in equity		–	–	–	9	(9)	–	14,092	14,092
Balance at 31 December 2016		31,802	851,181	(552,410)	35,669	35,232	401,474	13,651	415,125

The notes on pages 72 to 132 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016
(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash used in operations	29(a)	**(37,564)**	(26,936)
Interest received		**580**	178
Income tax paid		**(3,121)**	(12,173)
Net cash used in operating activities		**(40,105)**	(38,931)
Cash flows from investing activities			
Purchase of land use rights		**–**	(490)
Purchases of property, plant and equipment		**(15,973)**	(4,129)
(Increase)/decrease of pledged deposits		**(3,060)**	2,314
Purchases of intangible assets		**(15,391)**	(2,024)
Acquisition of a subsidiary, net of cash acquired		**(19,741)**	–
Proceeds from disposals of property, plant and equipment	29(b)	**13**	–
Payment for acquisition of available-for-sale financial assets		**(2,000)**	–
Proceeds from disposal of short-term fixed income deposit		**85,091**	–
Payment for acquisition of short-term fixed income deposit	13(a)	**–**	(83,778)
Interest received		**358**	–
Net cash generated from/(used in) investing activities		**29,297**	(88,107)
Cash flows from financing activities			
Proceeds from bank borrowings		**2,400**	–
Capital injection by equity holders	16	**–**	63,065
Proceeds from issuance of series A convertible redeemable preferred shares		**–**	138,120
Proceeds from issuance of ordinary shares upon IPO		**–**	215,717
Distribution to equity holders for Reorganization		**–**	(62,290)
Payment for repurchase of ordinary shares		**–**	(37,885)
Repayments of bank borrowings		**(4,700)**	–
Interest paid		**(87)**	–
Payment of ordinary shares issuance costs		**(1,322)**	(13,276)
Net cash (used in)/generated from financing activities		**(3,709)**	303,451
Net (decrease)/increase in cash and cash equivalents		**(14,517)**	176,413
Cash and cash equivalents at beginning of year	14	**229,433**	45,333
Exchange gains on cash and cash equivalents		**8,889**	7,687
Cash and cash equivalents at end of year	14	**223,805**	229,433

The notes on pages 72 to 132 are an integral part of these consolidated financial statements.

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 is an investment holding 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**"). The ultimate holding company of the Group is Advant Performance Limited, a company incorporated in the British Virgin Islands ("**BVI**") which is wholly-owned by Ms. Zhao Shu (the "**Controlling Shareholder**").

On 12 November 2015, the Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated.

These consolidated financial statements of the Group have been approved for issue by the Board of Directors (the "**Board**") on 24 March 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Denox Environmental & Technology Holdings Limited have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRS**"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of convertible redeemable preferred shares and available-for-sale financial assets, which are carried at fair value.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the the consolidated financial statements are disclosed in Note 4.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group in 2016

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning 1 January 2016:

– IFRS 14, 'Regulatory Deferral Accounts'

– Amendment to IFRS 11, 'Accounting for acquisitions of interests in joint operations'

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

(a) New and amended standards adopted by the Group in 2016 *(Continued)*

- Amendments to IAS 16 and IAS 38, 'Clarification of acceptable methods of depreciation and amortisation'
- Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'
- Amendment to IAS 27, 'Equity method in separate financial statements'
- Amendments from annual improvements to IFRSs – 2012 – 2014 Cycle, on IFRS 5, 'Non-current assets held for sale and discontinued operations', IFRS 7, 'Financial instruments: Disclosures', IAS 19, 'Employee benefits' and IAS 34, 'Interim financial reporting'
- Amendments to IFRS 10, IFRS 12 and IAS 28 'Investment entities: applying the consolidation exception'
- Amendments to IAS 1 'Disclosure initiative'

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) New standards and amendments issued but are not yet effective for the financial year beginning on 1 January 2017, and have not been early adopted by the Group

A number of new standards and amendments to standards and interpretations to be adopted in future reporting periods, and have not been applied in preparing this consolidated financial information. None of these are expected to have a significant effect on the consolidated financial information of the Group, except the following set out below:

IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess the full impact of IFRS 9 on its financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

(b) New standards and amendments issued but are not yet effective for the financial year beginning on 1 January 2017, and have not been early adopted by the Group *(Continued)*

IFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group will make detailed assessment of the impact over the next twelve months.

IFRS 16, "Leases", will affect primarily the accounting for Group's operating leases. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized in the consolidated balance sheet. The Group is in the process of assessing the impact of the operating lease commitments (Note 32(b)) on recognition of assets and liabilities on the Group's profit, financial position, and classification of cash flows.

There are no other amendments and new or amended standards that are not yet effective that would be expected to have a material impact on the Group.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(a) Business combinations *(Continued)*

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the year the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

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.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of primary economic environment in which the entity operates (the "**functional currency**"). The functional currency of the Company, Denox Investments Holdings Limited ("**BVI Denox**") and Denox Environmental & Technology (HK) Investments Co., Ltd ("**HK Denox**") is Hong Kong dollar ("**HK$**"). The subsidiaries incorporated in the PRC use RMB as their functional currency as the major operations of the Group during the years ended 31 December 2016 and 2015 are within the PRC, the Group has determined to present its consolidated financial statements in RMB (unless otherwise stated).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance (costs)/income– net'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other gains – net'.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(b) Transactions and balances *(Continued)*

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment

Construction-in-progress (the "**CIP**") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

Property, plant and equipment, other than construction in progress, are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated statement of comprehensive income during the financial year in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

–	Leasehold improvements	Shorter of remaining term of lease and the estimated useful lives of the assets
–	Buildings	20 years
–	Machinery	5-10 years
–	Vehicles	4 years
–	Office equipment and others	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains – net' in the consolidated statement of comprehensive income.

2.6 Land use right

Land use right represents upfront prepayments made for the land use rights at historical cost and are expensed in the consolidated statement of comprehensive income on a straight-line basis over the year of the leases or when there is impairment, the impairment is expensed in the consolidated statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Patent right

Patent right is shown at historical cost. Patent right has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patent right over their estimated useful lives of 10 years.

(c) Technical know-how

Acquired technical know-how of manufacturing processes is shown at historical cost. Acquired technical know-how is capitalised on the basis of the costs incurred to acquire and is amortised over their estimated useful lives of 7 to 10 years.

2.8 Research and development expenditures

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
(ii) management intends to complete the intangible asset and use or sell it;
(iii) there is an ability to use or sell the intangible asset;
(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;
(v) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Research and development expenditures *(Continued)*

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent year. Capitalised development costs are recorded as intangible assets and amortised on a straight-line basis over its useful life.

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets as loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting year. These are classified as non-current assets. The Group's loans and receivables comprise: 'trade and bills receivables', 'other receivables', 'restricted cash', and 'cash and cash equivalents' in the balance sheet (Notes 12, 13 and 14).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of other income.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting year whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "**loss event**") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

(b) Assets classified as available for sale

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Impairment of financial assets *(Continued)*

(b) Assets classified as available for sale *(Continued)*

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Goods in transit refer to finished goods in transit and held at customer's place.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks.

2.16 Share capital

Ordinary shares are classified as equity. Convertible redeemable preferred shares are classified as liabilities (Note 2.20).

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the year of the borrowings using the effective interest method.

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

2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial year of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated statement of comprehensive income in the year in which they are incurred.

2.20 Series A convertible redeemable preferred shares

Series A convertible redeemable preferred shares issued by the Company are redeemable upon occurrence of certain future events at the option of the holders. The series A convertible redeemable preferred shares can be converted into ordinary shares of the Company at any time at the option of the holders or automatically converted into ordinary shares upon an Initial Public Offering ("**IPO**") of the Company.

The Group designated the series A convertible redeemable preferred shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in the statements of comprehensive income.

Subsequent to initial recognition, the series A convertible redeemable preferred shares are carried at fair value with changes in fair value recognized in statements of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Series A convertible redeemable preferred shares *(Continued)*

The series A convertible redeemable preferred shares are classified as non-current liabilities unless the Group has an obligation to settle the liability within 12 months after the end of the reporting year.

Series A convertible redeemable preferred shares, if mandatorily redeemable at a specific date or redeemable at the option of the holder, are classified as liabilities. The dividends on these series A convertible redeemable preferred shares, if declared, are recognised in the statements of comprehensive loss as finance costs.

2.21 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Current and deferred income tax *(Continued)*

(b) Deferred income tax *(Continued)*

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.22 Employee benefits

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organized by the relevant governmental authorities. The Group's liability in respect of these plans is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

2.23 Share-based payments

Equity-settled share-based payments transactions

The Group received service from employees as consideration for its equity instruments. The fair value of the employee services received in exchange for the grant of the restricted share units is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the restricted share units granted:

– including any market performance conditions;

– excluding the impact of any service and non-market performance vesting conditions; and

– including the impact of any non-vesting conditions.

In terms of restricted share units awarded to counterparties other than employees, the total amount to be expensed is determined by reference to the fair value of the service unless such fair value could not be estimated reliably. In such case, the expense will be measured indirectly by reference to the fair value of the equity instruments granted at the date when such counterparties render services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Share-based payments *(Continued)*

Equity-settled share-based payments transactions *(Continued)*

Service conditions are included in assumptions about the number of restricted share units that are expected to vest. The total expense is recognised over the vesting year over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the year between service commencement year and grant date.

At the end of each reporting year, the Group revises its estimates of the number of restricted share units that are expected to vest based on the non-market performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the profit or loss, with a corresponding adjustment to equity.

When the restricted share units are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2.24 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.25 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of value-added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group’s activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Revenue recognition *(Continued)*

(a) Sales of goods

The Group manufactures and sells plate-type DeNOx catalysts to coal-fired power plants (the "**Power Plants**"), certain engineering, procurement and construction (the "**EPCs**") service providers and boiler manufacturers in the PRC. The Group is responsible for the delivery of goods to customers' specified destinations after the sales contracts are signed. The customers are responsible for the test run of the function of the Group's products after installation, and will issue a preliminary acceptance certificate when they are qualified.

Sales of goods are recognised when significant risks and rewards of ownership of the goods are transferred to the customers, generally coincides with the time of receipt of the preliminary acceptance certificate.

(b) Provision of services

The Group provides technical support for certain environmental protection projects and derives revenue through consultancy agreements with designing institutes, in which the Group agrees to provide either experts or expertise over the project year.

Revenue is recognised when the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of actual services provided as a proportion of the total service to be provided.

2.26 Interest income

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

2.27 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated comprehensive income statements over the year necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in liabilities as deferred income and are credited to the consolidated comprehensive income statements on a straight-line basis over the expected useful lives of the related assets.

2.28 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated comprehensive income statements on a straight-line basis over the year of the lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.29 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the year in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group currently does not use any derivative financial instruments to hedge certain risk exposures during the years ended 31 December 2016 and 2015.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures. The Company's PRC subsidiaries' functional currency is RMB as majority of the revenues of these companies are derived from operations in the PRC. The Company and its oversea subsidiaries' functional currency is HK$ as all of the transactions of these companies, except for the series A convertible redeemable preferred shares issued in February 2015, are denominated and settled in HK$. Therefore, foreign exchange risk primarily arises from recognized assets and liabilities in the Group's subsidiaries incorporated in the PRC (the "**PRC Subsidiaries**") and the recognized series A convertible redeemable preferred shares of the Company when receiving or to receive foreign currencies from counterparties. The Group does not hedge against any fluctuation in foreign currency.

For the PRC Subsidiaries whose functional currencies are RMB, if US$ had weakened/strengthened by 10% against the RMB with all other variables held constant, profit before income tax for the year ended 31 December 2016 would have been lower/higher by RMB1,153,000 (2015: RMB4,333,000), mainly as a result of net foreign exchange losses on translation of US$-denominated cash and cash equivalents.

For the PRC Subsidiaries whose functional currencies are RMB, if EUR€ had weakened/strengthened by 10% against the RMB with all other variables held constant, profit before income tax for the year ended 31 December 2016 would have been lower/ higher by RMB1,171,000 (2015: nil), mainly as a result of net foreign exchange losses on translation of EUR€-denominated cash and cash equivalents.

For group companies outside the PRC whose functional currency is HK$, if RMB had weakened/strengthened by 10% against the HK$ with all other variables held constant, profit before income tax for the year would have been lower/higher by RMB672,000 (2015: RMB3,133,000), mainly as a result of net foreign exchange losses on translation of RMB-denominated cash and cash equivalents and RMB-denominated other payable.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets (other than cash and cash equivalents, restricted cash and available-for-sale financial assets, details of which have been disclosed in Note 14 and Note 15), the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk primarily arises from available-for-sale financial assets and borrowings. During the years ended 31 December 2016 and 2015, the interest rate risk was not material to the Group.

(b) Credit risk

The Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents, restricted cash, available-for-sale financial assets, trade and bills receivables and other receivables.

As at 31 December 2016 and 2015 most of the Group's restricted cash and cash and cash equivalents were deposited in major financial institutions in the PRC with good credit rating. The Group categorises its major counterparties into the following groups:

- Group 1 – Top 4 banks in the PRC (China Construction Bank, Bank of China, Agricultural Bank of China, and Industrial and Commercial Bank of China) and Hongkong and Shanghai Banking Corporation Limited in Hong Kong; and
- Group 2 – Other major listed banks and regional banks in the PRC.

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Category		
Group 1	**205,622**	217,913
Group 2	**18,163**	11,389
	223,785	229,302

The Group's customer base is highly concentrated. The top five customers accounted for 86% of the Group's total revenue for the year ended 31 December 2016 (2015: 58%). The trade receivables which are past due are analysed in Note 12.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk (Continued)

The Company typically requests down payment upon the sales contract being signed. In respect of trade receivables, individual credit evaluations are performed on all customers. These evaluations focus on the customers' financial position, past history of making payments and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Monitoring procedures have been implemented to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable balance at the end of each reporting year to ensure adequate impairment losses are made for irrecoverable amounts.

(c) 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 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**
As at 31 December 2015				
Trade payables	6,435	–	–	6,435
Accruals and other payables (excluding payroll payable and tax payable)	16,680	–	–	16,680
	23,115	–	–	23,115

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group considers its capital structure as the aggregate of total equity and long-term debt less cash and short-term deposits. The Group manages its capital structure and makes adjustments to it in order to have funds available to support the business activities which the Board of Directors intends to pursue in addition to maximising the return to shareholders. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Group's management to sustain future development of the business. Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Group, is reasonable.

3.3 Fair value estimation

The table below analyses the financial instruments carried at fair value by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy 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 assets that are measured at fair value as 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**

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(a) *Financial instruments in level 1*

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

(b) *Financial instruments in level 2*

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

(c) *Financial instruments in level 3*

The following table presents the changes in level 3 instruments as at 31 December 2016:

	Available-for-sale financial assets RMB'000
Opening balance	–
Additions	**2,000**
Closing balance	**2,000**

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of property, plant and equipment

The Group determines the estimated useful lives for its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charges where useful lives are different from previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Useful lives of intangible assets

The Group determines the estimated useful lives for its intangible assets based on the historical experience, the duration of patent rights, and the estimated life span of the technical know-how. The Group will revise the amortisation charges where useful lives are different from previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Impairment of property, plant and equipment, land use rights and intangible assets

Impairment losses for property, plant and equipment, land use right and intangible assets are recognised for the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in Note 2.9. The recoverable amounts, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business, are determined with reference to the best information available at each of the balance sheet date. Changing the assumptions selected by the Group's management in assessing impairment, including the discount rates, the operating and growth rate, or remaining useful lives assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(d) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

(e) Impairment of trade receivables

The Group's management estimates the provision of impairment of trade receivables by assessing the recoverability of individual balances on a periodic basis. Provisions on individual balances are applied to trade receivables where events or changes in circumstances indicate that such balances may not be collectible. Where an estimate is different from the previous estimate, such a difference will impact both the carrying value of trade receivables and the impairment charge in the year in which such estimate has been changed.

(f) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7(a). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 7).

Judgement is required to determine key assumptions adopted in the valuation models for impairment review purpose. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charge to the consolidated statement of comprehensive income.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(g) Income taxes and deferred income tax

The Group is subject to income taxes in different locations in the PRC. Judgement is required in determining the provision for income taxes in each of these jurisdictions. There are certain transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the year in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the year in which such estimate is changed.

(h) Warranty Provision

The Group usually provides a warranty year of one year from the issuance of the preliminary acceptance certificate. Management estimates the related provision for future warranty claims based on the past experiences as well as the best information available at each of the balance sheet date. If the actual claims costs differ from the estimated provision being provided for, this will have an impact on selling expenses in future year.

(i) Business Combination

The Group accounts for its business combinations using the purchase method of accounting. This method requires that the acquisition cost to be allocated to the assets, including separately identifiable intangible assets, and liabilities the Company acquired based on their estimated fair values. The Company makes estimates and judgments in determining the fair value of the acquired assets and liabilities based on independent appraisal reports as well as its experience with similar assets and liabilities in similar industries. If different judgments or assumptions were used, the amounts assigned to the individual acquired assets or liabilities could be materially different.

5. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery	Vehicles	Office equipment and others	Leasehold improvements	Construction-in-progress ("CIP")	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2015							
Opening net book value	22,541	24,016	845	535	317	–	48,254
Additions	189	1,723	63	104	–	40	2,119
Transfer from CIP	–	40	–	–	–	(40)	–
Depreciation and impairment charge	(1,137)	(3,262)	(256)	(220)	(85)	–	(4,960)
Closing net book value	21,593	22,517	652	419	232	–	45,413
As at 31 December 2015							
Cost	25,345	33,323	1,222	1,056	423	–	61,369
Accumulated depreciation	(3,752)	(9,507)	(570)	(637)	(191)	–	(14,657)
Impairment	–	(1,299)	–	–	–	–	(1,299)
Net book value	21,593	22,517	652	419	232	–	45,413
Year ended 31 December 2016							
Opening net book value	**21,593**	**22,517**	**652**	**419**	**232**	**–**	**45,413**
Acquisition of a subsidiary (Note 8)	**–**	**6,951**	**174**	**47**	**–**	**6,471**	**13,643**
Additions	**486**	**4,817**	**298**	**464**	**–**	**12,102**	**18,167**
Transfer from CIP	**8,157**	**441**	**–**	**–**	**–**	**(8,598)**	**–**
Disposals (Note 29(b))	**–**	**(96)**	**(4)**	**–**	**–**	**–**	**(100)**
Depreciation and impairment charge	**(1,434)**	**(17,040)**	**(399)**	**(244)**	**(85)**	**–**	**(19,202)**
Closing net book value	**28,802**	**17,590**	**721**	**686**	**147**	**9,975**	**57,921**
At 31 December 2016							
Cost	**33,988**	**43,624**	**1,611**	**1,567**	**423**	**9,975**	**91,188**
Accumulated depreciation	**(5,186)**	**(12,973)**	**(890)**	**(881)**	**(276)**	**–**	**(20,206)**
Impairment	**–**	**(13,061)**	**–**	**–**	**–**	**–**	**(13,061)**
Net book value	**28,802**	**17,590**	**721**	**686**	**147**	**9,975**	**57,921**

5. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation and impairment expenses have been charged to the consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Cost of sales	**4,614**	3,778
Administrative expenses	**14,588**	1,182
	19,202	4,960

As at 31 December 2016, the Group is in the process of applying for registration of the ownership certificates for certain of its buildings with an aggregate net book value of RMB2,698,000 (2015: RMB2,838,000).

6. LAND USE RIGHT

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Opening net book value	**8,202**	7,892
Additions	**–**	489
Acquisition of a subsidiary (Note 8)	**8,143**	–
Amortisation charge	**(309)**	(179)
Closing net book value	**16,036**	8,202

The Group's land use right is located in Gu'an and Wuxi, the PRC, with an original lease term of 50 years.

Amortisation of land use right has been charged to the consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Cost of sales	**224**	171
Administrative expenses	**85**	8
	309	179

7. INTANGIBLE ASSETS

	Goodwill RMB'000	Patent rights RMB'000	Technical know-how RMB'000	Software RMB'000	Total RMB'000
Year ended 31 December 2015					
Opening net book value	–	4,732	2,645	–	7,377
Amortisation charge	–	(946)	(357)	–	(1,303)
Closing net book value	–	3,786	2,288	–	6,074
As at 31 December 2015					
Cost	–	8,122	3,567	–	11,689
Accumulated amortisation	–	(4,336)	(1,279)	–	(5,615)
Net book value	–	3,786	2,288	–	6,074
Year ended 31 December 2016					
Opening net book value	**–**	**3,786**	**2,288**	**–**	**6,074**
Additions	**–**	**–**	**17,034**	**7**	**17,041**
Acquisition of a subsidiary (Note 8)	**7,262**	**2**	**11,040**	**–**	**18,304**
Amortisation and impairment charge	**–**	**(2,514)**	**(4,067)**	**(1)**	**(6,582)**
Closing net book value	**7,262**	**1,274**	**26,295**	**6**	**34,837**
As at 31 December 2016					
Cost	**7,262**	**8,124**	**31,640**	**7**	**47,033**
Accumulated amortisation	**–**	**(5,282)**	**(4,279)**	**(1)**	**(9,562)**
Impairment (a)	**–**	**(1,568)**	**(1,066)**	**–**	**(2,634)**
Net book value	**7,262**	**1,274**	**26,295**	**6**	**34,837**

Amortisation of intangible assets has been charged to the consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Administrative expenses	**2,634**	–
Cost of sales	**3,948**	1,303
	6,582	1,303

7. INTANGIBLE ASSETS *(Continued)*

(a) Impairment tests for goodwill

Management reviews the business performance based on type of business. Goodwill is monitored by the management at the CGU level.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use post-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the respective business in which the CGU operates.

The key assumptions used for the value-in-use calculations, for purpose of the impairment tests on the goodwill, are summarized as follows.

	Wuxi Denox
WACC (Weighted average cost of capital)	13.88%
Terminal growth rate	0

There was no impairment required from the review on goodwill as at 31 December 2016.

8. BUSINESS COMBINATION

In April 2016, the Group acquired a 51% equity interest in Wuxi Taidi Metal Products Co., Ltd. ("Wuxi Taidi"), a company specialized in production of stainless steel mesh, at total consideration of RMB21,930,000.

Goodwill of RMB7,262,000 arises from a number of factors including expected synergies through obtaining greater production efficiencies through knowledge transfer and unrecognized assets such as workforce. The goodwill recognized is not expected to be deductible for income tax purposes.

The following table summarises the consideration paid for Wuxi Taidi, and the amounts of the assets and liabilities acquired at the acquisition date.

	6 April 2016 RMB'000
Purchase consideration	
– Total cash consideration	21,930
– Contingent consideration	–
Total purchase consideration	21,930

Recognised amounts of identifiable assets acquired and liabilities assumed

Fair value

	6 April 2016 RMB'000
Cash and cash equivalents	2,189
Receivables	9,197
Inventories	6,697
Property, plant and equipment(a)	13,643
Land use right (a)	8,143
Intangible assets (a)	11,042
– Technical know-how	11,040
– Patent right	2
Short-term borrowing	(2,300)
Payables	(15,908)
Deferred income tax liabilities (a)	(3,943)
Total identifiable net assets	28,760
Non-controlling interests (b)	(14,092)
Goodwill	7,262
Total purchase consideration	21,930
Acquisition-related costs (included in administrative expenses in the condensed consolidated income statement for the year ended 31 December 2016)	80

8. BUSINESS COMBINATION *(Continued)*

Recognised amounts of identifiable assets acquired and liabilities assumed *(Continued)*

Fair value *(Continued)*

	6 April 2016 RMB'000
Outflow of cash to acquire business, net of cash acquired	
– Cash consideration	21,930
– Cash and cash equivalents in subsidiary acquired	(2,189)
Cash outflow for the year ended 31 December, 2016	19,741

(a) Fair value of acquired identifiable intangible assets, land use right

The fair value of the acquired technical know-how of RMB11,040,000, patent right of RMB2,000, property, plant and equipment of RMB13,643,000 and land use right of RMB8,143,000 is recognised upon the consummation of the acquisition based on valuations for the asset. Deferred income tax liabilities of RMB3,943,000 has been provided in relation to these fair value adjustments.

The fair value of the technical know-how acquired was estimated by applying relief-from-royalty method. The key assumption used is:

	2016
Remaining useful lives and attribution rate	8.8 years and 12%
Royalty rate	8%
Discount rate	14.9%

(b) Non-controlling interests

The Group has chosen to recognise the non-controlling interests at its fair value for this acquisition.

(c) Profit contribution

The acquired business contributed a net profit of RMB86,000 to the Group for the period from 6 April 2016 to 31 December 2016.

(d) The fair value of the Company acquired was estimated by applying the income approach

This is a level 3 fair value measurement. The key assumption used is:

	2016
Discount rate	13.9%
Terminal growth rate	0

9. SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2016:

Company Name	Jurisdiction and Date of Incorporation/ Establishment	Issued and Fully Paid Share Capital/ Registered Capital	Equity Interest Held	Principal Activities and Place of Operation
Directly held by the Company				
Denox Investments Holdings Limited	BVI/12 November 2014	US$1/US$1	100%	Investment holding, BVI
Indirectly held by the Company				
Denox Environmental & Technology (HK) Investments Co., Ltd	Hong Kong/ 21 November 2014	HK$1/HK$1	100%	Investment holding, Hong Kong
Beijing Denox Environmental& Technology Com.,Ltd ("Beijing Denox") (北京迪諾斯環保科技有限公司)	Beijing, the PRC/ 30 September 2010	RMB150,000,000/ RMB150,000,000	100%	Plate-type DeNOx catalysts design, distribution and selling, the PRC
Gu'an Denox Environmental Equipment Manufacturing Co., Ltd ("Gu'an Denox") (固安迪諾斯環保設備製造有限公司)	Gu'an, the PRC/ 27 August 2010	RMB15,000,000/ RMB15,000,000	100%	Plate-type DeNOx catalysts production, the PRC
Wuxi Denox Environmental& Technology Com., Ltd ("Wuxi Denox") (無錫迪諾斯環保科技有限公司)	Wuxi, the PRC/ 19 June 2012	RMB10,500,000/ RMB26,000,000	51%	Stainless steel mesh production, the PRC

The total comprehensive loss attributable to the non-controlling interest is summarized as follows:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Wuxi Denox Environmental& Technology Com., Ltd	**(441)**	–
	(441)	–

(a) Significant restrictions

Cash and cash equivalents and restricted cash of the Group, amounting to approximately RMB86,336,000, are held in Mainland China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on payment of dividends, share repurchase and offshore investments, etc.

9. SUBSIDIARIES *(Continued)*

(b) Summarised financial information on subsidiaries with material non-controlling interests

The directors of the Company does not considered that the non-controlling interests of Wuxi Denox is significant to the Group, therefore, no summarised financial information of the relevant subsidiaries is presented separately.

10. DEFERRED INCOME TAX

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Deferred income tax assets		
– Deferred income tax assets to be recovered after more than 12 months	**–**	1,077
– Deferred income tax assets to be recovered within 12 months	**–**	2,049
	–	3,126
Deferred income tax liabilities		
– Deferred income tax liabilities to be recovered after more than 12 months	**3,176**	–
– Deferred income tax liabilities to be recovered within 12 months	**438**	–
	3,614	–
Deferred income tax (liabilities)/assets – net	**(3,614)**	3,126

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities related to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

10. DEFERRED INCOME TAX *(Continued)*

The gross movement of the deferred income tax account is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Beginning of the year	**3,126**	1,951
Acquisition of a subsidiary (Note 8)	**(3,943)**	–
(Charged) / credited the consolidated statement of comprehensive income (Note 26)	**(2,797)**	1,175
End of the year	**(3,614)**	3,126

The analysis of deferred income tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Provision of inventories RMB'000	Impairment provision of receivables RMB'000	Deferred revenue RMB'000	Warranty provisions RMB'000	Unrealized profit RMB'000	Impairment provision of property, plant and equipment RMB'000	Total RMB'000
As at 31 December 2014	–	748	–	162	724	317	1,951
Recognized in the consolidated statement of comprehensive income	1,118	292	47	(32)	(205)	(45)	1,175
As at 31 December 2015	1,118	1,040	47	130	519	272	3,126
Recognized in the consolidated statement of comprehensive income	(1,118)	(1,040)	(47)	(130)	(519)	(272)	(3,126)
As at 31 December 2016	–	–	–	–	–	–	–

	Valuation adjustments resulting from acquisition of a subsidiary RMB'000	Total RMB'000
At 1 January 2016	**–**	–
Acquisition of a subsidiary (Note 8)	**3,943**	3,943
Recognised in the consolidated statement of comprehensive income	**(329)**	(329)
At 31 December 2016	**3,614**	3,614

10. DEFERRED INCOME TAX *(Continued)*

Deferred income tax assets are recognized for tax loss and deductible temporary difference carry-forwards to the extent that the realization of related tax benefits through future taxable profits is probable. The group did not recognise deferred income tax assets of RMB12,796,000 (2015: 5,604,000) in respect of tax losses and deductible temporary difference amounting to RMB38,427,000 (2015: RMB33,964,000) and RMB40,502,000, (2015: nil) respectively that can be carried forward against future taxable income. Estimated tax losses of RMB 30,528,000 (2015: nil) will expire within 5 years from December 31, 2016 respectively. The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

As at 31 December 2016, no deferred income tax liability had been provided for the PRC withholding tax that would be payable on the undistributed profits of approximately RMB45,780,000. 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.

11. INVENTORIES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Raw materials	**15,972**	12,143
Work-in-progress	**3,770**	7,057
Finished goods	**8,333**	17,152
Goods in transit	**11,327**	12,897
	39,402	49,249

The cost of inventories recognised as expenses and included in "cost of sales" amounted to approximately RMB92,886,000 (2015: RMB100,086,000), which included inventory write-down of RMB6,149,000 (2015: RMB7,450,000).

12. TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Bills receivable	**4,150**	1,002
Trade receivables	**59,473**	60,700
	63,623	61,702
Less: provision for impairment	**(7,365)**	(6,936)
	56,258	54,766

As at 31 December 2016 and 2015, the fair values of trade receivables approximated their carrying amounts.

12. TRADE AND BILLS RECEIVABLES *(Continued)*

(a) Ageing analysis of gross trade receivables at the respective balance sheet dates is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Less than 3 months	**7,551**	8,906
3 months to 6 months	**3,395**	6,809
6 months to 1 year	**14,074**	33,293
1 year to 2 years	**21,237**	7,503
2 years to 3 years	**12,826**	4,189
Over 3 years	**390**	–
	59,473	60,700

(b) Ageing analysis of past due but not impaired trade receivables as at 31 December 2016 and 2015 was as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Less than 6 months	**7,428**	7,653
6 months to 1 year	**9,367**	26,973
1 year to 2 years	**14,930**	4,683
Over 2 years	**8,978**	800
	40,703	40,109

Past due trade receivables are defined as trade receivables outstanding after 30 days, the official credit term, from the date on which the Group establishes the right of collection. Based on the past experiences and review of the operating situation of the customers, the directors are of the view that past due trade receivables, amounting to approximately RMB40,703,000, were not impaired as at 31 December 2016 (2015: RMB40,109,000) as there are no significant changes in the credit quality of individual customers.

12. TRADE AND BILLS RECEIVABLES *(Continued)*

(c) Movements on the Group's allowance for impairment of trade receivables are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**6,936**	4,987
Provision for receivables impairment	**4,513**	3,546
Unused amounts reversed	**(4,084)**	(1,597)
At 31 December	**7,365**	6,936

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the income statement (Note 22). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

(d) The maximum exposure to credit risk at each of the reporting date is the carrying value of the net receivable balances.

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Included in non-current assets		
Prepayments for acquisition of intangible assets	**–**	2,024
Prepayments for acquisition of property, plant and equipment	**1,744**	1,367
Long-term prepaid expenses	**1,251**	1,449
	2,995	4,840
Included in current assets		
Value-added tax recoverable	**4,764**	523
Deposits	**2,667**	1,772
Prepayment for professional service fee	**2,395**	–
Prepayments to suppliers	**1,945**	3,264
Compensation receivable (Note 23(b))	**1,580**	–
Prepayment for marketing service fee	**1,040**	–
Amount due from a third party agent	**927**	927
Export tax refund	**842**	–
Prepaid employees' housing subsidy	**360**	410
Staff advance	**202**	392
Short-term fixed income deposit (a)	**–**	83,778
Others	**1,699**	594
	18,421	91,660
Total	**21,416**	96,500

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

(a) The amount represented a short-term deposit placed with a major commercial bank through a third party asset management company with a maturity of 2 months and a fixed interest rate of 0.68% per annum.

As at 31 December 2016 and 2015, the carrying amounts of prepayments, deposits and other receivables approximated their fair values. As at 31 December 2016 and 2015, there were no significant balances that were past due.

The maximum exposure to credit risk at each of the reporting date is the carrying value of each class of prepayments, deposits and other receivables mentioned above.

Prepayments, deposits and other receivables are denominated in the following currencies:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
RMB	**18,689**	12,680
HK$	**1,170**	83,778
US$	**–**	42
EUR€	**1,557**	–
	21,416	96,500

14. CASH AND BANK BALANCES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Current		
Cash at bank and on hand	**223,805**	196,293
Short-term bank deposits	**–**	33,140
Restricted cash (a)	**2,558**	1,244
	226,363	230,677
Non-current		
Restricted cash (a)	**2,104**	358
Total cash and cash equivalents and restricted cash	**228,467**	231,035

(a) Restricted bank deposits were held as guarantee for bidding, product quality, performance of the Group's sales contracts and bank facility(Note 31).

14. CASH AND BANK BALANCES *(Continued)*

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
RMB	**69,826**	71,262
HK$	**114,234**	86,546
US$	**32,643**	73,227
EUR€	**11,764**	–
	228,467	231,035

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets include the following:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Beginning of the year	**–**	–
Additions	**2,000**	–
End of the year	**2,000**	–

The Group's available-for-sale financial asset comprises a RMB-denominated structured deposit with expected floating interest rate of approximately 2.5% 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 31 December 2016.

16. SHARE CAPITAL

	Number of authorised shares
Authorised shares:	
As at 31 December 2016 and 2015	5,000,000,000

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.

16. SHARE CAPITAL *(Continued)*

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.

	Number of shares issued	Share capital RMB'000
As at 31 December 2014	–	–
Completion of Reorganization (a)	5,555,555	342
Repurchase of ordinary shares (b)	(277,778)	(17)
Issuance of shares to shareholders (c)	504,890	31
Capitalisation of share premium (d)	368,071,331	23,420
Conversion of series A convertible redeemable preferred shares to ordinary shares (e)	1,146,002	73
Issuance of ordinary shares upon IPO (f)	125,000,000	7,953
As at 31 December 2015	500,000,000	31,802
As at 31 December 2016	500,000,000	31,802

(a) In preparation for the Initial Public Offering of the shares on the Stock Exchange, the Company underwent a group reorganisation (the "**Reorganisation**"). The following steps were carried out under the Reorganisation:

The Company was incorporated on 7 November 2014 with an initial authorized share capital of US$50,000 divided into 5,000,000 shares of US$0.01 each, in which the Controlling Shareholder held 2,916,666 shares (58.33%), EEC Technology Limited, a company incorporated in the BVI and controlled by Mr. Li Xingwu, a non-executive director of the Company, held 1,000,000 shares (20%) and other six BVI companies owned by Mr. Lin Mingwang, Ms. Xu Han, Mr. Kong Hongjun, Ms. Mou Peiyao, Mr. Li Ke and Mr. Liu Lianchao (the "**Individual Shareholders**"), respectively, held 1,083,334 shares (21.67%) in aggregate.

On 12 November 2014, BVI Denox was incorporated by the Company as a wholly-owned subsidiary of the Group.

On 21 November 2014, HK Denox was incorporated by BVI Denox as a wholly-owned subsidiary of the Group.

Pursuant to a series of equity transfer agreements dated 28 November 2014, HK Denox acquired a 100% equity interests in Beijing Denox from its then shareholders, including 52.5% equity interest from the Controlling Shareholder, 18.0% equity interest from Mr. Li Xingwu, 10.0% equity interest from Denox Environmental & Technology (HK) Co., Limited (香港迪諾斯環保科技有限公司, "**Denox Hong Kong**") and 19.5% equity interest from the Individual Shareholders, for an aggregate cash consideration of RMB62,290,000.

On 23 January 2015, Zymmetry Investments Ltd., a company incorporated in the BVI by the controlling shareholder of Denox Hong Kong, subscribed for 555,555 ordinary shares of the Company at cash consideration of US$5,555. Upon completion of Reorganisation, all the original owners of Beijing Denox have become the shareholders of the Company with the same shareholding percentages as those right before the Reorganization. The number of ordinary shares issued is 5,555,555 shares with a par value of US$0.01 each. All issued shares are fully paid.

16. SHARE CAPITAL *(Continued)*

(b) On 9 February 2015, the Company repurchased 138,889 ordinary shares and 138,889 ordinary shares from Advant Performance Limited and EEC Technology Limited at a consideration of US$3,075,000 and US$3,075,000 (approximately RMB18,943,000 and RMB18,943,000), respectively.

(c) On 27 February 2015, the then shareholders of the Company collectively subscribed 504,890 ordinary shares of the Company at an aggregate cash consideration of US$10,211,475 (approximately RMB62,723,000), of which US$5,049 and US$10,206,426 (approximately RMB31,000 and RMB62,692,000) was credited to share capital and share premium,respectively.

(d) On 11 November 2015, the Company issued additional 368,071,331 shares at a par of US$0.01 each to the then registered shareholders of the Company in proportion to their then shareholdings and capitalised an amount of US$3,680,713 (approximately RMB23,420,000), standing to the credit of the share premium account of the Company.

(e) On 12 November 2015, upon the Company's IPO on the Main Board of The Stock Exchange of Hong Kong Limited, the Company's 1,146,002 then outstanding series A convertible redeemable preferred shares were fully converted into ordinary shares on a one-to-one basis and consequently were derecognised from liability and approximately RMB73,000 and RMB106,965,000 were transferred to share capital and share premium, respectively. The conversion rate for the series A convertible redeemable preferred shares to ordinary shares was 1:1.

(f) On 12 November 2015, upon the Company's IPO on the Main Board of The Stock Exchange of Hong Kong Limited, the Company issued 125,000,000 new ordinary shares at par value of US$0.01 per share at an issue price of HK$2.10 each.

Share issuance cost mainly included fees for underwriting commission, legal councils, and reporting accountant and other related costs. Incremental costs that were directly attributable to the issue of the new ordinary shares, amounting to RMB15,072,000, was treated as a deduction from share premium. Other costs which were not directly attributable to the issue of the new ordinary shares amounting to RMB29,659,000.

17. SHARE PREMIUM AND CAPITAL 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
At 1 January 2015	–	(1,981)	10,576	–	207	8,802
Issuance of shares to Zymmetry Investments Ltd.	–	34	–	–	–	34
Completion of Reorganization (Note 16(a))	550,121	(550,463)	–	–	–	(342)
Repurchase of ordinary shares (Note 16(b))	(37,868)	–	–	–	–	(37,868)
Share-based compensation (a)	–	–	–	10,214	–	10,214
Issuance of shares to shareholders (Note 16(c))	62,692	–	–	–	–	62,692
Appropriation to statutory reserves(b)	–	–	1,821	–	–	1,821
Conversion of series A convertible redeemable preferred shares to ordinary shares (Note 16(e))	106,965	–	–	–	–	106,965
Capitalisation of share premium (Note 16(d))	(23,420)	–	–	–	–	(23,420)
Issuance of ordinary shares upon IPO (Note 16(f))	192,691	–	–	–	–	192,691
Currency translation differences	–	–	–	–	282	282
At 31 December 2015	851,181	(552,410)	12,397	10,214	489	321,871
Appropriation to statutory reserves (b)	–	–	9	–	–	9
Currency translation differences	–	–	–	–	12,560	12,560
At 31 December 2016	851,181	(552,410)	12,406	10,214	13,049	334,440

(a) On 9 February 2015, the Company repurchased 138,889 ordinary shares and 138,889 ordinary shares from Advant Performance Limited and EEC Technology Limited, the companies owned by Ms. Zhao Shu and Mr. Li Xingwu, respectively, to recognise their contributions provided to the Group during past years. The excess of the cash consideration paid by the Company over the fair value of 277,778 ordinary shares as at 9 February 2015, amounting to RMB10,214,000, was accounted for as a share-based payment to Ms. Zhao Shu and Mr. Li Xingwu, and was fully charged to employee expenses in the consolidated statement of comprehensive income for the year ended 31 December 2015. The fair value of the ordinary shares was determined by using discounted cash flow model. The significant inputs into the model include the discount rate of 19.1% and the projections of future performance.

(b) 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 years ended 31 December 2016 and 2015, RMB9,000 and RMB1,821,000 were appropriated from retained earnings to the statutory surplus reserve fund.

18. TRADE PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Third party	**6,918**	6,435

Ageing analysis of trade payables as at 31 December 2016 and 2015 was as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within 6 months	**6,524**	5,627
6 months to 1 year	**–**	480
1 to 2 years	**123**	328
Over 2 years	**271**	–
	6,918	6,435

As at 31 December 2016 and 2015, trade payables were denominated in RMB and the fair value of trade payables approximated their carrying amount at each balance sheet date.

19. ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Included in current liabilities		
Payables for purchases of property, plant and equipment	**7,157**	675
Payroll and welfare payables	**2,838**	2,572
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**	–
Payables for consulting service fee	**1,006**	808
Accruals and payables for utilities and transportation fee	**980**	558
Warranty provision	**657**	864
Accrual for audit fees	**623**	1,650
Amount due to non-controlling interest	**475**	–
Payable for professional service fee	**180**	–
Value-added and other taxes payables	**78**	265
Accruals and payables for listing expenses	**–**	9,248
Others	**975**	303
	19,268	19,516
Included in non-current liabilities		
Deferred government grants	**130**	2,090
	130	2,090
	19,398	21,606

20. SERIES A CONVERTIBLE REDEEMABLE PREFERRED SHARES

On 9 February 2015, the Company issued 742,550 shares and 403,452 shares of series A convertible redeemable preferred shares to Kickstart Holdings Limited and Sea of Wealth International Company, both being companies incorporated in the BVI, at cash consideration of US$15,000,000 (approximately RMB91,995,000) and US$8,150,000 (approximately RMB49,984,000), respectively. Such consideration was determined after arm's length negotiations between the shareholders of the Company, the original shareholders of Beijing Denox and the series A investors as well as taking into consideration the financial information of the Group, the timing of the subscription and the illiquidity of the Company's shares as a private company when the series A convertible preferred share purchase agreement was entered into.

On 12 November 2015, all series A convertible redeemable preferred shares of the Company had been converted into ordinary shares of the Company upon its IPO.

20. SERIES A CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

The rights, preference and privileges of the series A convertible redeemable preferred shares are as follow:

(i) Liquidation

In the event of any liquidation, dissolution or winding up of the Company, each holder of series A convertible redeemable preferred shares shall be entitled to receive an amount per share equal to 100% of the issue price of the series A convertible redeemable preferred shares, plus all interests of 15% and all accrued but unpaid dividends.

(ii) Redemption

Upon the occurrence of certain triggering events, such as the inability to successfully launch an initial public offering within a specified timeframe, holders of series A convertible redeemable preferred shares have the right to require any group companies or the Controlling Shareholder to redeem all or any part of the series A convertible redeemable preferred shares held thereby at a redemption price per share of the original issue price plus agreed interest rate ranging from 10% to 15% together with all declared but unpaid dividends.

(iii) Conversion

Each series A convertible redeemable preferred share is convertible, at the option of the holders, at any time after the date of issuance of such preferred share into one fully paid ordinary share of the Company, subject to adjustments for certain events, including but not limited to additional shares issuance, share dividends, subdivisions, combinations or consolidations of ordinary shares, other distributions, reclassification, exchange and substitution. Each series A convertible redeemable preferred share is automatically converted into an ordinary share of the Company at the then effective conversion price immediately prior to the closing of an underwritten initial public offering of the ordinary shares of the Company on any of the securities exchanges as approved by the holders of the series A convertible redeemable preferred shares.

(iv) Dividend

The holders of series A convertible redeemable preferred shares are entitled to participate in non-accumulative dividends, when and if declared by the board of directors of the Company at its entire discretion, in proportion to the number of ordinary shares which would be held by each such holder as if all series A convertible redeemable preferred shares were converted into ordinary shares at the then effective conversion price for the series A convertible redeemable preferred shares. Upon any declaration of dividends by the board of directors of the Company, amount available for distribution should not be less than 35% of the consolidated profit for the year in which such dividends are declared.

20. SERIES A CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

(v) Voting

Each series A convertible redeemable preferred shares conveys voting rights equal to such number of ordinary shares into which its series A convertible redeemable preferred shares are convertible.

The movement of the series A convertible redeemable preferred shares is set out as below:

	Series A convertible redeemable preferred shares RMB'000
As at 1 January 2015	–
Issuance of series A convertible redeemable preferred shares	141,979
Changes in fair value	(39,892)
Conversion of series A convertible redeemable preferred shares to ordinary shares (Note 16(e))	(107,038)
Exchange differences	4,951
As at 31 December 2015	–
Change in unrealized gain for the year included in profit or loss for liabilities held at the period end	(39,892)

Transaction costs of RMB3,823,000 directly attributable to the issuance of series A convertible redeemable preferred shares were recognized as finance costs in the consolidated statement of comprehensive income (Note 25).

The directors have used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation method to determine the fair value of the series A convertible redeemable preferred shares as at the date of issuance and at each of the reporting dates. Key assumptions are set as below:

	9 February 2015	31 December 2015	**31 December 2016**
Discount rate	19.1%	N/A	**N/A**
Risk-free interest rate	0.76%	N/A	**N/A**
Volatility	42.90%	N/A	**N/A**

20. SERIES A CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

(v) Voting *(Continued)*

Discount rate was estimated by weighted average cost of capital as at each appraisal date. The directors estimated the risk-free interest rate based on the yield of Hong Kong generic curve with a maturity life equal to year from the respective appraisal dates to expected liquidation date. Volatility was estimated at the dates of appraisal based on average of historical volatilities of the comparable companies in the same industry for a year from the respective appraisal dates to expected liquidation date. In addition to the assumptions adopted above, the Company's projections of future performance were also factored into the determination of the fair value of series A convertible redeemable preferred shares on each appraisal date.

Upon the date of IPO, the fair value of series A convertible redeemable preferred shares was assessed at the market price of HK$2.10 (approximately RMB1.72) per share.

Changes in fair value of series A convertible redeemable preferred shares were recorded in "fair value gain of series A convertible redeemable shares".

21. REVENUE

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Sales of goods	**69,780**	149,291
Provision of services	**–**	313
	69,780	149,604

The main products of the Group are plate-type DeNOx catalysts, which accounted for all of the Group's turnover for the year ended 31 December 2016 (2015: 99.8%).

For the years ended 31 December 2016 and 2015, revenue from certain individual customer accounted for 10 percent or more of the Group's total revenue for the respective year. The revenue of these customers are summarised below:

	Year ended 31 December	
	2016	2015
Customer A	**28.7%**	n.a.
Customer B	**18.4%**	n.a.
Customer C	**18.0%**	n.a.
Customer D	**13.7%**	n.a.
Customer E	**n.a.**	21.3%
Customer F	**n.a.**	11.6%

22. EXPENSES BY NATURE

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress	**8,949**	35,493
Raw materials consumed and consumable used	**58,483**	45,333
Employee benefit expenses (including share-based compensation expenses) (Note 24)	**14,124**	19,557
Depreciation, amortisation and impairment charges (Notes 5,6,7)	**26,093**	6,442
Inventory write-down (Note 11)	**6,149**	7,450
Professional service fees	**5,091**	605
Utilities charges and office expenses	**3,485**	2,918
Transportation and warehouse expense	**2,856**	1,147
Consulting service fees	**2,301**	2,059
Research and development expenses	**2,162**	1,900
Travelling, communication and entertainment expenses	**2,116**	2,090
Auditors' remuneration:		
– Audit services	**1,440**	1,640
– Non-audit services	**10**	10
Operating lease rentals	**907**	546
Stamp duty, property tax and other surcharges	**881**	1,465
Provision for impairment of receivables (Note 12)	**429**	1,949
Conference fee	**87**	78
Bidding service expenses	**62**	251
Listing expenses	**–**	28,010
Warranty reversal	**(210)**	(216)
Others	**932**	885
	136,347	159,612

23. OTHER GAINS- NET

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Government grants (a)	**5,160**	2,110
Compensation income (b)	**2,000**	–
Provision of other services	**1,815**	–
Interest income	**300**	45
Foreign exchange gains	**13**	303
Investment income	**12**	–
Loss on disposal of property, plant and equipment (Note 29(b))	**(87)**	–
Others	**–**	2
	9,213	2,460

(a) This amount represented the subsidy income granted to the Company by the government in Hebei, the PRC.

(b) This amount represented the compensation of RMB2,000,000 received from a customer for breaching the sales contract. Such amount was settled by the customer on January 2017.

24. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and bonuses	**11,433**	7,557
Social welfare pension	**1,026**	695
Other social insurance and housing funds	**904**	616
Other welfare and allowance	**761**	475
Share-based compensation expenses (Note 17(a))	**–**	10,214
	14,124	19,557

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the group for the year include three (2015: four) directors whose emoluments are reflected in the analysis shown in Note 35. The emoluments payable to the remaining two (2015:one) individuals during the year are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Basic salaries and allowances	**1,195**	785
Discretionary bonuses	**105**	–
Social security insurance	**73**	20
	1,373	805

24. EMPLOYEE BENEFIT EXPENSES *(Continued)*

(a) Five highest paid individuals *(Continued)*

The emoluments of the five highest paid individuals fell within the following bands:

	Year ended 31 December	
	2016	2015
Emolument band:		
Nil to HK$1,000,000	**4**	3
HK$1,000,001 to HK$6,500,000	**1**	1
HK$6,500,001 to HK$7,000,000	**–**	1
	5	5

25. FINANCE COSTS– NET

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Finance income		
Interest income on cash and cash equivalents and restricted cash	**488**	272
Net foreign exchange gains on financing activities	**–**	2,420
	488	2,692
Finance costs		
Net foreign exchange losses on financing activities	**(2,360)**	–
Issuance costs for series A convertible redeemable preferred shares (Note 20)	**–**	(3,823)
Interest expense on bank borrowings	**(87)**	–
	(2,447)	(3,823)
Finance costs – net	**(1,959)**	(1,131)

26. INCOME TAX EXPENSES

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Current income tax expenses	**322**	6,842
Under provision in prior year	**(1,575)**	–
Deferred income tax credit (Note 10)	**2,797**	(1,175)
	1,544	5,667

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
(Loss)/Profit before income tax	**(59,313)**	31,213
Tax calculated at domestic tax rate applicable to profits in the PRC (25%)	**(14,828)**	7,803
Tax effects of:		
Different tax rates applicable to different tax jurisdiction	**676**	(500)
Preferential tax benefits in the PRC	**4,416**	(2,400)
Tax losses for which no deferred income tax asset was recognised	**5,883**	5,604
Deductible temporary difference for which no deferred income tax asset was recognised	**6,913**	–
Expenses not deductible for tax purpose		
– Share-based compensation	**–**	1,532
– Fair value gain of series A convertible redeemable preferred shares	**–**	(6,582)
– Other permanent difference	**59**	210
Under provision in prior year	**(1,575)**	–
Income tax expenses	**1,544**	5,667

(a) Cayman Islands income tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

26. INCOME TAX EXPENSES *(Continued)*

(b) Hong Kong profits tax

Enterprises incorporated in Hong Kong are subject to profits tax rates of 16.5% for all the years presented. No Hong Kong tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the years ended 31 December 2016 and 2015.

(c) PRC corporate income tax

Enterprises incorporated in the PRC are generally subject to income tax rates of 25% throughout all the years presented except for enterprises with approval for preferential rate.

Being a high and new technology enterprise certified by local science and technology department and local finance and taxation administration, Beijing Denox has been granted a preferential rate of 15% in 2016.

(d) PRC withholding income tax

Pursuant to the applicable PRC tax regulations, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group has not provided for these withholding income taxes on the profit generated from the PRC Subsidiaries during the year ended 31 December 2016 as the directors have confirmed that the Group will reinvest the retained earnings of the PRC Subsidiaries in the foreseeable future.

27. (LOSSES)/EARNINGS PER SHARE

(a) Basic

Basic (losses)/earning per share is calculated by dividing the (loss)/profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during each year.

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
(Loss)/Profit attributable to shareholders of the Company	**(60,416)**	25,546
Weighted average number of ordinary shares in issue (thousand shares)	**500,000**	334,122
Basic (losses)/earnings per share (expressed in RMB per share)	**(0.12)**	0.08

Upon the Company's IPO on the Main Board of The Stock Exchange of Hong Kong Limited, the Company's then existing ordinary shareholders received 368,071,331 shares. As a result, the then existing outstanding ordinary shares were adjusted to 375,000,000 shares (Note 16(d)).

For the purpose of computing basic (loss)/earnings per share, the number of ordinary shares outstanding during each year has been adjusted retroactively for the proportional changes in the number of ordinary shares outstanding as a result of the capitalisation of share premium.

27. (LOSSES)/EARNINGS PER SHARE *(Continued)*

(b) Diluted

Diluted (loss)/earnings 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 year ended 31 December 2016, the Group has no potentially dilutive ordinary shares in issue.

For the year ended 31 December 2015, the Group has only one category of dilutive potential ordinary shares, which is series A convertible redeemable preferred shares and these shares were converted into ordinary shares on 12 November 2015, upon the Company's IPO as mentioned in Note 20. The series A convertible redeemable preferred shares are assumed to have been converted into ordinary shares from the issuance date to the conversion date, and the net profit is adjusted to eliminate the fair value change in the liability component.

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
(Losses)/earnings		
(Loss)/profit attributable to shareholders of the Company	**(60,416)**	25,546
Adjustment for:		
Fair value change in the liability component of the series A convertible redeemable preferred shares	**–**	(39,892)
Diluted loss attributable to shareholders of the Company	**(60,416)**	(14,346)
Weighted average number of ordinary shares in issue (thousand shares)		
Diluted weighted average number of ordinary shares for diluted (losses)/earnings per share (thousand shares)	**500,000**	381,023
Diluted losses per share (expressed in RMB per share)	**(0.12)**	(0.04)

28. DIVIDENDS

No dividend has been declared or paid by the companies now comprising the Group during the years ended 31 December 2016 and 2015.

29. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before income tax to net cash generated from operations

	Year ended 31 December 2016 RMB'000	2015 RMB'000
(Loss)/profit before income tax	**(59,313)**	31,213
Adjustments for:		
– Depreciation and impairment of property, plant and equipment (Note 5)	**19,202**	4,960
– Amortisation of land use right (Note 6)	**309**	179
– Amortisation and impairment of intangible assets (Note 7)	**6,582**	1,303
– Loss on disposal of property, plant and equipment	**87**	–
– Share-based compensation (Note 17(a))	**–**	10,214
– Fair value gain of series A convertible redeemable preferred shares (Note 20)	**–**	(39,892)
– Provision for impairment of receivables (Note 12)	**429**	1,949
– Write-down of inventories to their net realisable value (Note 11)	**6,149**	7,450
– Foreign exchange loss/(gain)	**2,734**	(2,420)
– Investment interest (Note 23)	**(300)**	(45)
– Interest income (Note 25)	**(488)**	(272)
– Investment income (Note 23)	**(12)**	–
– Finance costs (Note 25)	**87**	3,823
Operating profits before working capital changes	**(24,534)**	18,462
Changes in working capital:		
– Inventories	**10,395**	38,356
– Trade and bills receivables	**(2,541)**	(30,729)
– Prepayments, deposits and other receivables	**(1,281)**	(1,816)
– Trade payables	**383**	(2,583)
– Advance from customers	**(2,826)**	(55,656)
– Accruals and other payables	**(17,160)**	7,030
Cash flow used in operations	**(37,564)**	(26,936)

29. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(b) In the consolidated cash flow statements, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Net book amount disposed (Note 5)	**100**	–
Loss on disposal of property, plant and equipment (Note 23)	**(87)**	–
Proceeds from disposal of property, plant and equipment	**13**	–

30. COMMITMENTS

(a) Capital commitments

As at 31 December 2016 and 2015, the Group's capital expenditure contracted but not provided for amounted to RMB4,482,000 and RMB3,105,000, respectively.

(b) Operating lease commitments

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
No later than 1 year	**313**	554
1 to 2 years	**–**	582
	313	1,136

31. BANK FACILITIES AND GUARANTEE

As at 31 December 2016, the Group had bank guarantees of RMB560,000 in favor of the Group's customers with respect to the contract penalties or obligations in connection with the Group's performance and unutilized bank facilities amounted to RMB15,740,000. As at 31 December 2016, bank facilities were secured by (i) pledged of trade receivable amount to RMB17,600,000; (ii) pledged of bank deposits amount to RMB224,000.

As at 31 December 2015, the Group had bank guarantees of RMB5,912,000 in favor of the Group's customers with respect to the contract penalties or obligations in connection with the Group's performance and product quality, and unutilized bank facilities amounted to RMB19,088,000. As at 31 December 2015, bank facilities were secured by pledge of machinery with net book value of RMB13,081,000.

32. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of the Group are also considered as related parties.

(a) The following companies and persons are related parties of the Group during the years ended 31 December 2016 and 2015:

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

32. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties

Save as disclosed elsewhere in the financial statements, the Group has the following transactions with related parties, which are all discontinued transactions except for operating lease expenses as disclosed in Note 32(b) below:

Operating lease expenses charged by related parties

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Mr. Chen	**298**	294
Mr. Liu	**85**	256
	383	550

(c) Key management compensation

Key management includes directors and top management. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Basic salaries and allowances	**2,042**	1,606
Discretionary bonuses	**159**	386
Other benefits including pension	**213**	215
Share-based compensation	**–**	10,214
	2,414	12,421

33. SUBSEQUENT EVENTS

There were no material subsequent events during the period from 31 December 2016 to the approval date of these financial statements by the Board of Directors on 24 March 2017.

34. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Investments in a subsidiary		**259,408**	560,335
Amounts due from a subsidiary		**230,158**	132,067
Long-term prepayment		**346**	–
Total non-current assets		**489,912**	692,402
Current assets			
Cash and cash equivalents		**141,444**	149,468
Prepayments, deposits and other receivables		**1,170**	83,959
Total current assets		**142,614**	233,427
Total assets		**632,526**	925,829
EQUITY AND LIABILITIES			
Equity attributable to the shareholders of the Company			
Share capital		**31,802**	31,802
Share premium		**851,181**	851,181
Other reserves	a	**41,314**	18,180
(Accumulated deficits)/retained earnings	a	**(304,016)**	4,474
Total Equity		**620,281**	905,637
LIABILITIES			
Current liabilities			
Payroll payable		**208**	211
Accruals and other payables		**357**	9,533
Amount due to subsidiaries		**11,680**	10,448
Total current liabilities		**12,245**	20,192
Total liabilities		**12,245**	20,192
Total equity and liabilities		**632,526**	925,829

The balance sheet of the Company was approved by the Board of Directors on 24 March 2017 and was signed on its behalf:

ZHAO Shu
Director

KONG Hongjun
Director

34. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(a) Reserve movement of the Company

	(Accumulated deficits)/ retain earning RMB'000	Other reserves RMB'000
At 1 January 2015	(1,706)	2
Profit for the year	6,180	–
Share-based compensation(Note 17(a))	–	10,214
Currency translation differences	–	7,964
At 31 December 2015	4,474	18,180
At 1 January 2016	**4,474**	**18,180**
Loss for the year	**(308,490)**	**–**
Currency translation differences	**–**	**23,134**
At 31 December 2016	**(304,016)**	**41,314**

35. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

For the year ended 31 December 2016:

Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking:

Name	Salary RMB'000	Discretionary bonuses RMB'000	Social security insurance RMB'000	Total RMB'000
Executive Directors				
Ms. Zhao Shu (i)	**187**	**18**	**42**	**247**
Mr. Kong Hongjun (i)	**156**	**18**	**42**	**216**
Mr. Li Ke(i)	**156**	**18**	**42**	**216**
Non-executive Directors				
Mr. Li Xingwu (ii)	**–**	**–**	**–**	**–**
Mr. Teo Yi-Da (ii)	**–**	**–**	**–**	**–**
Independent Non-executive Directors				
Mr. Li Junhua (iii)	**100**	**–**	**–**	**100**
Mr. Lam Yiu Por (iii)	**104**	**–**	**–**	**104**
Mr. Ong Chor Wei (iii)	**104**	**–**	**–**	**104**

35. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' emoluments *(Continued)*

For the year ended 31 December 2015 (restated):

Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking:

Name	Salary RMB'000	Discretionary bonuses RMB'000	Social security insurance RMB'000	Estimated money value of other benefits RMB'000	Total RMB'000
Executive Directors					
Ms. Zhao Shu (i)	185	78	39	5,107	5,409
Mr. Kong Hongjun (i)	149	77	39	–	265
Mr. Li Ke (i)	149	77	39	–	265
Non-executive Directors					
Mr. Li Xingwu (ii)	–	–	–	5,107	5,107
Mr. Teo Yi-Da (ii)	–	–	–	–	–
Independent Non-executive Directors					
Mr. Li Junhua (iii)	14	–	–	–	14
Mr. Lam Yiu Por (iii)	13	–	–	–	13
Mr. Ong Chor Wei (iii)	13	–	–	–	13

(i) On 7 November 2014, 9 February 2015 and 9 February 2015, Ms. Zhao Shu, Mr. Kong Hongjun and Mr. Li Ke were appointed as the executive directors of the Company, respectively. No director has waived or agreed to waive any emoluments during the years ending 31 December 2016 and 2015.

(ii) On 7 November 2014, 9 February 2015 and 9 February 2015, Mr. Li Xingwu, Mr. Jia Wenzhong and Mr. Teo Yi-Da were appointed as the non-executive directors of the Company, respectively. They had not received any emoluments during the years ending 31 December 2016 and 2015. On 16 December 2015, Mr. Jia Wenzhong resigned as executive director of the company.

(iii) On 18 October 2015, Mr. Li Junhua, Mr. Lam Yiu Por, and Mr. Ong Chor Wei were appointed as the independent non-executive directors of the Company, respectively.

35. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(b) Directors' retirement benefits

During the year ended 31 December 2016, no other retirement benefits were paid to or receivable by the directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2015: same).

(c) Directors' termination benefits

During the year ended 31 December 2016, none of the directors received any emolument from the Group as leave the Group or as compensation for loss of office (2015: same).

(d) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2016, no consideration has been provided to third parties for making available directors' services (2015: same).

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at 31 December 2016 and 2015 or at any time during the years ended 31 December 2016 and 2015.

The Company was incorporated on 7 November 2014 and became the holding company of the subsidiaries through a reorganisation in preparation of the listing of the Company's shares on the Main Board of Stock Exchange on 12 November 2015. The combined financial statements of the Group for the years ended 31 December 2012 to 2014 had been prepared as if the Group had been in existence throughout the years presented, or since the respective dates of incorporation or establishment of the group companies.

RESULTS

	Year ended 31 December				
	2012	2013	2014	2015	**2016**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	22,475	126,872	217,142	149,604	**69,780**
Gross profit/(loss)	9,870	61,424	106,413	48,744	**(23,337)**
Operating profit/(loss)	(880)	39,176	85,883	(7,548)	**(57,354)**
Profit/(loss) before income tax	(1,773)	38,721	86,152	31,213	**(59,313)**
Profit/(loss) for the year attributable to shareholders of the Company	(1,378)	32,708	73,535	25,546	**(60,416)**

ASSETS AND LIABILITIES

	As at 31 December				
	2012	2013	2014	2015	**2016**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	100,688	218,464	243,567	494,365	**456,337**
Total liabilities	64,422	149,490	162,833	45,035	**41,212**
Total equity	36,266	68,974	80,734	449,330	**415,125**

GLOSSARY

"catalyst regeneration"	a physical and chemical process of restoring the effectiveness of catalysts which have been depleted after a period of use
"CG Code"	Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules
"DeNOx"	the process of reducing the NOx concentration in industrial flue gas emissions
"DeNOx catalyst"	a kind of chemical substance which is the core component of SCR, and acts by producing the chemical reaction to convert NOx into N2 and H2O. The basic element of the catalyst mainly includes TiO 2 and V2O5
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules
"plate-type DeNOx catalyst"	a plate-type DeNOx catalyst takes metal as the carrier. Surface coating is composed of active ingredient
"PRC"	the People's Republic of China
"regeneration"	a physical and chemical process of restoring the effectiveness of DeNOx catalysts which have been depleted after a period of use
"replenishment"	the purchase of new DeNOx catalysts to replace existing catalysts when the existing catalysts come to the end of their chemical life. It does not include regeneration
"Reporting Period"	the year ended 31 December 2016
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shares"	the shares of the Company
"Shareholders"	the holder of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited