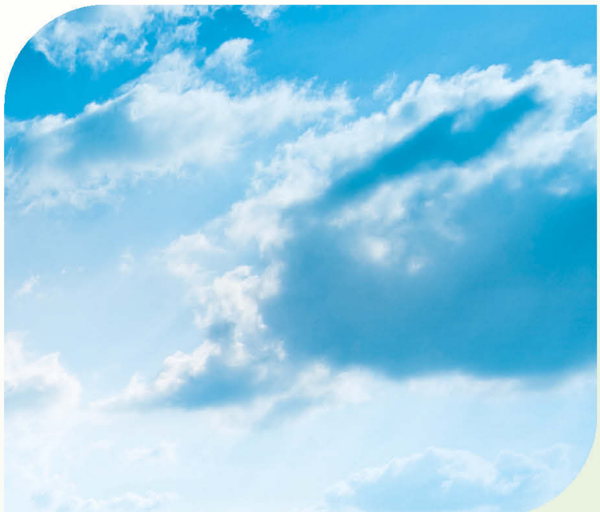
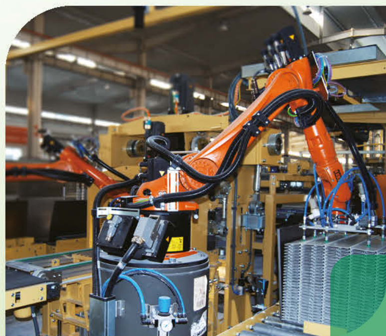
Interim Report
2016





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

CONTENTS

CORPORATE INFORMATION

Board of Directors

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

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

Sidley Austin

As to Cayman Islands laws

Conyers Dill & Pearman

Compliance Adviser

Cinda International Capital Limited

Registered Office

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

Principal Place of Business in Hong Kong

15th Floor, 80 Gloucester Road
Wanchai
Hong Kong

Headquarters and principal place of business in the PRC

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

Cayman Islands Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Principal Bankers

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

Website

www.china-denox.com

Stock Code

01452

BUSINESS REVIEW

OVERVIEW

Denox Environmental & Technology Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") is an investment holding company with its principal subsidiaries engaged in design, development, manufacture and sales of plate-type DeNOx catalysts in the People's Republic of China (the "**PRC**"). In the first half of 2016, there were no significant changes in the nature of the Group's principal activities.

Industry analysis

In the first half of 2016, although air pollution in China has been reduced to a certain extent as compared with previous years, there are still many areas in China facing severe air pollution. At present, DeNOx facilities have been basically installed and put into operation in the thermal power industry which is the main source of nitrogen oxide. In 2016, the Chinese government implemented the ultra-clean emission standard in more regions. In the meantime, the first peak for the existing DeNOx catalysts being replenished occurred as expected and this triggered a significant increase in the market demand for the DeNOx catalysts in the first half of the year. But at the same time, due to the intensified competition among several domestic plate-type DeNOx catalysts suppliers, selling prices of catalysts fell significantly and the operation of the industry is under growing pressure.

Save as the DeNOx catalysts for the power industry, there has been a widespread demand of DeNOx catalysts for diesel-powered vehicles and vessels, which will provide new market opportunities and sources of profit.

Sales and Marketing

Due to the further intensified market competition, the Group faced severe challenges in its sales and marketing. A summary of the key marketing operations of the Group in the first half of 2016 is set out below:

(1) In the first half of 2016, the Group signed sales contracts relating to 11 projects with its total sales volume of catalysts amounting to 6,676 m^3.

(2) In the first half of 2016, an Europe-based client placed two orders with the Group amounting to a total of 945 m^3, which is the first time for the Europe-based company to carry out bulk purchase from the plate-type catalyst suppliers of China. This also indicates that the quality of the Group's products is well recognised. The Group made shipments in April and June 2016 respectively on time according to the requirements of the contracts and the product quality satisfied or exceeded the standards as required by the customers through physical and chemical tests by the customers, laying a solid foundation for the Group to further expand into the European market.

(3) The establishment of an industrial catalyst division (the "**Division**") expedited the close cooperation between the sales and the after-sales service of the Group. In the first half of 2016, the team responsible for after-sales service assisted 8 power plants to complete the installation of catalysts for 13 units. The Division compiled new "Operating Instructions for Installation of Plate-Type Catalysts" in accordance with the actual situations, so that the installation of catalysts could proceed smoothly by standardising operating processes. In the first half of 2016, the Division collected catalysts samples from 14 generating units in 12 power plants, notified the customers of the results of the assessment immediately after the catalyst performance test reports were issued, and mailed the reports to the customers. The after-sales service team was highly appraised by the customers.

Production management

(1) In the first half of 2016, the production center strengthened efforts in the control and management of production process. The productivity and quality of products were enhanced. The department revised the documents regarding quality control for products and fulfilled the management of quality at different levels. It formulated the job responsibilities and responsible procedures for all posts of the production center and improved part of the production management systems. It conducted level-three safety training for new employees.

(2) The department proactively put forward rational proposals and carried out technical innovation activities to reduce the production costs and enhance the product quality.

(3) The department accomplished all the catalyst contracts signed by the Group in compliance with the specified quality and quantity in the first half of year. Particularly, in respect of the contracts with the Europe-based client of the Group, the department accomplished the massive production of catalysts of specific quality for export orders for the first time.

Research & development and technology resources

(1) In the first half of 2016, with the Group proceeding of the technical transformation of production process, the research and development department carried out massive inspection, tests and analysis, which provided the data support for its final plan of the technological adjustment.

(2) In the first half of year, the research and development department summarised the raw materials and finished products used in each project for record, run an analysis on various performance indicators of the used samples, as well as delivered the reports to customers. It also made detailed and comprehensive internal reports in order to better manage, analyse and monitor the catalysts under operation.

(3) The department also collected, collated and studied a large amount of technical information relating to catalysts for diesel-powered vehicles and vessels, which laid a foundation for the research and development of new technologies and production of new products for the Group.

(4) Pursuant to relevant PRC regulations, the state will implement the emission limits on pollutants discharged by vessels and vehicles in the first and second stages in 2016 and 2019 respectively. This will trigger explosive market demand for DeNOx catalysts for vessels. In the first half of 2016, the Group acquired the technology of DeNOx catalysts for vessels at the right time and will master this technology as soon as possible to strive for involving in the field of catalysts for vessels after entering into the industry of catalysts for diesel-powered vehicles.

BUSINESS REVIEW

FINANCIAL REVIEW

Revenue

The Group's revenue for the six months ended 30 June 2016 decreased to approximately RMB29.9 million, representing a decrease of 71.7% from approximately RMB105.8 million of the same period last year. Revenue generated from sales of plate-type DeNOx catalysts and the provision of environmental protection consulting services amounted to approximately RMB28.1 million and RMB1.8 million, respectively (for the six months ended 30 June 2015: approximately RMB105.8 million and Nil, respectively). The decrease in sales of plate-type DeNOx catalysts was primarily attributable to (i) a drop in the average selling price of plate-type DeNOx catalysts per m^3 by approximately 55.9% to RMB9,639 per m^3 from RMB21,870 per m^3 in the same period last year due to the intensified market competition; and (ii) the 40% decrease in sales volume of plate-type DeNOx catalysts from 4,837 m^3 of the same period last year to 2,912 m^3 for the period under review.

Cost of sales

Cost of sales of the Group decreased by approximately 48.9% from approximately RMB69.1 million for the six months ended 30 June 2015 to RMB35.3 million for the six months ended 30 June 2016. The decrease in cost of sales was mainly due to decrease in sales volume of plate-type DeNOx catalysts.

Gross profit and gross profit margin

The Group incurred the gross loss of approximately RMB5.5 million for the six months ended 30 June 2016 and gross profit of RMB36.6 million for the six months ended 30 June 2015.

For the six months ended 30 June 2016, the Group recorded a negative gross profit margin of approximately 18.3% while recording a positive gross profit margin of approximately 34.6% for the same period last year which was mainly due to the decrease in average selling price of plate-type DeNOx catalysts.

Selling and marketing expenses

Selling and marketing expenses primarily consist of bidding service fee, consulting service expenses, transportation cost and employee benefit expenses. For the six months ended 30 June 2016, the selling and marketing expenses of the Group increased to approximately RMB2.3 million from approximately RMB2.0 million of the same period last year.

Administrative expenses

Administrative expenses mainly consist of employee benefit expenses, depreciation and amortization, research and development expenses and listing expenses. For the six months ended 30 June 2016, the Group's administrative expenses decreased by 74.5% to approximately RMB8.0 million from RMB31.4 million in the same period last year. The decrease was primarily attributable to the one-off expenses incurred in the same period last year such as listing expenses of approximately RMB15.5 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.

Other gains (net)

Other gains (net) primarily consist of government grants, foreign exchange gains and interest income. For the six months ended 30 June 2016, the Group's other gains (net) increased to approximately RMB2.9 million from approximately RMB0.2 million in the same period last year. Such increase was mainly due to the receipt of approximately RMB2.0 million from local government of Hebei Province for the successful listing of the Shares on the Main Board of the Stock Exchange.

Finance costs (net)

Finance costs (net) primarily consist of finance income and finance costs. Finance costs includes interest costs for borrowings, the costs for issuance of series A preferred shares of the Company (the "**Series A Preferred Shares**") and net foreign exchange losses on financing activities. Finance income includes interest income on cash and cash equivalents and restricted cash. For the six months ended 30 June 2016, the Group's finance costs (net) decreased to approximately RMB0.4 million from RMB3.8 million in the same period last year. Such decrease was primarily due to the expenses for issuance of the Series A Preferred Shares of approximately RMB3.7 million incurred during six months ended 30 June 2015.

Fair value loss of Series A Preferred Shares

The Group recognised the one-off fair value loss of approximately RMB12.2 million of the Series A Preferred Shares for the six months ended 30 June 2015 (30 June 2016: Nil).

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 is 25% and 16.5%, respectively. Beijing Denox Environmental & Technology Co., Ltd, a wholly-owned subsidiary of the Company ("**Beijing Denox**"), was designated as "High and New Technology Enterprise" and enjoyed a preferential tax rate of 15% for the period under review. The Group recorded an income tax credit of approximately RMB2.9 million for the six months ended 30 June 2016 and the income tax expenses of approximately RMB4.7 million in the same period last year.

The effective tax rate was 21.7% for the six months ended 30 June 2016. The Group recorded a negative effective tax rate of 37.0% in the same period last year, which was primarily because of loss before income tax as a result of the occurrence of one-off listing expenses, share-based compensation expenses and fair value loss of Series A Preferred Shares which were non tax-deductible.

Loss attributable to the shareholders of the Company

As a result of the foregoing, the loss attributable to the shareholders of the Company for the six months ended 30 June 2016 decreased by 36.7% to approximately RMB10.9 million from RMB17.3 million in the same period last year.

Liquidity and Capital Resources

The Group's financial position remains solid and the Group possessed sufficient cash to meet its commitments and working capital requirements. As at 30 June 2016, the Group had net current assets of approximately RMB336.4 million (31 December 2015: approximately RMB383.4 million) of which cash and cash equivalents were approximately RMB239.9 million (31 December 2015: approximately RMB229.4 million) and were denominated in RMB, US$ and HK$.

The Group's total bank borrowings amounted to approximately RMB2.4 million as at 30 June 2016 (31 December 2015: Nil). Such borrowings are denominated in RMB. As at 30 June 2016, the Group's gearing ratio was 0.5% (31 December 2015: Nil), which is calculated by dividing the total bank borrowings by the total assets of the Group.

The Group had bank guarantees of approximately RMB6.7 million in favor of its customers with respect to the contract penalties or obligations in connection with its product quality and tender as at 30 June 2016 (31 December 2015: approximately RMB5.9 million). Unutilised bank facilities amounted to approximately RMB18.3 million as at 30 June 2016 (31 December 2015: approximately RMB19.1 million).

Use of net proceeds from the Listing

As at 30 June 2016, net proceeds not utilised of approximately RMB127.2 million were deposited into interest bearing bank accounts with licensed commercial banks and will be applied according to the section headed "Use of proceeds" of the Company's prospectus dated 30 October 2015.

	Planned Amount RMB'million	Amount utilised up to 30 June 2016 RMB'million	Balance as at 30 June 2016 RMB'million
Development of DeNOx catalysts for diesel-powered vehicles	78.6	0.7	77.9
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	0.3	16.8
Expansion of the Group's sales network and establishment of the Group's regional sales offices in China as well as Europe	6.9	2.3	4.6
Replacement of the Group's No. 1 production line	5.1	2.6	2.5
Working capital and general corporate purposes	17.1	16.0	1.1
	171.0	43.8	127.2

Pledged assets

As at 30 June 2016, the Group pledged assets with an aggregate carrying value of approximately RMB20.3 million (31 December 2015: approximately RMB13.1 million) to secure banking facilities and bank borrowings.

Capital expenditure and commitments

The Group incurred capital expenditure to expand its operations, maintain its equipment and increase its operational efficiency. For the six months ended 30 June 2016, the Group invested approximately RMB3.0 million (31 December 2015: RMB4.1 million) for the prepayment and purchase of property, plant and equipment and RMB15.4 million for intangible assets (31 December 2015: RMB2.0 million). These capital expenditures were financed by internal resources of the Group.

As at 30 June 2016, the Group's future capital expenditures contracted but not provided for amounted to approximately RMB14.6 million (31 December 2015: approximately RMB3.1 million).

Contingent liabilities

As at 30 June 2016, the Group did not have any material contingent liabilities (31 December 2015: Nil).

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 six months ended 30 June 2016.

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

Important events affecting the Group after the reporting period

No important events affecting the Group has taken place since 30 June 2016 and up to the date of this report.

Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions originally denominated and settled in RMB, of which foreign exchange risk is considered insignificant. The Group is exposed to foreign exchange risk primarily with respect to certain of its bank deposits which were denominated in HK$ and US$. The Group did not carry out any hedging activity against foreign currency risk during the six months ended 30 June 2016. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may have a financial impact on the Group.

Employees

As at 30 June 2016, the Group had 139 employees (31 December 2015: 119). Remuneration of the employees of the Group amounted to RMB6.4 million for the six months ended 30 June 2016 (the year ended 31 December 2015: RMB19.6 million). Remuneration policies are reviewed regularly to ensure that the Group is offering competitive employment packages to employees. Remuneration of the Group's employees includes salaries, pension, discretionary bonus, medical insurance scheme and other applicable social insurance. The Group's remuneration policy for the directors, senior management and employees was based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the profit performance of the Group and the individual performance of the Directors, senior management members and employees. Further, the Group adopted the share option scheme on 14 October 2015. Further information of such share option scheme is available in the annual report of the Company for 2015. The Group's growth is dependent upon the skills and dedication of employees. The Group recognises the importance of human resources in competitive industry and has devoted resources to provide training to employees. The Group has established an annual training program for its employees so that new employees can master the basic skills required to perform their functions and existing employees can upgrade or improve their production skills.

BUSINESS REVIEW

PROSPECTS

In the upcoming two years, the Group will continue its sales effort in the China. In order to increase sales of the Group and enhance its competitiveness, the Group will (a) further strengthen its marketing efforts in expanding the sales of its catalysts to the overseas markets, including European, Taiwanese and Southeast Asian markets; and (b) further develop its DeNOx products for diesel-powered vehicles. Further details are set out below:

Strengthen efforts in marketing

(1) According to the price competition in the domestic market currently, the Group will select projects and make the risk assessment.

(2) Leveraging on the influence of the Group's high-quality products in the overseas markets, the Group will make greater efforts in strengthening the sales of DeNOx catalysts in the international market to boost the proportion of the export sales attributable to the Group's total sales.

(3) The Group will recruit and train sales and technical talents with a view to make preparations for talents for the Group to further expand its market share.

Further enhance productivity and reduce production cost

(1) The Group has replaced its No. 1 production line with an additional production line at the beginning of the second half of 2016, and its production capacity will reach 36,000 m^3 per year. Higher productivity will allow the Company to respond to its customers' demands quickly and shorten its delivery time.

(2) In response to the current price competition, the Group will further upgrade its production process and make technological adjustments to equipment in the first half of year which could reduce the unit production cost of catalysts with a view to make the Group an industry leader in terms of production cost and product quality.

(3) The Group will further strengthen and optimise management of inventory and therefore better manage the cash flow of the Group.

New products and technologies

(1) The Group ordered equipment for production of catalysts for diesel-powered vehicles, which will arrive at the production site in the fourth quarter of 2016. Affected by the extended time being required for the approval from local government, it is expected that the commencement of production of catalysts products for diesel-powered vehicles will be slightly behind the schedule, which is currently expected to take place by the end of 2016. The Group will complete the test of equipment and production of products and to pass the inspection and testing performed by independent third parties as soon as possible so that it would be included in the list of qualified suppliers of diesel-powered vehicles, provide customers with qualified products and become new sources of profit for the Group.

(2) Proper digestion of technologies for DeNOx catalysts for vessels

Given that the emission reduction in nitrogen oxide discharged by vessels has been implemented in two phases since 2016, the Group will digest the technology of DeNOx catalysts for vessels, and further strengthen communications with shipyards, vessel engine manufacturers and design institutes with a view to tapping into this field as soon as possible.

Supply of steel plates

The Group acquired 51% equity of Wuxi Denox in the first half of year. After such acquisition, the Group possessed two production bases in the North and South respectively. As the next step, the Company will strengthen the management of Wuxi Denox, which will supply high-quality stainless steel plates for the Group in a timely manner.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 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)	3.0%
	Interest in controlled corporation *(Note 3)*	149,887,609 (L)	30.0%
Mr. Li Xingwu	Interest in controlled corporation *(Note 4)*	51,075,015 (L)	10.2%
Mr. Kong Hongjun	Interest in controlled corporation *(Note 5)*	8,887,475 (L)	1.8%
Mr. Li Ke	Interest in controlled corporation *(Note 6)*	2,962,474 (L)	0.6%

Notes:

1. *The letter "L" denotes the person's long position in the Shares.*
2. *The percentages are calculated based on 500,000,000 Shares in issue as at 30 June 2016.*
3. *These 149,887,609 Shares are held by Advant Performance Limited ("**Advant Performance**") which is wholly owned by Ms. Zhao. Ms. Zhao is deemed to be interested in these Shares by virtue of the SFO.*
4. *These 51,075,015 Shares are held by EEC Technology Limited ("**EEC Technology**") which is wholly owned by Mr. Li. Mr. Li is deemed to be interested in these Shares by virtue of the SFO.*
5. *These 8,887,475 Shares are held by Global Reward Holdings Limited which is wholly owned by Mr. Kong. Mr. Kong is deemed to be interested in these Shares by virtue of the SFO.*
6. *These 2,962,474 Shares are held by Fine Treasure Asia Holdings Limited which is wholly owned by Mr. Li Ke. Mr. Li Ke is deemed to be interested in these Shares by virtue of the SFO.*

Save as disclosed above, as at 30 June 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.

DISCLOSURE OF INTERESTS

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save for share option scheme of the Company as disclosed in its annual report for the year ended 31 December 2015, at no time during the six months ended 30 June 2016 was the Company, its subsidiaries, holding companies or fellow subsidiaries as a party to any arrangements to enable Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 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	Beneficial owner	149,887,609 (L)	30.0%
EEC Technology	Beneficial owner	51,075,015 (L)	10.22%
Kickstart Holdings Limited	Beneficial owner	40,188,996 (L)	8.03%
Spring Capital Asia Fund, L.P.	Interest in controlled corporation *(Note 3)*	40,188,996 (L)	8.03%

Notes:

1. *The letter "L" denotes the person's long position in the Shares.*

2. *The percentages are calculated based on the 500,000,000 Shares in issue as at 30 June 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 30 June 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 shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

OTHER INFORMATION

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") during the six months ended 30 June 2016.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry with all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code during the six months ended 30 June 2016.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2016, the Company complied with the applicable code provisions of the Corporate Governance Code with the exception of code provision A.2.1. The Board is of the view that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group's business strategies which are in the best interests of the Company. For further details of such exception, please refer to section headed "Corporate Governance Report – (D) Chairman and Chief Executive" of the annual report of the Company for the year ended 31 December 2015.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2016.

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

Mr. Ong Chor Wei was appointed as an independent non-executive director of Nameson Holdings Limited ("**Nameson**") (stock code: 1982) on 29 January 2016. The shares of Nameson were listed on the main board of the Stock Exchange on 12 April 2016.

AUDIT COMMITTEE

The audit committee of the Board has reviewed with management and external auditor the accounting policies, accounting standards and practices adopted by the Group and the unaudited consolidated interim financial information and results of the Group for the six months ended 30 June 2016.

By Order of the Board
Zhao Shu
Chairlady

Hong Kong, 30 August 2016

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

羅兵咸永道

To the board of directors of DENOX ENVIRONMENTAL & TECHNOLOGY HOLDINGS LIMITED
(Incorporated in Cayman Island with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 15 to 42, which comprises the condensed consolidated balance sheet of Denox Environmental & Technology Holdings Limited (the "**Company**") and its subsidiaries (together, the "**Group**") as at 30 June 2016 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 August 2016

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CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2016
(All amounts in RMB unless otherwise stated)

	Note	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**62,193**	45,413
Land use rights	7	**16,211**	8,202
Intangible assets	8	**23,388**	6,074
Long-term prepayments	13	**19,525**	4,840
Deferred income tax assets	10	**5,161**	3,126
Restricted cash	14	**63**	358
Total non-current assets		**126,541**	68,013
Current assets			
Inventories	11	**64,701**	49,249
Trade and bills receivables	12	**51,071**	54,766
Prepayments, deposits and other receivables	13	**19,749**	91,660
Restricted cash	14	**2,870**	1,244
Cash and cash equivalents	14	**239,927**	229,433
Total current assets		**378,318**	426,352
Total assets		**504,859**	494,365
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	15	**31,802**	31,802
Share premium	16	**851,181**	851,181
Capital reserves	16	**(552,410)**	(552,410)
Other reserves	16	**27,344**	23,100
Retained earnings		**84,485**	95,657
		442,402	449,330
Non-controlling interests		**14,683**	–
Total equity		**457,085**	449,330

The notes on pages 21 to 42 form an integral part of this interim consolidated financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2016
(All amounts in RMB unless otherwise stated)

	Note	**Unaudited 30 June 2016 RMB'000**	Audited 31 December 2015 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income	18	**2,060**	2,090
Deferred income tax liabilities	10	**3,834**	–
Total non-current liabilities		**5,894**	2,090
Current liabilities			
Trade payables	17	**7,224**	6,435
Advances from customers		**6,942**	8,861
Accruals and other payables	18	**19,205**	19,516
Short-term borrowings	19	**2,400**	–
Current income tax liabilities		**6,109**	8,133
Total current liabilities		**41,880**	42,945
Total liabilities		**47,774**	45,035
Total equity and liabilities		**504,859**	494,365

The notes on pages 21 to 42 form an integral part of this interim consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016
(All amounts in RMB unless otherwise stated)

	Note	Unaudited Six months ended 30 June 2016 RMB'000	2015 RMB'000
Revenue	20	**29,881**	105,783
Cost of sales	21	**(35,343)**	(69,138)
Gross (loss)/profit		**(5,462)**	36,645
Selling and marketing expenses	21	**(2,263)**	(2,039)
Administrative expenses	21	**(8,016)**	(31,383)
Other gains – net	22	**2,909**	211
Operating (loss)/profit		**(12,832)**	3,434
Finance income	23	**317**	50
Finance costs	23	**(704)**	(3,864)
Finance costs – net		**(387)**	(3,814)
Fair value loss of series A convertible redeemable preferred shares		**–**	(12,245)
Loss before income tax		**(13,219)**	(12,625)
Income tax benefits/(expenses)	24	**2,863**	(4,677)
Loss for the period		**(10,356)**	(17,302)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences	16	**4,019**	52
Other comprehensive income for the period		**4,019**	52
Total comprehensive loss for the period		**(6,337)**	(17,250)
Loss attributable to:			
– Shareholders of the Company		**(10,947)**	(17,302)
– Non-controlling interests		**591**	–
		(10,356)	(17,302)
Total comprehensive loss attributable to:			
– Shareholders of the Company		**(6,928)**	(17,250)
– Non-controlling interests		**591**	–
		(6,337)	(17,250)
Loss per share (expressed in RMB per share)			
– Basic and diluted losses per share	25	**(0.02)**	(0.05)

The notes on pages 21 to 42 form an integral part of this interim consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

For the six months ended 30 June 2016
(All amounts in RMB unless otherwise stated)

		Unaudited							
		Attributable to shareholders of the Company							
	Note	Share capital RMB'000	Share premium RMB'000	Capital reserves RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2016		31,802	851,181	(552,410)	23,100	95,657	449,330	–	449,330
Comprehensive loss									
Loss for the six months ended 30 June 2016		–	–	–	–	(10,947)	(10,947)	591	(10,356)
Other comprehensive income									
Currency translation differences		–	–	–	4,019	–	4,019	–	4,019
Total comprehensive loss		–	–	–	4,019	(10,947)	(6,928)	591	(6,337)
Transaction with shareholders of the Company, recognised directly in equity									
Non-controlling interests arising from acquisition of a subsidiary	9	–	–	–	–	–	–	14,092	14,092
Appropriation to statutory reserves	16	–	–	–	225	(225)	–	–	–
Total transaction with shareholders of the Company, recognised directly in equity		–	–	–	225	(225)	–	14,092	14,092
Balance at 30 June 2016		31,802	851,181	(552,410)	27,344	84,485	442,402	14,683	457,085

CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

For the six months ended 30 June 2016
(All amounts in RMB unless otherwise stated)

		Unaudited					
		Attributable to shareholders of the Company					
	Note	Share capital RMB'000	Share premium RMB'000	Capital reserves RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2015		–	–	(1,981)	10,783	71,932	80,734
Comprehenseive loss							
Loss for the six months ended 30 June 2015		–	–	–	–	(17,302)	(17,302)
Other comprehensive income							
Currency translation differences		–	–	–	52	–	52
Total comprehensive loss		–	–	–	52	(17,302)	(17,250)
Transaction with shareholders of the Company, recognised directly in equity							
Issuance of shares to Zymmetry Investments Ltd.		–	–	34	–	–	34
Completion of Reorganization	15	342	550,121	(550,463)	–	–	–
Repurchase of ordinary shares	15	(17)	(37,868)	–	–	–	(37,885)
Issuance of shares to shareholders	15	31	62,692	–	–	–	62,723
Appropriation to statutory reserves	16	–	–	–	1,340	(1,340)	–
Share-based compensation	16	–	–	–	10,214	–	10,214
Total transaction with shareholders of the Company, recognised directly in equity		356	574,945	(550,429)	11,554	(1,340)	35,086
Balance at 30 June 2015		356	574,945	(552,410)	22,389	53,290	98,570

The notes on pages 21 to 42 form an integral part of this interim consolidated financial information.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016
(All amounts in RMB unless otherwise stated)

	Note	Unaudited Six months ended 30 June 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash used in operations		**(34,585)**	(18,399)
Interest received		**409**	50
Income tax paid		**(2,794)**	(8,355)
Net cash used in operating activities		**(36,970)**	(26,704)
Cash flows from investing activities			
Purchase of land use rights		**–**	(490)
Purchases of property, plant and equipment		**(2,959)**	(1,868)
(Increase in)/decrease of pledged deposits		**(1,331)**	2,072
Prepayment and purchases of intangible assets		**(15,391)**	(1,364)
Proceeds from disposals of property, plant and equipment		**13**	–
Acquisition of subsidiary, net of cash acquired	9	**(19,741)**	–
Proceeds from decrease in short-term fixed income deposit		**85,430**	–
Net cash generated from/(used in) investing activities		**46,021**	(1,650)
Cash flows from financing activities			
Proceeds from bank borrowings		**2,400**	–
Capital injection by equity holders	15	**–**	62,723
Proceeds from issuance of series A convertible redeemable preferred shares		**–**	140,132
Distribution to equity holders for Reorganization		**–**	(62,290)
Payment for repurchase of ordinary shares		**–**	(37,885)
Repayments of bank borrowings		**(2,300)**	–
Interest paid		**(41)**	–
Payment of ordinary shares issuance costs		**(1,322)**	–
Net cash generated from/(used in) financing activities		**(1,263)**	102,680
Net increase in cash and cash equivalents		**7,788**	74,326
Cash and cash equivalents at beginning of period	14	**229,433**	45,333
Exchange gains/(loss) on cash and cash equivalents		**2,706**	(105)
Cash and cash equivalents at the end of period	14	**239,927**	119,554

The notes on pages 21 to 42 form an integral part of this interim consolidated financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

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

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

This condensed consolidated interim financial information is presented in Renminbi (the "**RMB**"), unless otherwise stated. This condensed consolidated interim financial information was approved by the board of directors of the Company for issue on 30 August 2016.

This condensed consolidated interim financial information has not been audited.

Key events

In April 2016, the Group acquired a 51% equity interest of Wuxi Taidi Metal Products Co., Ltd. ("**Wuxi Taidi**"), a company specialised in stainless steel mesh at total cash consideration of RMB21,930,000. Further details of such acquisition are given in Note 9.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2016 has been prepared in accordance with International Accounting Standard ("**IAS**") 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements.

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

(b) 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.

Amendments to IFRS effective for the financial year ending 31 December 2016 do not have a material impact on the Group.

A number of new standards and amendments to standards and interpretations have been issued but not yet effective for the financial year ending on 31 December 2016, and have not been applied in preparing this condensed consolidated interim financial information. None of these are expected to have a significant effect on the condensed consolidated interim financial information of the Group.

4. ESTIMATES

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

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

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements. Refer to the relevant disclosure in the Group's annual financial statements as at 31 December 2015 for details.

There have been no changes in the risk management policies since 31 December 2015.

5.2 Liquidity risk

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

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

	Less than 6 months RMB'000	Between 6 months and 1 year RMB'000	More than 1 year RMB'000	Total RMB'000
As at 30 June 2016				
Trade payables	**7,224**	**–**	**–**	**7,224**
Short-term borrowings	**–**	**2,400**	**–**	**2,400**
Accruals and other payables (excluding payroll payable and tax payable)	**16,209**	**–**	**–**	**16,209**
	23,433	**2,400**	**–**	**25,833**
As at 31 December 2015				
Trade payables	6,435	–	–	6,435
Accruals and other payables (excluding payroll payable and tax payable)	16,679	–	–	16,679
	23,114	–	–	23,114

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

5.3 Fair value estimation

Financial instruments are 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).

During the six months ended 30 June 2016, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets.

As at 30 June 2016, the fair values of the following financial assets and liabilities approximate their carrying amounts:

- Long-term prepayments
- Trade and bills receivables
- Prepayments, deposits and other receivables
- Restricted cash
- Deferred income
- Trade payables
- Accruals and other payables
- Short-term borrowings

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Vehicles RMB'000	Office equipment and others RMB'000	Leasehold improvements RMB'000	Construction-in-progress ("CIP") RMB'000	Total RMB'000
Six months ended 30 June 2016							
Opening net book value as at 1 January 2016	**21,593**	**22,517**	**652**	**419**	**232**	**–**	**45,413**
Acquisition of a subsidiary (Note 9)	**–**	**6,951**	**174**	**47**	**–**	**6,471**	**13,643**
Additions	**128**	**285**	**203**	**170**	**–**	**5,166**	**5,952**
Transferred from CIP	**5,271**	**–**	**–**	**–**	**–**	**(5,271)**	**–**
Disposals	**–**	**–**	**(4)**	**–**	**–**	**–**	**(4)**
Depreciation charge	**(625)**	**(1,847)**	**(179)**	**(118)**	**(42)**	**–**	**(2,811)**
Closing net book value	**26,367**	**27,906**	**846**	**518**	**190**	**6,366**	**62,193**
As at 30 June 2016							
Cost	**30,745**	**41,856**	**1,518**	**1,273**	**423**	**6,366**	**82,181**
Accumulated depreciation	**(4,378)**	**(12,651)**	**(672)**	**(755)**	**(233)**	**–**	**(18,689)**
Impairment	**–**	**(1,299)**	**–**	**–**	**–**	**–**	**(1,299)**
Net book value	**26,367**	**27,906**	**846**	**518**	**190**	**6,366**	**62,193**
Six months ended 30 June 2015							
Opening net book value as at 1 January 2015	22,541	24,016	845	535	317	–	48,254
Additions	291	134	–	92	–	40	557
Depreciation charge	(617)	(1,567)	(128)	(108)	(42)	–	(2,462)
Closing net book value	22,215	22,583	717	519	275	40	46,349
At 30 June 2015							
Cost	25,447	32,993	1,160	1,044	423	40	61,107
Accumulated depreciation	(3,232)	(9,111)	(443)	(525)	(148)	–	(13,459)
Impairment	–	(1,299)	–	–	–	–	(1,299)
Net book value	22,215	22,583	717	519	275	40	46,349

7. LAND USE RIGHTS

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Opening net book value	**8,202**	7,892
Additions	**–**	490
Acquisition of a subsidiary (Note 9)	**8,143**	–
Amortisation charge	**(134)**	(88)
Closing net book value	**16,211**	8,294

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

As at 30 June 2016, the land use right in Wu Xi with net book value of approximately RMB8,101,000 was pledged as a collateral for the Group's bank borrowings (Note 19).

8. INTANGIBLE ASSETS

	Goodwill	Patent rights	Software	Technical know-how	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Six months ended 30 June 2016					
Opening net book value at 1 January 2016	**–**	**3,786**	**–**	**2,289**	**6,075**
Acquisition of a subsidiary (Note 9)	**7,262**	**2**	**–**	**11,040**	**18,304**
Additions	**–**	**–**	**7**	**–**	**7**
Amortisation charge	**–**	**(473)**	**(1)**	**(524)**	**(998)**
Closing net book value	**7,262**	**3,315**	**6**	**12,805**	**23,388**
As at 30 June 2016					
Cost	**7,262**	**8,125**	**7**	**14,607**	**30,001**
Accumulated amortisation	**–**	**(4,810)**	**(1)**	**(1,802)**	**(6,613)**
Net book value	**7,262**	**3,315**	**6**	**12,805**	**23,388**
Six months ended 30 June 2015					
Opening net book value at 1 January 2015	–	4,732	–	2,645	7,377
Amortisation charge	–	(473)	–	(178)	(651)
Closing net book value	–	4,259	–	2,467	6,726
As at 30 June 2015					
Cost	–	8,123	–	3,567	11,690
Accumulated amortisation	–	(3,864)	–	(1,100)	(4,964)
Net book value	–	4,259	–	2,467	6,726

9. BUSINESS COMBINATION

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

The 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
– Techinical 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 six months ended 30 June 2016)	80

9. BUSINESS COMBINATION *(Continued)*

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

Fair value

	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 six months ended June 30, 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.

(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 net profit of RMB1,534,000 to the Group for the period from 6 April 2016 to 30 June 2016.

10. DEFERRED INCOME TAX

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

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Deferred income tax assets		
– to be recovered after more than 12 months	**3,009**	1,077
– to be recovered within 12 months	**2,152**	2,049
	5,161	3,126
Deferred income tax liabilities		
– to be recovered after more than 12 months	**3,396**	–
– to be recovered within 12 months	**438**	–
	3,834	–
Deferred income tax assets – net	**1,327**	3,126

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

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Opening balance as at 1 January	**3,126**	1,951
Acquisition of a subsidiary (Note 9)	**(3,943)**	–
Credited the consolidated statement of comprehensive income	**2,144**	1,075
Closing balance as at 30 June	**1,327**	3,026

As at 30 June 2016, no deferred income tax liability had been provided for the PRC withholding tax that would be payable on the undistributed profits of approximately RMB90,597,000. 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 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Raw materials	**16,292**	12,143
Work-in-progress	**56,395**	7,057
Finished goods	**18,713**	17,152
Goods in transit	**23,301**	12,897
	64,701	49,249

For the six months ended 30 June 2016, the cost of inventories recognised as expenses and included in "cost of sales" amounted to approximately RMB35,149,000 (six months ended 30 June 2015: RMB68,468,000), which included inventory write-down of RMB3,765,000 (six months ended 30 June 2015: RMB7,330,000).

12. TRADE AND BILLS RECEIVABLES

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Bills receivable	**3,735**	1,002
Trade receivables	**53,804**	60,700
	57,539	61,702
Less: provision for impairment	**(6,468)**	(6,936)
	51,071	54,766

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Less than 3 months	**11,709**	8,906
3 months to 6 months	**–**	6,809
6 months to 1 year	**10,743**	33,293
Over 1 year	**31,352**	11,692
	53,804	60,700

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Included in non-current assets		
Prepayments for acquisition of intangible assets	**17,408**	2,024
Long-term prepaid expenses	**2,082**	1,449
Prepayments for acquisition of property, plant and equipment	**35**	1,367
	19,525	4,840
Included in current assets		
Prepayments to suppliers	**6,175**	3,264
Deposits	**4,686**	1,772
Value-added tax recoverable	**3,419**	523
Prepayment for professional services fee	**1,239**	–
Prepayment for marketing services fee	**994**	–
Amount due from a third party agent	**927**	927
Prepaid employees' housing subsidy	**410**	410
Staff advance	**704**	392
Short-term fixed income deposit	**–**	83,778
Others	**1,195**	594
	19,749	91,660
Total	**39,274**	96,500

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14. CASH AND BANK BALANCES

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Current		
Cash at bank and on hand	**124,125**	196,293
Short-term bank deposits	**115,802**	33,140
Restricted cash (a)	**2,870**	1,244
	242,797	230,677
Non-current		
Restricted cash (a)	**63**	358
Total cash and cash equivalents and restricted cash	**242,860**	231,035

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

15. SHARE CAPITAL

	Number of shares issued	Share capital RMB'000
As at 31 December 2015 and as at 30 June 2016	**500,000,000**	**31,802**

	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**
As at 30 June 2015	**5,782,667**	**356**

15. SHARE CAPITAL *(Continued)*

(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 authorised 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, Denox Investments Holdings Limited ("**BVI Denox**") was incorporated by the Company as a wholly-owned subsidiary of the Group.

On 21 November 2014, Denox Environmental & Technology (HK) Investments Co., Ltd ("**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.

(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 RMB18,934,000 and RMB18,934,000), 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) Changes in the number of shares from 31 December 2014 to 30 June 2015 had not been retroactively adjusted for the proportional changes as a result of the Company's additional issue of shares for preparation of the IPO on the Main Board of The Stock Exchange of Hong Kong Limited (Note 25).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16. SHARE PREMIUM, CAPITAL RESERVES AND OTHER RESERVES

	Share premium RMB'000	Capital reserves RMB'000	Statutory reserves RMB'000	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Total RMB'000
Balance at 1 January 2016	**851,181**	**(552,410)**	**12,397**	**10,214**	**489**	**321,871**
Appropriation to statutory reserves (a)	**–**	**–**	**225**	**–**	**–**	**225**
Currency translation differences	**–**	**–**	**–**	**–**	**4,019**	**4,019**
Balance at 30 June 2016	**851,181**	**(552,410)**	**12,622**	**10,214**	**4,508**	**326,115**
Balance at 1 January 2015	–	(1,981)	10,576	–	207	8,802
Issuance of shares to Zymmetry Investments Ltd.	–	34	–	–	–	34
Completion of Reorganization (Note 15(a))	550,121	(550,463)	–	–	–	(342)
Repurchase of ordinary shares (Note 15(b))	(37,868)	–	–	–	–	(37,868)
Share-based compensation (b)	–	–	–	10,214	–	10,214
Issuance of shares to shareholders (Note 15(c))	62,692	–	–	–	–	62,692
Appropriation to statutory reserves (a)	–	–	1,340	–	–	1,340
Currency translation differences	–	–	–	–	52	52
Balance at 30 June 2015	574,945	(552,410)	11,916	10,214	259	44,924

(a) In accordance with the respective articles of association and board resolutions, the PRC Subsidiaries appropriate certain percentage of the annual statutory net profits, after offsetting any prior year losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing any dividends. The statutory surplus reserve fund can be used to offset prior year losses, if any, and may be converted into paid-in capital. For the six months ended 30 June 2016 and 2015, RMB225,000 and RMB1,340,000 were appropriated from retained earnings to the statutory surplus reserve fund.

(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, 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 six months ended 30 June 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.

17. TRADE PAYABLES

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Third party	**7,224**	6,435

Aging analysis of trade payables as at 30 June 2016 and 31 December 2015 is as follows:

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Within 6 months	**6,811**	5,627
6 months to 1 year	**71**	480
Over 1 year	**342**	328
	7,224	6,435

18. ACCRUALS AND OTHER PAYABLES

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Included in current liabilities		
Payables for purchases of property, plant and equipment and CIP	**6,867**	675
Payables for purchase of land use right	**2,573**	2,573
Payroll and welfare payables	**2,349**	2,572
Payables to original shareholder of Wuxi Taidi before the business combination	**1,726**	–
Accruals and payables for utilities and transportation	**1,163**	558
Payables for consulting service	**896**	808
Value-added and other taxes payables	**647**	265
Warranty provision	**532**	864
Amount due to non-controlling interest	**475**	–
Payables for audit fees	**400**	1,650
Accruals and payables for listing expenses	**200**	9,248
Others	**1,377**	303
	19,205	19,516
Included in non-current liabilities		
Deferred government grants (a)	**2,060**	2,090
	21,265	21,606

(a) This represented government grants received by the Group with respect to a construction project and the purchase of certain equipment with initial amounts of RMB1,900,000 and RMB300,000, respectively. These government grants are credited to the consolidated statement of comprehensive income on a straight- line basis over the expected lives of the related assets.

19. SHORT-TERM BORROWINGS

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Secured	**2,400**	–

As at 30 June 2016, bank borrowings of RMB2,400,000 were pledged by land use right located in Wu Xi with net book value of RMB8,101,000 (Note 7).

The Group's borrowings are denominated in RMB.

For the six months ended 30 June 2016, the weighted average effective interest rates was 6.30% (Six months ended 30 June 2015: nil).

20. REVENUE

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Sales of goods	**28,066**	105,783
Provision of services	**1,815**	–
	29,881	105,783

21. EXPENSES BY NATURE

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress	**(15,219)**	30,152
Raw materials consumed and consumable used	**37,965**	25,391
Employee benefit expenses (including share-based compensation expenses)	**6,433**	14,440
Depreciation, amortisation and impairment charges (Notes 5, 6, 7)	**3,943**	3,201
Inventory write-down (Note 11)	**3,765**	7,330
Utilities charges and office expenses	**1,627**	1,066
Research and development expenses	**1,334**	374
Transportation and warehouse expenses	**1,027**	451
Professional services fees	**904**	111
Travelling, communication and entertainment expenses	**832**	790
Stamp duty, property tax and other surcharges	**749**	846
Consulting service fees	**649**	924
Operating lease rentals	**443**	273
Auditors' remuneration	**400**	–
Conference fee	**64**	48
Bidding service expenses	**45**	136
(Reversal of)/provision for warranty	**(334)**	201
(Reversal of)/provision for impairment of receivables (Note 12)	**(468)**	904
Listing expenses	**–**	15,539
Others	**1,463**	383
	45,622	102,560

22. OTHER GAINS- NET

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Government grants	**2,030**	80
Interest income	**293**	–
Foreign exchange gains, net	**577**	129
Gains on disposal of property, plant and equipment	**9**	–
Others	**–**	2
	2,909	211

23. FINANCE COSTS – NET

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Finance income		
Interest income on cash and cash equivalents and restricted cash	**317**	50
Finance costs		
Issuance costs for series A convertible redeemable preferred shares	**–**	(3,708)
Net foreign exchange losses on financing activities	**(663)**	(156)
Interest expense on bank borrowings	**(41)**	–
	(704)	(3,864)
Finance (costs)/income – net	**(387)**	(3,814)

24. INCOME TAX EXPENSES

The Group is not subject to taxation in the Cayman Island. Hong Kong profits tax has been provided for at a rate of 16.5% (2015:16.5%) for the period on the estimated assessable profits arising in or derived from Hong Kong. The companies established and operated in the PRC are subject to PRC Enterprise Income Tax ("**EIT**") at a rate of 25% (2015: 25%) and one of which is entitled to preferential EIT rate of 15%.

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Current income tax expenses	**(719)**	5,752
Deferred income tax (Note 10)	**(2,144)**	(1,075)
	(2,863)	4,677

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for companies established and operated in the PRC and Hong Kong for the year ended 31 December 2016 is 11.51% and 16.5% respectively (the estimated tax rate used for companies established and operated in the PRC and Hong Kong for the six months ended 30 June 2015 was 15.68% and 16.5% respectively).

25. LOSS PER SHARE

(a) Basic

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

	Six months ended 30 June	
	2016	2015
Loss attributable to shareholders of the Company (RMB'000)	**(10,947)**	(17,302)
Weighted average number of ordinary shares in issue (thousand shares)	**500,000**	352,615
Basic loss per share (express in RMB per share)	**(0.02)**	(0.05)

Upon the Company's IPO on the Main Board of The Stock Exchange of Hong Kong Limited, the Company issued additional shares to the then shareholders in proportion to their then shareholdings and the outstanding ordinary shares were adjusted to 375,000,000 shares.

For the purpose of computing basic earnings per share, the number of ordinary shares outstanding during the six months ended 30 June 2015 has been adjusted retroactively for the propotional changes in the number of ordinary shares outstanding as a result of the capitalisation of share premium.

(b) Diluted

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

The Company has only one category of dilutive potential ordinary shares, which is series A convertible redeemable preferred shares. As the Group incurred loss for the six months ended 30 June 2015, the series A convertible redeemable preferred shares are anti-diluted and, consequently, not included in the computation of diluted losses per share.

Diluted losses per share is the same as basic losses per share for the six months ended 30 June 2016.

26. RELATED PARTY TRANSACTIONS

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

(b) Transactions with related parties

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

Operating lease expenses charged by related parties

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Mr. Chen	**149**	147
Mr. Liu	**85**	128
	234	275

27. SEGMENT INFORMATION

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

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

28. COMMITMENTS

As at 30 June 2016 and 31 December 2015, the Group's capital expenditure contracted but not provided for amounted to RMB14,616,000 and RMB3,105,000, respectively.