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 2017

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# CORPORATE INFORMATION

## Board of Directors

### Executive Directors

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

### Non-executive Directors

Mr. LI Xingwu
Mr. TEO Yi Dar

### Independent non-executive Directors

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

## Audit Committee

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

## Remuneration Committee

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

## Nomination Committee

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

## Joint Company Secretaries

Mr. LIU Lianchao
Mr. CHAN Chung Kik, Lewis

## Authorised Representatives

Ms. ZHAO Shu
Mr. LIU Lianchao

## Auditor

PricewaterhouseCoopers

## Legal Advisers

### As to Hong Kong laws

Woo Kwan Lee & Lo

### As to Cayman Islands laws

Conyers Dill & Pearman

## Registered Office

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

## Principal Place of Business

### 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
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 2017.

In 2017, China's macro economy maintained a stable growth overall and achieved the pre-set goal of the state for economic development. However, the power industry in China was faced with increased operating pressure due to the rise in coal price, and many thermal power companies suffered losses. The pressure was further passed down to the power related environmental protection industry in which the Group operated. Meanwhile, with the new installation market for DeNOx catalysts and the implementation of the state's "ultra clean emission" standard both drawing to an end, normal replacement market for catalysts will prevail from 2017 onward. The total market volume will be reduced and maintained at a stable level. The plate-type catalyst product still faced fierce competition in the market, and the price currently remains at the trough with no signs of recovery in sight. Against this backdrop, the Group ramped up its efforts in developing catalysts for diesel-powered vehicles and vessels (engines) and has trial produced samples. Also, the Group is proactively seeking merger&acquisition and integration opportunities within the industry. However, as the entry barriers and the qualification requirements are high in the vehicle industry, the Group needs more time to make breakthroughs in the market.

Looking ahead to 2018, the Group will focus on exploring international markets for power-driven plate-type DeNOx catalysts, DeNOx catalysts for vessels (engines), and DeNOx catalysts for diesel-powered vehicles. Key focuses of operation for 2018 include: (i) stepping up the efforts in marketing plate-type DeNOx catalysts in such overseas markets as European, US, Indian, and Taiwanese markets; (ii) with respect to catalysts for diesel-powered vehicles, after producing qualified samples, the Group will batch produce the product as soon as possible, and improve the qualification rate of the product to bring it to the market as early as possible. Also, we will proactively seek cooperation opportunities within the industry; (iii) with respect to catalyst products for the vessels (engines), after producing qualified samples, we will extensively communicate and negotiate with major customers in China to bring the product to the market as early as possible; (iv) continue to monitor major merger&acquisition and re-organization opportunities in the energy saving and environmental protection sector in China.

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 support and understanding. Under the current tough business landscape, we will ensure sufficient cash flow for the Group and strive to make major breakthroughs in overseas markets and on vehicle catalyst products in a short time to achieve a turnaround from loss to profit for the Group as soon as possible.

**Zhao Shu**
*Chairlady*

23 March 2018

# 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. LAM Yiu Por
Mr. LI Min
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 2017 is set out below:

| | Attendance/Number of Meetings | | | | |
|---|---|---|---|---|---|
| | Board | Audit Committee | Remuneration Committee | Nomination Committee | Annual general meeting |
| Executive Directors | | | | | |
| Ms. ZHAO Shu | 5/5 | N/A | 1/1 | 1/1 | 1/1 |
| Mr. KONG Hongjun | 5/5 | N/A | N/A | N/A | 1/1 |
| Mr. LI Ke | 5/5 | N/A | N/A | N/A | 1/1 |
| Non-executive Directors | | | | | |
| Mr. LI Xingwu | 5/5 | N/A | N/A | N/A | 1/1 |
| Mr. TEO Yi Dar | 5/5 | N/A | N/A | N/A | 1/1 |
| Independent non-executive Directors | | | | | |
| Mr. LI Min(1) | N/A | 1/1 | N/A | N/A | N/A |
| Mr. LAM Yiu Por | 5/5 | 4/4 | N/A | N/A | 1/1 |
| Mr. ONG Chor Wei | 5/5 | 4/4 | 1/1 | 1/1 | 1/1 |
| Mr. Li Junhua(2) | 3/5 | 2/3 | 1/1 | 1/1 | 1/1 |

*Notes:*

1. *Mr. LI Min was appointed as an independent non-executive Director on 1 November 2017.*

2. *Mr. LI Jinhua resigned as an independent non-executive Director on 1 November 2017.*

### 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 committees, 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

The procedures of appointment, re-election and removal of Directors are laid down in the Articles of Association. The Nomination Committee of the Company is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

Mr. LI Min was appointed as independent non-executive Director on 1 November 2017 and has entered into a letter of appointment with the Company for an initial term of three years from the date of his appointment until terminated in accordance with the terms of the letter of appointment. Under the letter of appointment, either party may terminate such contract at any time by giving the other not less than three months' notice in writing.

Other Directors have entered into service contracts or letter of appointment with the Company for an initial term of three years with effect from 12 November 2015 (the "**Listing date**") until terminated in accordance with the terms of the service contracts or letter of appointment. Under the service contracts or letter of appointment, either party may terminate such contract at any time by giving the other not less than three months' notice in writing.

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. Four 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 Min, 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 four 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 2017 have been reviewed by the Audit Committee.

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

### 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 Min, Ms. Zhao Shu and Mr. Ong Chor Wei, two of whom are independent non-executive Directors. The Remuneration Committee is chaired by Mr. Li Min. 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 in the section "Attendance Record of the Directors" above.

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

| The remuneration bands | Number of individuals 2017 | 2016 |
|---|---|---|
| Nil to HK$1,000,000 | **1** | 1 |
| HK$1,000,001 – HK$2,000,000 | **1** | 1 |

Information on the emoluments of the Directors and the five highest paid individuals are set out in notes 33 and 8(b) 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 Min 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 in the section "Attendance Record of the Directors" above.

## (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 2017, the Directors have adopted appropriate and consistent accounting policies and made prudent and reasonable judgments and estimations. The financial statements for the Reporting Period 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 2017, the fees paid/payable to PricewaterhouseCoopers for the audit and review of the financial statements of the Group were RMB1.57 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 2017 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 2017, each of Mr. Liu and Mr. Chan 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 its 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 2017.

## Principal Activities

The Company is an investment holding company with its principal subsidiaries engaged in design, development, manufacture and sales of 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 15 to the consolidated financial statements.

## Business Review for 2017

### (I) Plate-type DeNOx catalysts

#### 1. *Business landscape of the plate-type catalyst industry*

In 2017, the total volume of the plate-type DeNOx catalysts market began to shrink. It is expected that the annual demand will remain at approximately 100,000 cubic metres for the years to come (the market volume will be approximately RMB1 billion based on the current sales price). The reduction in overall market volume is mainly due to the following reasons:

(1) After a thorough investigation into the power generation and power consumption situation in China, the state resolutely started to strictly restrict the approval of new thermal power generating units throughout China and conduct vigorous review by region on thermal power generating units already built. Any construction not officially approved by the state or with incomplete procedures must be deferred or terminated. According to statistics of the Group, relevant authorities of the Chinese government issued at least six documents in 2016 and 2017 on restricting new construction and deferring construction of thermal power generating units.

(2) The industrial economy was sluggish in recent years in China. Moreover, the state has progressively intensified the effort to implement the "De-capacity" regulatory policy in all major industry sectors since 2016. Consequently, production of many small and medium enterprises was curbed or terminated, resulting in a reduction of power consumption. Many inefficient thermal power generating units ceased to be used to generate power, leading to a decline in demands for DeNOx catalysts.

(3) In the 13th National Electricity Development Plan published by the state in December 2016, it was expressly required that the percentage of thermal power generating units be reduced from 59% to 55%. The substantial decrease in the proportion of thermal power generation units far exceeded our previous expectations.

### 2. *The Group's key tasks in respect of plate-type catalyst products*

#### (1) Marketing and after-sale services

In 2017, as the low price competition continued in the market for DeNOx catalysts in the power industry, the Marketing Department completed over 150 project catalyst technical proposals, of which 20 were overseas projects and 37 official bids with such clients as power generation groups and local power plants. Taking price and other factors into consideration, the Group pro-actively refrained from making certain bids, but in so doing increased the ratio of winning the bids. The Group won technical agreements and business contracts for a total of 28 projects in 2017. It is worth noting that, breakthroughs were achieved in overseas projects in 2017, with shipment for 2 projects completed.

In 2017, the after-sales services remained strenuous. During the year, preliminary acceptance of catalysts was completed for a total of 24 projects, and final acceptance was completed for 7 generating units in 5 projects. Furthermore, the After-Sales Department completed catalysts sampling for 33 generating units in 24 projects.

#### (2) Product Production

In 2017, the Group completed production of catalysts for 26 power plant projects. The completion rate of both production plan and delivery was 100%. The Group enhanced the management of production costs through controlling costs during production and costs of personnel. The Group also completed the overhaul of main production facilities and on-site environmental protection facilities, optimized product quality standards, and periodically convened quality analysis meetings. In addition, the Group stepped up its efforts in on-site 6S management and standardized production safety management in the production line. In support of the state's environmental protection policies, the Group overhauled and increased its investment in environmental protection facilities at the production site, and implemented the Heavy Pollution Emergency Response Program which required that such actions as production reduction or suspension be taken based on the weather pollution scale issued by supervising government authorities. The Group also improved its occupational health management.

## (II) DeNOx catalysts for diesel-powered vehicles and vessels (engines)

### 1. *Industry and market analysis of catalysts for diesel-powered vehicles and vessel (engine)*

According to data in the possession of the Group, it is conservatively estimated that: (1) at least 6 million diesel-powered vehicles of various types (including heavy-duty trucks, light-duty trucks, buses, and on-road vehicles) are sold in China every year, creating market demands of over RMB7 billion for catalysts; (2) From 2019 onward, the market for vessel (engine) DeNOx catalysts in China is expected to reach approximately RMB5 billion. As a conservative estimate, the above two markets combined would create a market share of at least RMB12 billion for catalysts. Currently, catalysts are mostly monopolized by overseas vendors with strong technical capabilities. Some vendors in China recently began to produce some catalysts that do not require a high level of technicality, and the Group has the capability to produce such products. We endeavour to provide clients with qualified products in a reasonably short time and obtain a certain amount of market share.

**2. *The Group's key tasks in respect of catalysts for diesel-powered vehicles and vessels (engines)***

(1) In the Annual Report 2016, the Group indicated that under the influence of the stringent environmental protection policies in Beijing, Tianjin and Hebei, the Group intended to find other appropriate locations as new production base for catalysts for diesel-powered vehicles. However, the plan failed to be implemented due to various reasons. With approval from the local governments, the Group eventually completed the extension of plant floor in May 2017 and installation and commissioning of main equipment in September 2017 in Gu'an Production Base. The current production capacity of existing equipment was approximately 100,000 extrusion DeNOx catalysts per year.

(2) In October 2017, the Group produced the first sample of extrusion catalysts for diesel-powered vehicles, which has been sent to an independent third-party vendor for testing. Catalysts for diesel-powered vehicles are mainly produced through two types of production processes: extruded and coated. The production process for coated catalysts is technically easier, so more companies in China possess this technology. However, the profit margin for coated catalysts is limited by the main raw materials, i.e. the carrier, so the profit is not quite under control. In comparison, the production process for extrusion catalysts is technically more difficult, and currently only two companies in China can produce qualified products. Therefore, the profit margin is relatively larger for extrusion catalysts.

(3) Catalyst products for vessels (engines) are similar in terms of production process and performance indicator, and they have been launched into the catalysts market. Clients in China mainly purchase these catalysts from overseas vendors, and the prices are higher. The Group's vessel (engine) extrusion catalyst samples have been finished and are undergoing further completion of process.

## Key Work Arrangements for 2018

### (i) Plate-type DeNOx catalyst

**1. *Domestic business of plate-type DeNOx catalysts***

In the wake of the unexpectedly ruthless competition lasting 3 years from 2015 to 2017, competitors for plate-type DeNOx catalysts began to diverge, the biggest change being the top two overseas competitors which previously monopolized the Chinese market have now both substantially withdrawn from the market in Mainland China. Leveraging its advantages in products and costs, the Group expects to further reduce the number of the few competitors in China, thereby returning the product price of plate-type catalysts to a relatively more reasonable level where the few remaining competitors, including the Group, can carry out market competition in a reasonable manner and maintain a normal level of profitability.

**2. *Continue to ramp up the effort in expanding in overseas markets for plate-type DeNox catalysts***

The Group will continue to consolidate and increase its market share in European and Taiwanese markets, focus on following up catalyst projects with Indian clients, and entertain US partners on their inspection visits. The Group strives to make more breakthroughs in overseas markets in 2018.

**3. *Lower the production cost of plate-type catalysts to increase the competitiveness of the product***

The Group will continue to carry out technical innovation, conduct supportive experiments for various raw materials, and reduce the procurement cost of raw materials. The Group will strengthen production management, and reduce various management expenses through such actions as quality control, inventory management, and equipment management. The Group will effectively save energy and reduce consumption by strengthening management of energies including natural gas, electricity, and water. The Group will strengthen management of inventory materials by exercising control from the source reports, vigorously managing utilization, increasing the consumption of inventory materials, and reducing the storage of inventory materials.

## (II) Production and sale of catalyst products for diesel-powered vehicles and vessels (engines)

***1.*** Following the completion of the catalyst samples for diesel-powered vehicles, the Group still has a series of tasks to be completed in 2018. These include: (1) large-scale production and qualification rate improvement of products; (2) the products must undergo system calibration and various tests in conjunction with the exhaust gas treatment system in order to obtain the announcement required for selling catalyst products; (3) intensify the cooperation and communication with diesel-powered vehicle vendors, diesel-powered engine vendors, and exhaust gas treatment companies for these direct or end-user clients to understand the features of the Group's products so they may use our products to replace the products of other vendors on existing vehicle models and directly use our catalyst products on their new models. In a word, the Group will continue to exert all-out efforts in the production, product testing and announcement, and customer base expansion of catalysts for diesel-powered products to achieve major breakthroughs in product sales as soon as possible.

***2.*** The catalyst samples for vessels (engines) are finished as well. The market for catalysts for vessels (engines) has taken off and is currently dominated by overseas vendors. The Group endeavours to produce qualified products as soon as possible to seize a certain amount of market shares.

***3.*** To better summon manpower, materials, and funds to develop catalyst products for diesel-powered vehicles and vessels (engines), the Group has recently researched into and discussed the idea of spinning off this business from the business of catalysts for power plants by separately registering a wholly-owned subsidiary which independently carries out such business operations.

## (III) Continue to carry out merger&acquisition and re-organization in energy saving and environmental protection sector

The Group attempted to acquire a company in the energy saving business in early 2017, but after a series of due diligence investigations, did not consider it suitable for the Group to cooperate with this company, and therefore refrained from putting further efforts into the merger & acquisition. In 2018, the Group will leverage its relatively abundant funds to seek new cooperation opportunities in the energy saving and environmental protection business on an on-going basis in an attempt to put an end to the losses of the Group and improve the Group's ability to mitigate risks.

## FINANCIAL REVIEW

### Revenue

For the period under review, the Group's revenue was primarily generated from sales of plate-type DeNOx catalysts in the PRC with small portion of overseas sales. The Group's revenue decreased by 30.7% from approximately RMB69.8 million in 2016 to approximately RMB48.4 million in 2017, which was due to a 15.4% drop in the average selling price of plate-type DeNOx catalysts per $m^3$ from RMB9,414 per $m^3$ in 2016 to RMB7,962 per $m^3$ in 2017 and the 18.1% decrease in sales volume of plate-type DeNOx catalysts from 7,413 $m^3$ in 2016 to 6,073 $m^3$ in 2017 as a result of continued market vicious competition in the PRC.

### Cost of sales of goods

Cost of sales of goods of the Group decreased by 33.7% from approximately RMB93.1 million in 2016 to approximately RMB61.7 million in 2017, which was mainly due to decrease in sales volume of plate-type DeNOx catalysts and reductions in the unit costs that benefit from the acquisition of 51% equity interest in Wuxi Taidi Metal Products Co., Ltd, one of suppliers of the Group for the stainless steel mesh, in 2016.

### Gross loss

As a result of severe market competition, the Group recorded the gross loss of approximately RMB23.3 million in 2016 and RMB13.4 million in 2017, respectively.

### Selling and marketing expenses

Selling and marketing expenses primarily consist of transportation cost, consulting service expenses and employee benefit expenses, etc. The Group's selling and marketing expenses slightly decreased by 6.3% from approximately RMB6.4 million in 2016 to approximately RMB6.0 million in 2017 due to the decrease in transportation cost as fewer shipments were made in 2017.

### Administrative expenses

Administrative expenses mainly consist of impairment losses for goodwill and other long-term assets, employee benefit expenses, depreciation and amortisation. The Group's administrative expenses increased by 21.4% from approximately RMB34.7 million in 2016 to approximately RMB42.1 million in 2017 which was primarily attributable to (i) impairment losses for goodwill and other long-term assets which amounted to approximately RMB18.6 million (2016: approximately RMB15.7 million) was made in relation to the plate-type DeNOx catalysts business due to continued loss incurred and; (ii) the provision for impairment of trade receivables of approximately RMB4.2 million was made in 2017 (2016: approximately RMB0.4 million).

### Research and development expenses

The Group incurred research and development expenses of approximately RMB10.8 million in 2017 (2016: approximately RMB2.2 million) mainly for vessels and diesel powered vehicles, which was in line with the future plan of the Group.

### Other gains (net)

Other gains (net) primarily consist of government grants, foreign exchange gains and interest income. The significant decrease in other gains (net) from approximately RMB9.2 million in 2016 to approximately RMB1.0 million in 2017 was mainly due to the one-off gains in relation to government grants of RMB5.0 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 a compensation income of RMB2.0 million from a customer for breaching a sales contract which were recorded in 2016.

### Loss attributable to the shareholders of the Company

As a result of the foregoing, the loss attributable to the Shareholders increased by 20.8% from approximately RMB60.4 million in 2016 to approximately RMB73.0 million in 2017.

### 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 | |
|---|---|---|
| | **2017** | 2016 |
| Current Ratio *(Note 1)* | **7.3 times** | 9.1 times |
| Quick Ratio *(Note 2)* | **6.4 times** | 8.1 times |
| Return on equity *(Note 3)* | **N/A** | N/A |
| Return on total assets *(Note 4)* | **N/A** | N/A |

*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 decreased from 9.1 times as at 31 December 2016 to 7.3 times as at 31 December 2017 and quick ratio decreased from 8.1 time as at 31 December 2016 to 6.4 times as at 31 December 2017. Such decrease was primarily due to the decrease in cash and cash equivalents resulting from cash used in operating activities and payments for production facilities of catalysts for diesel-powered vehicles.

### Return on equity and return on total assets

The Group did not record return on equity and return on total assets in 2016 and 2017 as it recorded a loss attributable to the Shareholders for the years ended 31 December 2016 and 2017.

## 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 2017, the Group had net current assets of approximately RMB242.4 million (2016: approximately RMB305.0 million) of which cash and cash equivalents were approximately RMB180.4 million (2016: approximately RMB223.8 million) and were denominated in RMB, US$, HK$ and Euro€ as at 31 December 2017.

The Group had no bank borrowings as at 31 December 2016 and 2017. As at 31 December 2017, the Group had no bank facility. As at 31 December 2016, the Group had a total bank facility of RMB16,300,000, which were secured by (i) pledge of trade receivable amounting to RMB17,600,000; and (ii) pledge of bank deposits amounting to RMB224,000. As at 31 December 2016, the Group utilised RMB560,000 out of the above total facility in favor of the Group's customers with respect to the contract penalties or obligations in connection with the Group's performance.

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 2017, net proceeds not utilised of approximately RMB91.8 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 of the Company dated 30 October 2015.

| | Planned Amount RMB'million | Amount utilised up to 31 December 2017 RMB'million | Balance as at 31 December 2017 RMB'million |
|---|---|---|---|
| Development of DeNOx catalysts for diesel-powered vehicles | 78.6 | 23.6 | 55.0 |
| 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 | 9.9 | 7.2 |
| 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 | 3.2 | 3.7 |
| Replacement of the Group's No. 1 production line | 5.1 | 3.5 | 1.6 |
| Working capital and general corporate purposes | 17.1 | 17.1 | – |
| | 171.0 | 79.2 | 91.8 |

### Borrowings

As at 31 December 2017, the Group had no outstanding bank loans and other borrowings (2016: Nil).

### 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 2016 and 2017, the Group had invested approximately RMB16.0 million and RMB9.0 million for the purchase of property, plant and equipment and Nil and RMB15.4 million for intangible assets, respectively. These capital expenditures were financed by internal resources of the Group.

As at 31 December 2017, the Group's future capital expenditures contracted but not provided for amounted to approximately RMB0.8 million (31 December 2016: RMB4.5 million).

### Contingent liabilities

As at 31 December 2016 and 2017, 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

There were no significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2017.

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

No important events affecting the Group has taken place since 31 December 2017 and up to the date of this report.

### Employees

As at 31 December 2017, the Group had 115 employees (2016: 140). 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 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.

***Risks 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 RMB7,962 per $m^3$ in 2017 due to market vicious 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 2017, 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 21.1% and 52.7% 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 ended 31 December 2017 which is the major reason for the exchange losses recognised by the Group. During the year ended 31 December 2017, 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 2017.

### 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.

## Results and Appropriations

The results of the Group for the year ended 31 December 2017 are set out in the accompanying financial statements on page 58.

## Final Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: 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 4 June 2018 to 7 June 2018, 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 1 June 2018.

## 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 123.

## Property, Plant and Equipment

Details of the movements in property, plant and equipment during the year ended 31 December 2017 are set out in note 12 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 22 and 23 to the consolidated financial statements, respectively.

## Major Customers and Suppliers

For the year ended 31 December 2017, the aggregate sales attributable to the largest customer and the five largest customers of the Group accounted for approximately 21.1% and 52.7% 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 27.9% and 67.1% 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 Min *(appointed on 1 November 2017)*
Mr. LAM Yiu Por
Mr. ONG Chor Wei
Mr. Li Junhua *(resigned on 1 November 2017)*

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, Mr. Kong Hongjun, Mr. Teo Yi Dar, Mr. Li Min and Mr. Ong Chor Wei shall retire from office and being eligible, offer themselves for re-election at the Annual General Meeting.

## 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 date of their appointment.

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

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

*Notes:*

1. *The letter "L" denotes the person's long position in the Shares.*
2. *The percentages are calculated based on 500,000,000 Shares in issue as at 31 December 2017.*
3. *These 152,031,609 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 2017, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or were recorded in the register required to be kept pursuant to section 352 of the SFO, or is otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## 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 2017 was the Company, its subsidiaries, holding companies or fellow subsidiaries a party to any arrangements to enable Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## Substantial Shareholders' Interests in Securities

As at 31 December 2017, 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 | 152,031,609 (L) | 30.41% |
| 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 2017.*

3. *Kickstart is beneficially and wholly owned by Spring Capital Asia Fund, L.P.. Spring Capital Asia Fund, L.P. is deemed to be interested in these Shares held by Kickstart by virtue of the SFO.*

Save as disclosed above, as at 31 December 2017, the Directors were not aware of any other person (other than the Directors or chief executive of the Company) having an interest or short position in 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 had 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 2017.

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 2017.

## 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. Lam Yiu Por, Mr. Li Min and Mr. Ong Chor Wei. The Audit Committee has reviewed the audited financial statements for the year ended 31 December 2017 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 2018 for Shareholders' approval at the Annual General Meeting.

## Professional Tax Advice Recommended

If any Shareholder 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, 23 March 2018

## BOARD OF DIRECTORS

### Executive Directors

**Ms. Zhao Shu (趙姝)**, aged 52, 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 21 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 152,031,609 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 50, 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 50, 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 51, 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 47, 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 17 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 Director of TPSC Asia Pte Ltd, a petrochemical company in Singapore. 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 |
| December 2011 to present | Penyao Environmental Protection Co Ltd, whose shares are listed on the Shenzhen ChiNext Exchange (Stock Code: 300664) | Water supply and waste water treatment | Non-executive Director | Overseeing the management |
| 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. Lam Yiu Por (林曉波)**, aged 41, 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 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 a non-executive director of Zhong Ao Home Group Limited (stock code: 1538) during the period of April 2015 to May 2017, both companies which are listed on the Main Board of the Stock Exchange.

**Mr. Li Min (李民)**, Ph.D. aged 49, was appointed as an independent non-executive Director on 1 November 2017. Mr. Li is the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee. Mr LI has been a researcher at the Department of Energy and Power Engineering at the School of Vehicle and Traffic Engineering in Henan University of Science and Technology where he is currently an associate professor and is primarily responsible for teaching and researching on internal combustion engine vibration and noise control, internal combustion engine structure finite element simulation (CAE) and diesel engine tail gas treatment. From July 1991 to February 1996, Mr. Li Min was an assistant engineer Luoyang Yisuo Company Technology Center (洛陽一拖公司技術中心) where he was primarily responsible for engine testing and pump design work.

Mr. Li Min received 2 second prizes of Scientific and Technological Progress in Henan Province, and approval for 4 applications of invention patent. He also conducted and completed 2 appraisals for Henan Provincial Department of Science and Technology. He has published more than 20 academic theses in domestic and foreign academic periodicals, of which more than 10 were published by EI. He obtained education and teaching awards such as the outstanding teacher, the outstanding lecturer of master program and the outstanding lecturer of undergraduate design programme at Henan University of Science and Technology.

Mr. Li Min received his bachelor's degree from Xi'an Jiaotong University in July 1991, his master's degree from Henan University of Science and Technology in July 2000, and his doctorate's degree from Tianjin University March 2009.

**Mr. Ong Chor Wei (王祖偉)**, aged 48, 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 27 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) and Smart Globe Holdings Limited (Stock code: 8485), respectively, all of which are listed on the Stock Exchange. Mr Ong is a non-executive director of Prosperous Printing Company Limited (Stock code: 8385) and Vico International Holdings Limited (Stock Code: 1621) respectively, all of which are listed on the Stock Exchange.

Previously, he served as a non-executive director of Hong Wei (Asia) Holdings Company Limited (Stock Code:8191), a company listed on the Growth Enterprise Market of the Stock Exchange, during November 2012 to October 2016.

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 43, 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 45, 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 21 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.

## 1. About the Group

The Group always adheres to the enterprise culture of "integrity, responsibility, gratitude, innovation, inclusiveness, social commitment and teamwork", developing its business considering several aspects, such as safety, quality, innovation, employee, environment and society. The Group proactively fulfils its environmental and social responsibilities. Taking "providing clean air, enjoying healthy life together" as its duty, the Group devotes itself to becoming a domestic first-class and international renowned high-tech environmental protection company and to making more contributions to energy conservation, emission reduction and development of a living environment with clean water and blue sky in China.

## 2. Responsible Operation

### 2.1 Comprehensive Management Systems

A comprehensive quality, environmental and occupational health and safety management system is the foundation of the sustainable development of the Group. The Group continuously improves the established quality, environmental and occupational health and safety management system and promptly revises the documents of this system to ensure its effectiveness. The *Quality/environment/occupational Health and Safety Management Manual* ("**Management Manual**") is a guiding document formulated by the Group in accordance with ISO 9001:2015 *Quality Management Systems—Requirements*, ISO 14001:2015 *Environmental Managements System—Requirements with Guidance for Use*, OHSAS 18001:2007 *Occupational Health and Safety Management System* and the operation of the Group. The Management Manual is the requirement and guideline for the Group to conduct management and activities regarding quality management, environmental and occupational health and safety management. Upholding the management policy of "preventing pollution, taking care of health and wining trust of customers by first-class services; complying with regulations, consistent improvement and contributing to the society with high quality products", the Group promotes and guarantees that its products comply with applicable laws and regulations and satisfy customers' needs through the effective implementation of the quality, environment and occupational health and safety management system. In addition, by the effective implementation of the system, the Group keeps the environmental and social impacts of the operations, products and services of the Group under control.

Furthermore, the Group has formulated and implemented the *Legal Regulatory and Other Requirements Control Procedure* to gather, update and identify the legal regulatory and other requirements that are applicable to the Group relating to environmental protection and occupational health and safety. By doing so to ensure that the operation and management of the Group comply with respective legal regulatory and other requirements.

### 2.2 Legal Governance

The Group strictly complies with the relevant laws and regulations relating to bribery, extortion, fraud and money laundering, including but not limited to the *Criminal Law of the People's Republic of China*, the *Regulations of the People's Republic of China for Suppression of Corruption*, Listing Rules and fair competition rules, etc. On this basis, the Group has formulated and implemented the *Measures for the Administration of Combating Corruption and Countering Bribery* so as to implement legal governance. The Board of Directors are responsible for the internal control of the Group. The Group has implemented reporting policies to regulate and ensure that any suspected misconducts or derelictions in financial reporting, internal supervision or other intra-company affairs are treated fairly and properly. Moreover, the Group has set up opinion boxes and hotlines for employees and corporations, which it has business with, to report commercial bribery. A *Statement of Undertaking Combating Bribery/Corruption* shall be signed by the individuals at key positions, while a *Statement of Undertaking Combating Bribery/Corruption for Supplier* shall be signed by suppliers, facilitators and contractors who have business with the Group. During the Reporting Period, the Group had not been notified of any litigation against its employees relating to bribery, extortion and money-laundering.

### 2.3 Communicating with Stakeholders

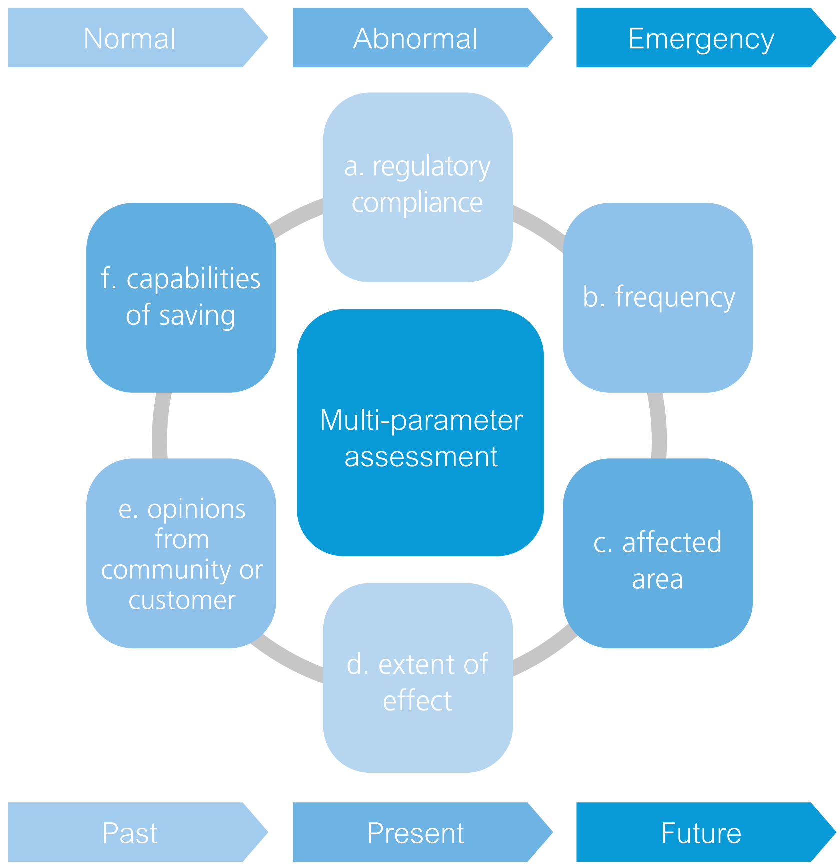
Continuously building a trust-based relationship with stakeholders is important for the sustainable development of the Group. The Group proactively communicates with stakeholders, such as relevant government departments, customers, employees, etc., through various ways, for example, e-mail, website, annual report, meetings and so on, so as to understand their needs and requirements regarding the environmental and social performance of the Group in time. By doing so, the Group could better adjust its development strategy, and ensure that its operation meets the needs of stakeholders and its social responsibilities are fulfilled. For instance, the Group has established complaint and feedback mechanisms to understand the needs and expectations from surrounding communities. If comments about the environmental and social performance of the Group were received from surrounding communities., the Group would proactively conduct investigations and assessments of the potential or existing environmental and social factors mentioned in the comments, and propose feedbacks.

| Stakeholder | Needs and expectation | Response |
|---|---|---|
| Relevant government departments | Complying with environmental and safety laws and regulations | Enhancing the screening and identification of safety hazards and proactively working with relevant departments for safety inspection;<br>Implementing environmental protection measures accordingly |
| Customers | Products complying with relevant laws and regulations, products quality and customer service are guaranteed;<br>Products complying with national environmental requirements | Identifying customers' needs, formulating respective production plan and delivery schedules and guaranteeing products quality;<br>Improving product quality control and product quality |
| Employees | Reasonable working hours;<br>Clean workplace | Formulating reasonable work and rest timetable;<br>Arranging staff to keep the office and workplace clean regularly |
| Suppliers | Fair and transparent procurement;<br>Win-win cooperation | Conducting supplier annual assessment, formulating qualified supplier list and ensuring that the products provided by suppliers are in compliance with quality, environmental and safety requirements |
| Surrounding communities | Protection of the community environment | Identifying environmental impact factors;<br>Taking effective control measures to mitigate the impacts of various environmental impact factors, such as wastewater, air pollutant, waste and noise |

## 3. Environmental Protection

### 3.1 Environmental Management Systems

The Group proactively promotes environmental protection and conducts comprehensive management to environmental factors from multi-perspective. Also, the Group has formulated and implemented environmental management systems. Beijing Denox and Gu'an Denox have been awarded the certification of ISO 14001:2015 *Environmental Management System*. In order to ensure the effective implementation of the environmental management systems of the Group, the Group conducts identification and assessment of environmental factors during its operation according to the formulated *Control Procedure of Environmental Factors Identification and Assessment* on a regular basis. The identification and assessment of environmental factors comprehensively considering three statuses (normal, abnormal and emergency), three tenses (past, present and future), seven factors (including water discharge, air emissions, noise pollution, disposal of solid waste, energy and resources consumption and other environmental issues) and 2 aspects (regarding environment and production). The Group insists in drawing up practical management plans and measures according to the investigated environmental conditions, and then implementing solution measures in a planned and gradual way. Meanwhile, the multi-parameter assessment has been adopted by the Group to conduct quantitative analysis of identified environmental factors so as to measure their impacts on the environment.




*The adopted multi-parameter assessment of the Group*

### 3.2 Emissions

The major emissions of the Group from its operation are air pollutant, wastewater and wastes. The Group strictly abides by the relevant laws and regulations relating to air and greenhouse gas ("**GHG**") emissions, discharges into water and land, and generation and disposal of waste, which include but not limited to the *Environmental Protection Law of the People's Republic of China*, the *Water Pollution Prevention and Control Law of the People's Republic of China*, the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste*, the *Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise*, the *Environmental Protection Tax Law of the People's Republic of China* and the *Integrated Emission Standard of Air Pollutants*, etc. Moreover, the Group has formulated and implemented various internal environmental management systems, such as the *Environmental Protection Management Measures for the Operation of Denox and the Operational Control Procedures of Environment and Occupational Health and Safety*. By the implementation of these systems, the Group has implemented relevant works of environmental protection. During reporting period, there was no occurrence of major environmental pollution accident or major environmental incident in the Group.

The Group has formulated the *Implementation of Emergency Response Plan for Heavy Pollution Weather* according to relevant laws and regulations, such as the *Interim Measures for Contingency Plans for Environmental Emergencies* and the *Air Pollution Prevention and Control Action Plan of General Office of the State Council*, in order to proactively response to heavy pollution weather and implement effective management systems of emergency response for air pollution. During the Reporting Period, the Group reduced air pollutant emissions in response to the emergency response measures for weather affected by heavy pollutions. The Group restricted its operation for 45 days in 2017 and the reduction of dust emissions was about 0.4 metric tons in total. In addition, more dust collection systems have been installed to the production equipment of the Group for dust emission reduction.

There are discharges of production wastewater and sewage from the operation of the Group. Wastewater is treated in accordance with the *Integrated Wastewater Discharge Standard* (GB 8978-1996) and water quality requirements of Gu'an Sewage Treatment Plant to ensure all discharging wastewater meets relevant requirements.

The performance data of major emissions of the Group during the Reporting Period is listed as follows:

| Parameter | Unit | 2017 |
|---|---|---|
| Total revenue | RMB'000 | 48,351 |
| Air pollutant[1] | | |
| $SO_2$ emissions | Metric tons | 0.025 |
| $NO_x$ emissions | Metric tons | 0.078 |
| Dust emissions from mixing | Metric tons | 3.00 |
| GHG[2] | | |
| Scope 1: direct emissions | Metric tons $CO_2$ equivalent | 134.19 |
| Emission intensity of scope 1 | Metric tons $CO_2$ equivalent/RMB'000 | 0.003 |
| Scope 2: indirect emissions | Metric tons $CO_2$ equivalent | 2,286.22 |
| Emission intensity of scope 2 | Metric tons $CO_2$ equivalent/RMB'000 | 0.047 |
| Planted trees | Trees | 2 |
| Emission reduction due to planted trees[3] | Metric tons $CO_2$ equivalent | 0.046 |

1 *The data used in the calculation in air pollutant emissions was sourced from the recorded data of the Group and best conservative estimates were made based upon historical performance data or benchmarking with similar facilities.*

2 *The data used in the calculation in GHG emissions was sourced from the recorded data of the Group and best conservative estimates were made based upon historical performance data or benchmarking with similar facilities.*

3 *The calculation of GHG reduction by planted trees was set out based on the Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Building (Commercial, Residential or Institutional Purposes) in Hong Kong published by Electrical and Mechanical Services Department and Hong Kong Environmental Protection Department.*

Solid waste disposal is one of the material environmental topics in material industry. The Group strictly abides by the *Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes*. In addition, the Group strictly implements the measures for the administration of permit for operation of hazardous wastes and the formulated *Measures for the Administration of Hazardous Wastes of Denox* to treat the wastes properly. Wastes are categorized into non-hazardous and hazardous waste according to their properties. As for the non-hazardous wastes of the Group, they are categorized, collected and stored before handed over to property management company for integrated treatment. As for hazardous wastes, they are sent to qualified waste collection institutions for harmless and centralized treatment. The Group aims that the hazardous wastes are treated 100% safely. During the Reporting Period, the non-hazardous wastes generated by the Group were approximately 3.0 metric tons, which mainly were the dust generated from mixing, while the hazardous wastes were around 1.0 metric tons, which mainly were the spent lubricating oil sourced from equipment maintenance. The Group conducts production equipment maintenance on a regular basis and ensures its well operation to prevent the additional generation of spent lubricating oil due to abnormal operation of the equipment.

The Group persists in implementing the idea of green operation in every aspect of production and operation. For example, trees, lawns and flowers are planted by the Group on both side of roads and the periphery of its factory areas so as to not only lower the environmental impacts of exhaust gas and noise, but also to beautify the environment by greening landscape.

### 3.3 Use of Resources

The Group strictly abides by relevant laws and regulations relating to use of resources, such as the *Cleaner Production Promotion Law of the People's Republic of China*, the *Energy Conservation Law of the People's Republic of China*, etc. The Group has formulated and implemented various internal management measures, such as the *Operational Control Procedures of Environment and Occupational Health and Safety* and the *Measures of Energy Management of Production Centre.* Furthermore, the Group enhances the management of energy consumption, especially of the major energy consumption equipment, to ensure that energy is used fully and effectively.

On the front of energy usage, the Group has formulated energy saving plans according to the principles of reduce, reuse and recycle ("**3R Principle**") to use resources and energy scientifically and reasonably in daily life. The plans include: 1. turning off the lights before leaving; 2. applying office automation system and paperless office for paper usage reduction. In addition, during the Reporting Period, the Group improved the technique of drying and lowered the highest temperature for drying, which reduced the power consumption of drying furnace and saved about 45,000 kWh of electricity in 2017.

In terms of water sourcing, the water of the Group mainly sources from municipal fresh water supplies and there are no difficulties with water sourcing. During the Reporting Period, in order to increase water efficiency, the Group conducted renovation of wastewater treatment systems and improved the process of wastewater treatment. Therefore, the water treated by the wastewater treatment system could be used for cleaning the floor of workplace. This renovated system was put into use officially at the end of 2017 and it is estimated to save around 2,000 metric tons water a year.

According to the result of materiality assessment, the major resources used by the Group were electricity and water, and the amount of packaging material used by the Group is not disclosed temporarily according to the principle of materiality.

The data of major energy consumption and water consumption of the Group during the Reporting Period is listed as follows:

| Parameter | Unit | 2017 |
|---|---|---|
| Water consumption | Metric tons | 8,474.50 |
| Intensity of water consumption | Metric tons/RMB'000 | 0.17 |
| Purchased electricity | Kilowatt hours | 2,625,964.50 |
| Intensity of purchased electricity | Kilowatt hours/RMB'000 | 53.69 |
| Natural gas | Ten thousand cubic meters | 3.90 |
| Intensity of natural gas | Ten thousand cubic meters/RMB'000 | $7.97 \times 10^{-5}$ |
| Gasoline | Metric tons | 13.27 |
| Intensity of gasoline | Metric tons/RMB'000 | $27.13 \times 10^{-5}$ |
| Diesel | Metric tons | 3.00 |
| Intensity of diesel | Metric tons/RMB'000 | $6.13 \times 10^{-5}$ |

## 4. High Quality Products

### 4.1 Product Quality Management Systems

The Group believes that the performance, quality, and safety of its products are critical to its customers and, ultimately, its success. The Group has established and implemented stringent quality assurance standards and inspection management measures, including quality control for raw materials purchased from suppliers and for its production processes.

### 4.2 Quality Control

It is the duty of the Group to take great responsibilities for its products quality. The production and trading of products strictly comply with relevant laws and regulations relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress, including but not limited to the *Work Safety Law of the People's Republic of China,* the *Product Quality Law of the People's Republic of China,* the *Regulations on Quality Responsibilities for Industrial Products,* the *Advertising Law of the People's Republic of China,* the *Trademark Law of the People's Republic of China*, etc. Moreover, to ensure products quality, the Group has formulated and implemented quality control systems according to ISO 900:2015 *Quality Management System—Requirements*. Quality control measures are implemented at each critical step of production processes and on-site inspections at the supplier's factories are conducted. And then, inspection reports would be published accordingly. Beijing Denox and Gu'an Denox have awarded the certification of ISO 9001:2015 *Quality Management System—Requirement*. During the Reporting Period, the Group had not been notified of any violations of laws and regulations relating to health and safety, advertising, labelling and privacy matters relating to products and methods of redress.

Aiming to provide the best services to its customers, the Group has established product identification methods, which make the products traceable with a unique label from the procurement of raw materials to their delivery. Respective quality records are formulated and kept at the same time.

**Incoming inspection during production**

Conduct implementation according to the *Incoming Inspection Standards* and related regulations and documentations

**Inspection during production**

Pre-inspection, hidden inspection, delivery inspection, verified inspection, individual inspection

**Product final inspection**

Conduct by Quality Control Department according to relevant regulations

*Product Inspection Process of the Group*

### 4.3 Supply Chain Management

As a responsible enterprise, the Group hopes to develop with suppliers together. It is crucial for the Group to select a supplier who shares the same concept of sustainable strategy. There is a number of supplier selection standards used by the Group which refer to the requirements of supplier's corporate social responsibilities, which include whether environmental protection measures are taken in production, the integrity of suppliers, respect towards employees, prohibition of child labor in any forms, equal treatment of employees, and compliance with laws and regulations, etc. For instance, when verifying the raw materials and equipment, the Group will require the suppliers to provide the product safety and technology instructions and occupational health and safety management system certification. Furthermore, the Group has formulated the *Evaluation Form for Material Supplier* as one of the references for supplier selection and maintained relationships with its principal suppliers of raw materials and key components, thereby creating a good environment for regulatory operation.

### 4.4 Customers First

The Group pays close attention to market trends and customer needs as well as maintains a strong relationship with existing and potential customers. The Group has established sound complaint handling procedures, *Non-conforming Product Control Procedure* and *Non-conforming, Correction and Prevention Management Procedure* as well as complaint and feedback mechanisms. If complaints are received from customers, the Group would take records in detail, and conduct investigations of the contents of the complaints. And then, analysis of the specific causes would be conducts and finally the Group would actively propose specific solutions based on the result of mutual communications. Moreover, the Group has established comprehensive value-added service and corresponding customer archives for each project to provide high quality products and comprehensive after-sale services that satisfy customers. During the Reporting Period, there was no complaint received, while recognition and commendation from customers were achieved.

| Fiscal year | Quantity of delivery/units | Complaints |
|---|---|---|
| 2016 | 26 | 0 |
| 2017 | 34 | 0 |

*Table of received complaints of the Group*

In addition, regarding the information of the Group and clients, the Group strictly abides by the applicable privacy protection measures to keep the information safe and to ensure data security by proper measures.

## 4.5 Technology Innovation

The technological advancement of the Group provides it a distinctive strength in the denitration catalysts industry. The Group encourages its employees to be innovative and they are awarded according to their contributions to any innovation projects. Meanwhile, the Group has formulated intellectual property protection measures to improve technology innovation system.

During the Reporting Period, the Group had obtained 3 utility model patents in total and Gu'an Dennox was awarded as the Technology-based Small and Medium-size Enterprise in Hebei. In addition, Gu'an Denox participated in the China Energy Conservation and Environmental Protection Innovation Application Competition and successfully advanced to the semi-finals.


*Gu'an Denox was awarded the certification of Technology-based Small and Medium-size Enterprise in Hebei Province*

## 5. People-oriented

### 5.1 Employee Policies

The Group strictly complies with the relevant laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity and other benefits and welfare, including but not limited to the *Labor Law of the People's Republic of China,* the *Labor Contract Law of the People's Republic of China* and the *Trade Union Law of the People's Republic of China*, etc. For ensuring the legal rights of employees and maintaining a long-term and steady labor relationship with them, the Group has formulated and implemented various human resources management systems, such as sound labor contract systems, comprehensive remuneration, benefit and promotion policies, compliant working hours, people-oriented leave and holidays systems, etc. During the Reporting Period, the Group had not been notified of any serious violations of China labor laws and regulations.

The Group has formulated the *Employee Recruitment Systems* to standardize the recruitment requirements and specify recruitment procedures. The Group legally enters into individual employment contracts with its employees to cover matters such as remuneration, benefits, health and safety of employees, confidentiality obligations and grounds of termination. To ensure the provision of an attractive workplace for employees, the Group regularly reviews the remuneration and promotion policies according to the experience and duty of employees and the market circumstance, including salaries, retirement pensions, discretionary bonus, medical insurance plans and other applicable social insurances. The Group has contributed social insurance funds (including pension insurance, unemployment insurance, medical insurance, work-related injuries insurance and childbirth insurance) and housing provident funds for its employees. Furthermore, *Work Attendance Regulation* has been formulated by the Group to ensure that its employees legally enjoy paid leaves, maternity leaves, paternity leaves and other public holidays. Apart from these, marriage and bereavement leaves are both provided to its employees as well. The Group prohibits forced labor and advocates the employment policies regarding equality and diversity and it does not discriminate against employees because of race, nationality, colour, gender and other conditions. In addition, the Group attaches great importance to communicate with employees and has established procedures to select employee representatives and feedback management systems with the aim of promoting smooth communication.

Considering preventing hiring child labor, the Group strictly complies with the applicable laws and regulations, such as the *Law of the People's Republic of China on the Protection of Minors*, and resolutely objects to hire child labor under 16 years old.

### 5.2 Occupational Health and Safety Management

The Group strictly complies with the relevant laws and regulations relating to provide a safe working environment and protecting employees from occupational hazards, such as the *Work Safety Law of the People's Republic of China* and the *Law of the People's Republic of China on the Prevention and Control of Occupational Diseases*, etc. The Group has 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 keep raising the safety awareness of employees in potential safety hazards, to implement every safety management measure and ensure normal and safe production and operation. In addition, the Group has formulated and implemented the *Administrative Measures of "Three Simultaneities" for Occupational Health* to proactively prevent, control and eliminate the potential occupational hazards in construction projects. Beijing Denox and Gu'an Denox have awarded the certification of OHSAS 18001 *Occupational Health and Safety Management Systems Specifications*. During the Reporting Period, the Group did not receive any punishments due to violations of relevant laws and regulations in China relating to occupational health and safety.

Not only are safe operational manuals and operation guidance provided to all employees covering every production procedure, but also respective safety trainings and educations are arranged for employees. The Group provides necessary labor protection articles to employees as well. In addition, 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 improved emergency response measures against fire, various kinds of emergency incidents, occupational accidents, etc. Full-range safety inspections to all projects and production sites as well as irregular random examinations on a monthly basis are conducted and regular safety meetings on safety issues are held after inspections. Moreover, measures for hazard identification and evaluation have been formulated by the Group to conduct quantitative analysis and scientific assessments and to formulate better safety management plans.


*Notification card for occupational hazards posted on the production equipment of the Group*

### 5.3 Development and Training

In order to actively build a team equipped with high technical skills and good education, the Group has formulated and been continuously optimizing its systems in respect of employee training, aiming at providing in-service trainings and opportunities for career development to its employees, stimulating their progressive developments. The Group has drawn up company annual training programs and the *Company Exterior Training Policy*. 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.

### 5.4 Activities of Employees

Aiming to proactively create a workplace suitable for employees to work at and grow with, the Group regularly organizes trips and various activities for its employees to enrich their life and encourages them to relax and release stress.


*The Group organized trips for employees*


*Group photo of "the first employee sport event of Denox"*

*The tug-of-war of "the first employee sport event of Denox"*


*Group photo of the tree-planting activity for employees of the Group* 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 58 to 122, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- 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 2017, 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.

## 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 matter identified in our audit is impairment of long-term assets.

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Impairment of long-term assets** | |
| *Refer to note 4, note 12 and note 14 to the consolidated financial statements*<br><br>Long-term assets are measured at recoverable amount, which is the higher of fair value less cost to sale and value in use.<br><br>During the year, the Group incurred continued loss from operations, indicating that the risk of impairment of long-term assets has increased.<br><br>Management performed impairment assessment of long-term assets at related independent cash generating unit (the "**CGU**") level. Impairment losses being identified were allocated to the relevant long-term assets including equipment, technical know-how and patent right.<br><br>Management applied significant judgements in determining the value in use of the relevant CGU. Key assumptions adopted in the calculation of value in use include:<br><br>• growth rates within the forecast period;<br><br>• remaining useful lives of the long-term assets; and<br><br>• discount rate<br><br>Management concluded that the long-term assets in relation to plate-type DeNox catalyst were impaired as at 31 December 2017 based on the results of their assessment.<br><br>We focused in this area because of the significance of management judgements and assumptions applied. | Our procedures in relation to assessing the Group's impairment of long-term assets are as follows:<br><br>• 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;<br><br>• We assessed management's calculation of the CGU's value in use, including:<br><br>– 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;<br><br>– assessing management's best estimates on remaining useful lives of the long-term assets based on our understanding of the underlying business and industry;<br><br>– assessing the discount rate by reference to market data, including the risk factor of comparable companies and market premium;<br><br>– assessing the reasonableness of other key input data such as capital expenditure by comparing with the budget;<br><br>– testing the mathematical accuracy of the discounted cash flows and the allocation of impairment losses to relevant assets.<br><br>Based on the procedures performed, we considered that 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, Pauline.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 23 March 2018

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017
(All amounts in RMB unless otherwise stated)

| | Note | Year ended 31 December 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| Revenue | 5 | **48,351** | 69,780 |
| Cost of sales of goods | 6 | **(61,743)** | (93,117) |
| **Gross loss** | | **(13,392)** | (23,337) |
| Selling and marketing expenses | 6 | **(5,964)** | (6,404) |
| Administrative expenses | 6 | **(42,095)** | (34,664) |
| Research and development expenses | 6 | **(10,830)** | (2,162) |
| Other gains – net | 7 | **954** | 9,213 |
| **Operating loss** | | **(71,327)** | (57,354) |
| Finance income | 9 | **159** | 488 |
| Finance costs | 9 | **(2,399)** | (2,447) |
| Finance costs – net | | **(2,240)** | (1,959) |
| **Loss before income tax** | | **(73,567)** | (59,313) |
| Income tax benefit/(expenses) | 10 | **2** | (1,544) |
| **Loss for the year** | | **(73,565)** | (60,857) |
| **Other comprehensive (loss)/income** | | | |
| Items that may be reclassified to consolidated statement of comprehensive income: | | | |
| Currency translation differences | 23 | **(6,243)** | 12,560 |
| **Other comprehensive (loss)/income for the year** | | **(6,243)** | 12,560 |
| **Total comprehensive loss for the year** | | **(79,808)** | (48,297) |
| **Loss attributable to:** | | | |
| – Shareholders of the Company | | **(72,999)** | (60,416) |
| – Non-controlling interests | | **(566)** | (441) |
| | | **(73,565)** | (60,857) |
| **Total comprehensive loss attributable to:** | | | |
| – Shareholders of the Company | | **(79,242)** | (47,856) |
| – Non-controlling interests | | **(566)** | (441) |
| | | **(79,808)** | (48,297) |
| **Losses per share (expressed in RMB per share)** | 11 | | |
| Basic losses per share | | **(0.15)** | (0.12) |

The notes on pages 64 to 122 are an integral part of these consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

As at 31 December 2017

(All amounts in RMB unless otherwise stated)

| | Note | As at 31 December 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **56,635** | 57,921 |
| Land use right | 13 | **15,685** | 16,036 |
| Intangible assets | 14 | **19,987** | 34,837 |
| Long-term prepayments | 19 | **1,135** | 2,995 |
| Restricted cash | 20 | **1,901** | 2,104 |
| **Total non-current assets** | | **95,343** | 113,893 |
| **Current assets** | | | |
| Inventories | 17 | **35,578** | 39,402 |
| Trade and bills receivables | 18 | **49,715** | 56,258 |
| Prepayments, deposits and other receivables | 19 | **12,255** | 18,421 |
| Available-for-sale financial assets | 21 | **–** | 2,000 |
| Restricted cash | 20 | **2,658** | 2,558 |
| Cash and cash equivalents | 20 | **180,381** | 223,805 |
| **Total current assets** | | **280,587** | 342,444 |
| **Total assets** | | **375,930** | 456,337 |
| **EQUITY** | | | |
| **Equity attributable to shareholders of the Company** | | | |
| Share capital | 22 | **31,802** | 31,802 |
| Share premium | 23 | **851,181** | 851,181 |
| Capital reserves | 23 | **(552,410)** | (552,410) |
| Other reserves | 23 | **29,685** | 35,669 |
| (Accumulated deficits)/Retained earnings | | **(38,026)** | 35,232 |
| | | **322,232** | 401,474 |
| Non-controlling interests | | **13,085** | 13,651 |
| **Total equity** | | **335,317** | 415,125 |

# CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 31 December 2017
(All amounts in RMB unless otherwise stated)

| | Note | As at 31 December 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income | 25 | **70** | 130 |
| Deferred income tax liabilities | 16 | **2,365** | 3,614 |
| **Total non-current liabilities** | | **2,435** | 3,744 |
| **Current liabilities** | | | |
| Trade payables | 24 | **5,980** | 6,918 |
| Advances from customers | | **5,711** | 6,035 |
| Accruals and other payables | 25 | **20,672** | 19,268 |
| Current income tax liabilities | | **5,815** | 5,247 |
| **Total current liabilities** | | **38,178** | 37,468 |
| **Total liabilities** | | **40,613** | 41,212 |
| **Total equity and liabilities** | | **375,930** | 456,337 |

The notes on pages 64 to 122 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 58 to 122 were approved by the Board of Directors on 23 March 2018 and were signed on its behalf:

*Director* *Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017
(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 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 loss** | | | | | | | | | |
| 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 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2017
(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/ (Accumulated deficits) RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **Balance at 1 January 2017** | | **31,802** | **851,181** | **(552,410)** | **35,669** | **35,232** | **401,474** | **13,651** | **415,125** |
| **Comprehensive loss** | | | | | | | | | |
| Loss for the year | | – | – | – | – | (72,999) | (72,999) | (566) | (73,565) |
| **Other comprehensive income** | | | | | | | | | |
| Currency translation differences | | – | – | – | (6,243) | – | (6,243) | – | (6,243) |
| **Total comprehensive income** | | – | – | – | (6,243) | (72,999) | (79,242) | (566) | (79,808) |
| **Transaction with shareholders** | | | | | | | | | |
| Appropriation to statutory reserves | 17 | – | – | – | 259 | (259) | – | – | – |
| **Total transaction with shareholders, recognised directly in equity** | | – | – | – | 259 | (259) | – | – | – |
| **Balance at 31 December 2017** | | **31,802** | **851,181** | **(552,410)** | **29,685** | **(38,026)** | **322,232** | **13,085** | **335,317** |

The notes on pages 64 to 122 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017
(All amounts in RMB unless otherwise stated)

| | Note | Year ended 31 December 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash used in operations | 27(a) | **(27,624)** | (37,564) |
| Interest received | | **159** | 580 |
| Income tax paid | | **(679)** | (3,121) |
| **Net cash used in operating activities** | | **(28,144)** | (40,105) |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | **(9,004)** | (15,973) |
| Increase of pledged deposits | | **103** | (3,060) |
| Payments for intangible assets | | **–** | (15,391) |
| Payment for acquisition of subsidiary, net of cash acquired | | **–** | (19,741) |
| Proceeds from disposal of property, plant and equipment | 27(b) | **–** | 13 |
| Payments to acquire available-for-sale financial assets | | **(31,000)** | (2,000) |
| Proceeds from disposal of short-term fixed income deposit | | **–** | 85,091 |
| Proceeds from disposal of available-for-sale financial assets | 21 | **33,000** | – |
| Interest received | | **261** | 358 |
| **Net cash (used in)/generated from investing activities** | | **(6,640)** | 29,297 |
| **Cash flows from financing activities** | | | |
| Proceeds from bank borrowings | | **–** | 2,400 |
| Repayments of bank borrowings | | **–** | (4,700) |
| Interest paid | | **–** | (87) |
| Payment of ordinary shares issuance costs | | **–** | (1,322) |
| **Net cash used in financing activities** | | **–** | (3,709) |
| **Net decrease in cash and cash equivalents** | | **(34,784)** | (14,517) |
| Cash and cash equivalents at the beginning of the financial year | 20 | **223,805** | 229,433 |
| Exchange (loss)/gain on cash and cash equivalents | | **(8,640)** | 8,889 |
| Cash and cash equivalents at end of year | 20 | **180,381** | 223,805 |

The notes on pages 64 to 122 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 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 23 March 2018.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A list of the significant accounting policies adopted in the preparation of these consolidated financial statements is set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

#### *(i) Compliance with IFRS*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

#### *(ii) Historical cost convention*

The consolidated financial statements have been prepared on a historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

#### *(iii) New and amended standards adopted by the Group*

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- Disclosure initiative – Amendments to IAS 7, and
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12,
- Disclosure of Interests in Other Entities: Clarification of the scope of IFRS 12 – Amendment to IFRS 12 included in annual improvements to IFRSs 2014-2016 Cycle

The adoption of these amendments did not have any impact on the amounts recognised in prior and current periods.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *(iv) New standards, amendments and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for the current year and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 9 Financial Instruments

Nature of change

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The Group's debt instruments that are currently classified as available-for-sale ("**AFS**") will satisfy the conditions for classification as at fair value through other comprehensive income ("**FVOCI**") and hence there will be no change to the accounting for these assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through consolidated statement of comprehensive income and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect material change of the loss allowance for the Group's trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *(iv) New standards, amendments and interpretations not yet adopted* *(continued)*

IFRS 9 Financial Instruments *(continued)*

Date of adoption

This new accounting standard must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

IFRS 15 Revenue from Contracts with Customers

Nature of change

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 permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognize through a 5-step approach:

(1) Identify the contract(s) with customer;

(2) Identify separate performance obligations in a contract;

(3) Determine the transaction price;

(4) Allocate transaction price to performance obligations; and

(5) Recognise revenue when performance obligation is satisfied.

The core principle is that the Group should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an "earnings process" to an "asset-liability" approach" based on transfer of control.

Management has assessed the effects of applying the new standard on the Group's financial statement and does not expect a significant impact on the recognition of revenue.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *(iv) New standards, amendments and interpretations not yet adopted* *(continued)*

IFRS 15 Revenue from Contracts with Customers *(continued)*

Date of adoption

The Group intends to adopt this new standard for the financial year commencing on 1 January 2018, using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

IFRS 16 Leases

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB313,000. The Group estimates those related to payments for short-term and low value lease which will be recognised on straight-line basis as an expense in profit or loss are insignificant.

The Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption

This new accounting standard will be adopted by the Group for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.2 Principal of consolidation

#### *(a) Subsidiaries*

Subsidiaries are all entities (including structured entities) 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany 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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

#### *(b) Business combinations*

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.2 Principal of consolidation *(continued)*

#### *(b) Business combinations (continued)*

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in consolidated statement of comprehensive income as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in consolidated statement of comprehensive income.

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 remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in consolidated statement of comprehensive income.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.3 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 period 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.

### 2.4 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.

### 2.5 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 year ended 31 December 2017 and 2016 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)*

### 2.5 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)*

### 2.6 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 2.10).

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.7 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.

### 2.8 Intangible assets

#### *(a) Goodwill*

Goodwill is measured as described in note 2.10. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.9 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.

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.

### 2.10 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.11 Investments and other financial assets

#### *2.11.1 Classification*

The Group classifies its financial assets in the following categories:

- loans and receivables,
- 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. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group's loans and receivables comprise of trade and bills receivables, other receivables, restricted cash and cash and cash equivalents.

(b) Available-for-sale financial assets

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into loans and receivables are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

#### *2.11.2 Reclassification*

The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.11 Investments and other financial assets *(continued)*

#### *2.11.3 Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to consolidated statement of comprehensive income as gains and losses from investment securities.

#### *2.11.4 Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through consolidated statement of comprehensive income, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through consolidated statement of comprehensive income are expensed in consolidated statement of comprehensive income.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets are subsequently carried at fair value. Gains or losses arising from changes in the fair values of monetary and non-monetary securities classified as available-for-sale – financial assets are recognised in other comprehensive income.

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.

### 2.12 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)*

### 2.13 Impairment of financial assets

The Group assesses at the end of each reporting period 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. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

#### *(a) Assets carried at amortised cost*

For loans and receivables, 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 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 period, 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 consolidated statement of comprehensive income.

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

If there is objective evidence of impairment for available-for-sale financial assets, 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 consolidated statement of comprehensive income – is removed from equity and recognised in consolidated statement of comprehensive income.

Impairment losses on equity instruments that were recognised in consolidated statement of comprehensive income are not reversed through consolidated statement of comprehensive income in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in consolidated statement of comprehensive income, the impairment loss is reversed through consolidated statement of comprehensive income.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.14 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.

### 2.15 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.

### 2.16 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks.

### 2.17 Share capital

Ordinary shares are classified as equity.

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)*

### 2.18 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.

### 2.19 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 amount is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

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

### 2.20 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get 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.

Other borrowing costs are recognised in the consolidated statement of comprehensive income in the period in which they are incurred.

### 2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

#### *(a) Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.21 Current and deferred income tax *(continued)*

#### *(b) Deferred income tax*

Deferred income tax is provided in full, 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. Deferred income tax is also 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 consolidated statement of comprehensive income. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred income tax liabilities 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.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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.

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 consolidated statement of comprehensive income, 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.24 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised 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 can be reliably estimated. Provisions are not recognised 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 management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the 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.

***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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.26 Interest income

Interest income is recognised 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 not transferred to the Group as lessee 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.

### 2.29 Dividend distribution

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

## 3. FINANCIAL RISK MANAGEMENT

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 2017 and 2016.

### 3.1 Financial risk factors

#### *(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 most of the transactions of these companies 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**") when receiving or to receive foreign currencies from counterparties. The Group does not hedge against any fluctuation in foreign currency.

For the PRC Subsidiaries, 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 2017 would have been lower/higher by RMB1,086,000 (2016: RMB1,153,000), mainly as a result of net foreign exchange losses on translation of US$-denominated cash and cash equivalents.

For the PRC Subsidiaries, 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 2017 would have been lower/higher by RMB1,228,000 (2016: RMB1,171,000), mainly as a result of net foreign exchange losses on translation of EUR€-denominated cash and cash equivalents.

For the PRC Subsidiaries, if HK$ had weakened/strengthened by 10% against the RMB with all other variables held constant, profit before income tax for the year ended 31 December 2017 would have been lower/higher by RMB5,660,000 (2016:nil), mainly as a result of net foreign exchange losses on translation of HK$-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 RMB674,000 (2016: RMB672,000), 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)*

(i) Foreign exchange risk *(continued)*

Amounts recognised in consolidated statement of comprehensive income

During the year, the following foreign-exchange related amounts were recognised in consolidated statement of comprehensive income and other comprehensive income:

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| *Amounts recognised in consolidated statement of comprehensive income* | | |
| Net foreign exchange (loss)/gain included in finance costs-net | **(2,399)** | (2,360) |
| Net foreign exchange (loss)/gain included in other gains-net | **305** | 13 |
| | **(2,094)** | (2,347) |
| *Net gains/(losses) recognised in other comprehensive income (note 23)* | | |
| Currency translation difference | **(6,243)** | 12,560 |

## 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 20 and Note 21), 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 2017 and 2016, 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 2017 and 2016 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.

| Category | As at 31 December<br>2017<br>RMB'000 | <br>2016<br>RMB'000 |
|---|---|---|
| Group 1 | **178,950** | 205,622 |
| Group 2 | **1,422** | 18,163 |
| | **180,372** | 223,785 |

## 3. FINANCIAL RISK MANAGEMENT *(continued)*

### 3.1 Financial risk factors *(continued)*

#### *(b) Credit risk (continued)*

The Group's customer base is highly concentrated. The top five customers accounted for 53% of the Group's total revenue for the year ended 31 December 2017 (2016: 86%). As at 31 December 2017, the Group had concentration of credit risk as 47.4% (2016: 65.2%) of the total trade receivables are due from the Group's largest three (2016: three) customers. The trade receivables which are past due are analysed in Note 18.

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.

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for all financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

## 3. FINANCIAL RISK MANAGEMENT *(continued)*

### 3.1 Financial risk factors *(continued)*

#### *(c) Liquidity risk (continued)*

| Contractual maturities of financial liabilities | Less than 6 months RMB'000 | 6 – 12 months RMB'000 | More than 1 year RMB'000 | Carrying amount liabilities RMB'000 |
|---|---|---|---|---|
| **As at 31 December 2017** | | | | |
| Trade payables | **5,980** | **–** | **–** | **5,980** |
| Accruals and other payables (excluding payroll payable and tax payable) | **17,556** | **–** | **–** | **17,556** |
| | **23,536** | **–** | **–** | **23,536** |
| **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 |

### 3.2 Capital management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue 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. FINANCIAL RISK MANAGEMENT *(continued)*

### 3.3 Fair value estimation

#### *(i) Fair value hierarchy*

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

| At 31 December 2017 | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Financial assets** | – | – | – | – |

| At 31 December 2016 | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| – Available-for-sale financial assets | – | – | 2,000 | 2,000 |
| | – | – | 2,000 | 2,000 |

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

**Level 1:** The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

**Level 2:** The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data 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.

**Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

## 3. FINANCIAL RISK MANAGEMENT *(continued)*

### 3.3 Fair value estimation *(continued)*

#### *(ii) Valuation techniques used to determine fair values*

Specific valuation techniques used to value financial instruments include:

- the use of 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
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

All of the resulting fair value estimates are included in level 2 except for unlisted equity securities, a contingent consideration receivable and certain derivative contracts, where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

#### *(iii) Fair value measurements using significant unobservable inputs (level 3)*

The following table presents the changes in level 3 items for the periods ended 31 December 2017 and 31 December 2016:

| | **Available-for-sale financial assets** RMB'000 |
|---|---|
| Opening balance 1 January 2016 | – |
| Additions | 2,000 |
| Closing balance 31 December 2016 | 2,000 |
| Acquisitions | 31,000 |
| Disposals | (33,000) |
| Closing balance 31 December 2017 | – |

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

### (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 2.10. 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 2.8(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 15).

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.

### (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.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

### (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. REVENUE

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Sales of goods | **48,351** | 69,780 |

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 2017 (2016: 100%).

For the years ended 31 December 2017 and 2016, 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 | |
|---|---|---|
| | **2017** | 2016 |
| Customer A | **21.1%** | n.a |
| Customer B | **10.1%** | n.a |
| Customer C | **n.a.** | 28.7% |
| Customer D | **n.a.** | 18.4% |
| Customer E | **n.a.** | 18.0% |
| Customer F | **n.a.** | 13.7% |

## 6. EXPENSES BY NATURE

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Changes in inventories of finished goods and work in progress | **912** | 8,949 |
| Raw materials consumed and consumable used | **41,668** | 58,483 |
| Employee benefit expenses (Note 8) | **14,774** | 14,124 |
| Impairment losses of property, plant and equipment and intangible assets (excluding goodwill) (Notes 12,14) | **11,376** | 15,695 |
| Research and development expenses | **10,830** | 2,162 |
| Depreciation and amortisation (Notes 12,13,14) | **9,670** | 10,398 |
| Impairment losses of goodwill (Note 14) | **7,262** | – |
| Professional service fees | **4,617** | 5,091 |
| Provision for impairment of receivables (Note 18) | **4,233** | 429 |
| Utilities charges and office expenses | **3,322** | 3,485 |
| Transportation and warehouse expense | **2,403** | 2,856 |
| Travelling, communication and entertainment expenses | **2,295** | 2,116 |
| Consulting service fees | **2,160** | 2,301 |
| Auditors' remuneration | **1,580** | 1,440 |
| Operating lease rentals | **963** | 907 |
| Stamp duty, property tax and other surcharges | **956** | 881 |
| Bidding service expenses | **376** | 62 |
| Conference fee | **37** | 87 |
| Warranty reversal | **(118)** | (210) |
| (Reversal of)/Provision for Inventory write-down (Note 17) | **(209)** | 6,149 |
| Others | **1,525** | 942 |
| | **120,632** | 136,347 |

## 7. OTHER GAINS- NET

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Government grants (a) | **366** | 5,160 |
| Foreign exchange gains | **305** | 13 |
| Investment income (b) | **261** | 12 |
| Investment interest | **–** | 300 |
| Compensation income | **–** | 2,000 |
| Provision of other services | **–** | 1,815 |
| Loss on disposal of property, plant and equipment | **–** | (87) |
| Others | **22** | – |
| | **954** | 9,213 |

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

(b) Investment income represent primarily interest income gained from Group's investment on available-for-sale financial assets. (Note 21)

## 8. EMPLOYEE BENEFIT EXPENSES

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Wages, salaries and bonuses | **12,188** | 11,433 |
| Social welfare pension | **967** | 1,026 |
| Other social insurance and housing funds | **958** | 904 |
| Other welfare and allowance | **661** | 761 |
| | **14,774** | 14,124 |

## 8. EMPLOYEE BENEFIT EXPENSES *(continued)*

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2016: three) directors whose emoluments are reflected in the analysis shown in Note 33. The emoluments payable to the remaining two (2016: two) individuals during the year are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Basic salaries and allowances | **1,224** | 1,195 |
| Discretionary bonuses | **105** | 105 |
| Social security insurance | **76** | 73 |
| | **1,405** | 1,373 |

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

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Emolument band: | | |
| Nil to HK$1,000,000 | **1** | 1 |
| HK$1,000,001 to HK$2,000,000 | **1** | 1 |
| | **2** | 2 |

## 9. FINANCE COSTS– NET

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| **Finance income** | | |
| Interest income on cash and cash equivalents and restricted cash | **159** | 488 |
| **Finance costs** | | |
| Net foreign exchange losses on financing activities | **(2,399)** | (2,360) |
| Interest expense on bank borrowings | **–** | (87) |
| | **(2,399)** | (2,447) |
| **Finance costs – net** | **(2,240)** | (1,959) |

## 10. INCOME TAX EXPENSES

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| *Current tax* | | |
| Current income tax expenses | **1,247** | 322 |
| Under provision in prior year | **–** | (1,575) |
| **Total current tax expense/(benefit)** | **1,247** | (1,253) |
| *Deferred income tax* | | |
| (Decrease)/increase in deferred tax liabilities (Note 16) | **(1,249)** | 2,797 |
| **Total deferred tax (benefit)/expense** | **(1,249)** | 2,797 |
| **Income tax (benefit)/expense** | **(2)** | 1,544 |

## 10. INCOME TAX EXPENSES *(continued)*

The tax on the Group's loss 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 | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| **Loss before income tax** | **(73,567)** | (59,313) |
| Tax calculated at domestic tax rate applicable to profits in the PRC (25%) | **(18,392)** | (14,828) |
| Tax effects of: | | |
| Different tax rates applicable to different tax jurisdiction | **1,130** | 676 |
| Preferential tax benefits in the PRC | **4,135** | 4,416 |
| Tax losses for which no deferred income tax asset was recognised | **7,572** | 5,883 |
| Deductible temporary difference for which no deferred income tax asset was recognised | **5,470** | 6,913 |
| Expenses not deductible for tax purpose | | |
| – Entertainment | **83** | 59 |
| Under provision in prior year | **–** | (1,575) |
| Income tax expenses | **(2)** | 1,544 |

### (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.

### (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 2017 and 2016.

## 10. INCOME TAX EXPENSES *(continued)*

### (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 2017.

### (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 2017 as the directors have confirmed that the Group will reinvest the retained earnings of the PRC Subsidiaries in the foreseeable future.

## 11. LOSSES PER SHARE

### (a) Basic losses per share

Basic losses per share is calculated by dividing:

- the losses attributable to owners of the company
- by the weighted average number of ordinary shares outstanding during the financial year.

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| Loss attributable to shareholders of the Company (RMB'000) | **(72,999)** | (60,416) |
| Weighted average number of ordinary shares in issue (thousand shares) | **500,000** | 500,000 |
| Total basic losses per share attributable to the ordinary equity holders of the company (cents) | **15** | 12 |

## 11. LOSSES PER SHARE *(continued)*

### (b) Diluted losses per share

Diluted losses per share adjusts the figures used in the determination of basic loss per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

As the Group incurred loss for the year ended 31 December 2017 and 2016, diluted loss per share equals to basic loss per share.

### (c) Weighted average number of shares used as the denominator

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **Number** | Number |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | **500,000,000** | 500,000,000 |

## 12. 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 |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2016** | | | | | | | |
| Opening net book value | 21,593 | 22,517 | 652 | 419 | 232 | – | 45,413 |
| Acquisition of a subsidiary | – | 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 27(b)) | – | (96) | (4) | – | – | – | (100) |
| Depreciation charge | (1,434) | (3,979) | (399) | (244) | (85) | – | (6,141) |
| Impairment (i) | – | (13,061) | – | – | – | – | (13,061) |
| Closing net book value | 28,802 | 17,590 | 721 | 686 | 147 | 9,975 | 57,921 |
| **As at 31 December 2016** | | | | | | | |
| Cost | 33,988 | 43,624 | 1,611 | 1,567 | 423 | 9,975 | 91,188 |
| Accumulated depreciation and impairment | (5,186) | (26,034) | (890) | (881) | (276) | – | (33,267) |
| Net book value | 28,802 | 17,590 | 721 | 686 | 147 | 9,975 | 57,921 |
| **Year ended 31 December 2017** | | | | | | | |
| Opening net book value | **28,802** | **17,590** | **721** | **686** | **147** | **9,975** | **57,921** |
| Additions | **87** | **128** | **14** | **312** | **–** | **11,280** | **11,821** |
| Transfer from CIP | **5,078** | **945** | **–** | **–** | **–** | **(6,023)** | **–** |
| Depreciation charge | **(2,170)** | **(2,261)** | **(377)** | **(316)** | **(85)** | **–** | **(5,209)** |
| Impairment (i) | **–** | **(7,898)** | **–** | **–** | **–** | **–** | **(7,898)** |
| Closing net book value | **31,797** | **8,504** | **358** | **682** | **62** | **15,232** | **56,635** |
| **At 31 December 2017** | | | | | | | |
| Cost | **39,153** | **44,697** | **1,625** | **1,879** | **423** | **15,232** | **103,009** |
| Accumulated depreciation and impairment | **(7,356)** | **(36,193)** | **(1,267)** | **(1,197)** | **(361)** | **–** | **(46,374)** |
| Net book value | **31,797** | **8,504** | **358** | **682** | **62** | **15,232** | **56,635** |

## 12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

(i) Following the accounting policies stated in Note 2.10, the Group performs impairment testing on fixed assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and impairment of RMB7,898,000 and 13,061,000 has been provided during the year ended 31 December 2017 and 2016, respectively.

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

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Cost of sales | **3,692** | 4,614 |
| Administrative expenses | **9,415** | 14,588 |
| | **13,107** | 19,202 |

As at 31 December 2017, 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 RMB7,189,000 (2016: RMB2,698,000).

## 13. LAND USE RIGHT

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Opening net book value | **16,036** | 8,202 |
| Acquisition of a subsidiary | **–** | 8,143 |
| Amortisation charge | **(351)** | (309) |
| Closing net book value | **15,685** | 16,036 |

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 | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Cost of sales | **229** | 224 |
| Administrative expenses | **122** | 85 |
| | **351** | 309 |

## 14. INTANGIBLE ASSETS

| | Goodwill RMB'000 | Patent rights RMB'000 | Technical know-how RMB'000 | Software RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **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 | 7,262 | 2 | 11,040 | – | 18,304 |
| Amortisation charge | – | (946) | (3,001) | (1) | (3,948) |
| Impairment | – | (1,568) | (1,066) | – | (2,634) |
| 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 and impairment | – | (6,850) | (5,345) | (1) | (12,196) |
| Net book value | 7,262 | 1,274 | 26,295 | 6 | 34,837 |
| **Year ended 31 December 2017** | | | | | |
| Opening net book value | **7,262** | **1,274** | **26,295** | **6** | **34,837** |
| Amortisation charge | **–** | **(424)** | **(3,685)** | **(1)** | **(4,110)** |
| Impairment | **(7,262)** | **(579)** | **(2,899)** | **–** | **(10,740)** |
| Closing net book value | **–** | **271** | **19,711** | **5** | **19,987** |
| **As at 31 December 2017** | | | | | |
| Cost | **7,262** | **8,124** | **31,640** | **7** | **47,033** |
| Accumulated amortisation and impairment | **(7,262)** | **(7,853)** | **(11,929)** | **(2)** | **(27,046)** |
| Net book value | **–** | **271** | **19,711** | **5** | **19,987** |

## 14. INTANGIBLE ASSETS *(continued)*

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

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Cost of sales | **4,108** | 3,948 |
| Administrative expenses | **10,742** | 2,634 |
| | **14,850** | 6,582 |

### (a) Impairment tests for goodwill

Management reviews the business performance based on type of business. Goodwill is monitored by management at the CGU level identified in note 2.10.

The following is a summary of goodwill allocation for CGU:

| **2017** | **Opening RMB'000** | **Addition RMB'000** | **Disposal RMB'000** | **Impairment RMB'000** | **Closing RMB'000** |
|---|---|---|---|---|---|
| Wuxi Denox | **7,262** | **–** | **–** | **7,262** | **–** |

| 2016 | Opening RMB'000 | Addition RMB'000 | Disposal RMB'000 | Impairment RMB'000 | Closing RMB'000 |
|---|---|---|---|---|---|
| Wuxi Denox | – | 7,262 | – | – | 7,262 |

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 test on the goodwill are summarized as follows.

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

The carrying amount of the goodwill allocated to Wuxi Denox has been reduced to its recoverable amount through recognition of an impairment loss against goodwill. This loss has been included in 'administrative expenses' in the consolidated statement of comprehensive income for the year ended 31 December 2017.

## 15. SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2017:

| 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 | RMB250,000,000/ RMB250,000,000 | 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** | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Wuxi Denox Environmental & Technology Com., Ltd | **(566)** | (441) |
| | **(566)** | (441) |

### (a) Significant restrictions

Cash and cash equivalents and restricted cash of the Group, amounting to approximately RMB118,106,000, 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.

### (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.

## 16. DEFERRED INCOME TAX

### Deferred tax liabilities

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| The balance comprises temporary differences attributable to: | | |
| Valuation adjustment resulting from acquisition of a subsidiary | **2,365** | 3,614 |
| Total deferred tax liabilities | **2,365** | 3,614 |

| **Movement** | **Valuation adjustments resulting from acquisition of a subsidiary** RMB'000 | **Total** RMB'000 |
|---|---|---|
| **As at 1 January 2016** | – | – |
| Acquisition of a subsidiary | 3,943 | 3,943 |
| Charged to the consolidated statement of comprehensive income | (329) | (329) |
| **As at 31 December 2016** | 3,614 | 3,614 |
| Charged to the consolidated statement of comprehensive income | (1,249) | (1,249) |
| **At 31 December 2017** | 2,365 | 2,365 |

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 RMB13,043,000 (2016: RMB12,796,000) in respect of tax losses and deductible temporary difference amounting to RMB49,192,000 (2016: RMB38,427,000) and RMB23,760,000 (2016: RMB40,502,000) , respectively that can be carried forward against future taxable income. Estimated tax losses of RMB41,139,000 (2016: RMB30,528,000) will expire within 5 years from 31 December 2017 respectively. The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

## 17. INVENTORIES

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Raw materials | **14,018** | 15,972 |
| Work-in-progress | **3,999** | 3,770 |
| Finished goods | **7,150** | 8,333 |
| Goods in transit | **10,411** | 11,327 |
| | **35,578** | 39,402 |

Inventories recognised as cost of sales during the year ended 31 December 2017 amounted to RMB61,600,00 (2016: RMB92,886,000).

Reversal of write-downs of inventories to net realisable value amounted to RMB209,000 (2016: provision for write-down of RMB6,149,000). These were recognised as cost of sales in consolidated statement of comprehensive income.

## 18. TRADE AND BILLS RECEIVABLES

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Bills receivable | **–** | 4,150 |
| Trade receivables | **61,313** | 59,473 |
| | **61,313** | 63,623 |
| Less: provision for impairment | **(11,598)** | (7,365) |
| | **49,715** | 56,258 |

As at 31 December 2017 and 2016, the fair values of trade receivables approximated their carrying amounts.

## 18. 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 | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Less than 3 months | **18,555** | 7,551 |
| 3 months to 6 months | **10,519** | 3,395 |
| 6 months to 1 year | **462** | 14,074 |
| 1 year to 2 years | **17,092** | 21,237 |
| 2 years to 3 years | **6,303** | 12,826 |
| Over 3 years | **8,382** | 390 |
| | **61,313** | 59,473 |

### (b) Ageing analysis of past due but not impaired trade receivables as at 31 December 2017 and 2016 was as follow:

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Less than 6 months | **23,810** | 7,428 |
| 6 months to 1 year | **439** | 9,367 |
| 1 year to 2 years | **12,188** | 14,930 |
| Over 2 years | **2,432** | 8,978 |
| | **38,869** | 40,703 |

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 RMB38,869,000, were not impaired as at 31 December 2017 (2016: RMB40,703,000) as there are no significant changes in the credit quality of individual customers.

## 18. TRADE AND BILLS RECEIVABLES *(continued)*

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

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| At 1 January | **7,365** | 6,936 |
| Provision for receivables impairment | **8,263** | 4,513 |
| Unused amounts reversed | **(4,030)** | (4,084) |
| At 31 December | **11,598** | 7,365 |

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the income statement (Note 6). 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.

## 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| **Included in non-current assets** | | |
| Prepayments for acquisition of property, plant and equipment | **431** | 1,744 |
| Long-term prepaid expenses | **704** | 1,251 |
| | **1,135** | 2,995 |
| **Included in current assets** | | |
| Value-added tax recoverable | **6,626** | 4,764 |
| Deposits | **1,773** | 2,667 |
| Amount due from a third party agent | **927** | 927 |
| Prepayments to suppliers | **713** | 1,945 |
| Staff advance | **465** | 202 |
| Prepayment for marketing service fee | **324** | 1,040 |
| Prepaid employees' housing subsidy | **311** | 360 |
| Export tax refund | **117** | 842 |
| Prepayment for professional service fee | **–** | 2,395 |
| Compensation receivable (Note 8(b)) | **–** | 1,580 |
| Others | **999** | 1,699 |
| | **12,255** | 18,421 |
| Total | **13,390** | 21,416 |

As at 31 December 2017 and 2016, the carrying amounts of prepayments, deposits and other receivables approximated their fair values. As at 31 December 2017 and 2016, 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 | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| RMB | **13,066** | 18,689 |
| HK$ | **324** | 1,170 |
| EUR€ | **–** | 1,557 |
| | **13,390** | 21,416 |

## 20. CASH AND BANK BALANCES

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| **Current** | | |
| Cash at bank and in hand | **180,381** | 223,805 |
| Restricted cash (a) | **2,658** | 2,558 |
| | **183,039** | 226,363 |
| **Non-current** | | |
| Restricted cash (a) | **1,901** | 2,104 |
| Total cash and cash equivalents and restricted cash | **184,940** | 228,467 |

(a) Restricted bank deposits were held as guarantee for bidding, product quality, performance of the Group's sales contracts and bank facility (Note 29).

Cash and cash equivalents are denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| RMB | **45,104** | 69,826 |
| HK$ | **97,031** | 114,234 |
| US$ | **30,525** | 32,643 |
| EUR€ | **12,280** | 11,764 |
| | **184,940** | 228,467 |

## 21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets include the following:

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Beginning of the year | **2,000** | – |
| Additions | **31,000** | 2,000 |
| Repayment | **(33,000)** | – |
| End of the year | **–** | 2,000 |

The Group's available-for-sale financial asset comprises a RMB-denominated structured principal guaranteed deposit with expected floating interest rate ranging from 2.5% to 3.7% per annum and maturity period within 1 year. This structured deposit is placed at a large state-owned commercial bank in the PRC.

The fair value of the available-for-sale financial asset approximated its carrying amount as at 31 December 2016. By 31 December 2017, the structured deposit had been fully redeemed.

## 22. SHARE CAPITAL

| | Number of shares of US$0.01 each issued | Share capital |
|---|---|---|
| | | RMB'000 |
| **As at 31 December 2017 and as at 31 December 2016** | 500,000,000 | 31,802 |

## 23. SHARE PREMIUM AND CAPITAL AND OTHER RESERVES

| | Share premium | Capital reserves | Statutory reserves | Share-based compensation reserve | Currency translation differences | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At 1 January 2016** | 851,181 | (552,410) | 12,397 | 10,214 | 489 | 321,871 |
| Appropriation to statutory reserves (a) | – | – | 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 |
| Appropriation to statutory reserves (a) | – | – | 259 | – | – | 259 |
| Currency translation differences | – | – | – | – | (6,243) | (6,243) |
| **At 31 December 2017** | 851,181 | (552,410) | 12,665 | 10,214 | 6,806 | 328,456 |

(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 years ended 31 December 2017 and 2016, RMB259,000 and RMB9,000 were appropriated from retained earnings to the statutory surplus reserve fund.

## 24. TRADE PAYABLES

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Third party | **5,980** | 6,918 |

Ageing analysis of trade payables based on invoice date as at 31 December 2017 and 2016 was as follows:

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Within 6 months | **5,521** | 6,524 |
| 6 months to 1 year | **206** | – |
| 1 to 2 years | **–** | 123 |
| Over 2 years | **253** | 271 |
| | **5,980** | 6,918 |

As at 31 December 2017 and 2016, all trade payables were denominated in RMB.

## 25. ACCRUALS AND OTHER PAYABLES

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| **Included in current liabilities** | | |
| Payables for purchases of property, plant and equipment and CIP | **8,563** | 7,157 |
| Payroll and welfare payables | **2,676** | 2,838 |
| Payables for purchases of land use right | **2,573** | 2,573 |
| Dividend payables to original shareholder of Wuxi Taidi before the business combination | **1,726** | 1,726 |
| Amount due to non-controlling interest (Note 30(b)) | **1,635** | 475 |
| Payables for consulting service fee | **913** | 1,006 |
| Accruals and payables for utilities and transportation fee | **652** | 980 |
| Accrual for audit fees | **600** | 623 |
| Warranty provision | **536** | 657 |
| Value-added and other taxes payables | **439** | 78 |
| Payable for professional service fee | **36** | 180 |
| Others | **323** | 975 |
| | **20,672** | 19,268 |
| **Included in non-current liabilities** | | |
| Deferred government grants | **70** | 130 |
| | **20,742** | 19,398 |

## 26. DIVIDENDS

No dividend has been declared or paid by the companies now comprising the Group during the years ended 31 December 2017 and 2016.

## 27. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

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

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| **Loss before income tax** | **(73,567)** | (59,313) |
| Adjustments for: | | |
| – Depreciation and impairment of property, plant and equipment (Note 12) | **13,107** | 19,202 |
| – Amortisation of land use right (Note 13) | **351** | 309 |
| – Amortisation and impairment of intangible assets (Note 14) | **14,850** | 6,582 |
| – Loss on disposal of property, plant and equipment | **–** | 87 |
| – Provision for impairment of receivables (Note 18) | **4,233** | 429 |
| – (Reversal of)/provision for write-down of inventories (Note 17) | **(209)** | 6,149 |
| – Foreign exchange loss | **2,399** | 2,734 |
| – Investment interest (Note 7) | **–** | (300) |
| – Interest income (Note 9) | **(159)** | (488) |
| – Investment income (Note 7) | **(261)** | (12) |
| – Finance costs (Note 9) | **–** | 87 |
| Operating loss before working capital changes | **(39,256)** | (24,534) |
| **Change in operating assets and liabilities:** | | |
| – Inventories | **4,034** | 10,395 |
| – Trade and bills receivables | **2,209** | (2,541) |
| – Prepayments, deposits and other receivables | **6,713** | (1,281) |
| – Trade payables | **(938)** | 383 |
| – Advance from customers | **(324)** | (2,826) |
| – Accruals and other payables | **(62)** | (17,160) |
| Cash flow used in operations | **(27,624)** | (37,564) |

## 27. 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 | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Net book amount disposed (Note 12) | **–** | 100 |
| Loss on disposal of property, plant and equipment (Note 7) | **–** | (87) |
| Proceeds from disposal of property, plant and equipment | **–** | 13 |

## 28. COMMITMENTS

### (a) Capital commitments

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

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Capital expenditure contracted for but not provided in the consolidated financial statement in respect of: | | |
| Acquisition of property, plant and equipment | **782** | 4,482 |

### (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 | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| No later than 1 year | **313** | 313 |
| Over 1 year | **–** | – |
| | **313** | 313 |

## 29. BANK FACILITIES AND GUARANTEE

As at 31 December 2017, the Group has no any bank facility.

As at 31 December 2016, the Group had a total bank facility of RMB16,300,000, which were secured by (i) pledged of trade receivable amount to RMB17,600,000; and (ii) pledged of bank deposits amount to RMB224,000. As at 31 December 2016, the Group utilised RMB560,000 out of the above total facility in favor of the Group's customers with respect to the contract penalties or obligations in connection with the Group's performance.

## 30. 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.

The Controlling Shareholder of the Company is Zhao Shu who directly and indirectly holds 33.37% of the Company's shares as at 31 December 2017.

**(a)** The following companies and persons are related parties of the Group during the years ended 31 December 2017 and 2016:

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

### (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 and rental fee as disclosed in Note 30(b) below:

#### *(i) Operating lease expenses charged by related parties*

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Mr. Chen Qizhao | **313** | 298 |
| Mr. Liu Shangying | **–** | 85 |
| | **313** | 383 |

#### *(ii) Rental fees charged by related parties*

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Zhongyu Environmental Engineering (Beijing) Co., Ltd. | **27** | – |

## 30. RELATED PARTY TRANSACTIONS *(continued)*

### (c) Balance with related parties

#### *(i) Prepayment of rental fees*

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Zhongyu Environmental Engineering (Beijing) Co., Ltd. | **152** | – |

#### *(ii) Payable to related parties*

| | | As at 31 December | |
|---|---|---|---|
| | Note | **2017** | 2016 |
| | | **RMB'000** | RMB'000 |
| Shareholder loan | i | | |
| – Mr. Chen Zhengfang | | **1,160** | – |
| Dividend payable | | | |
| – Mr. Chen Zhengfang | | **475** | 475 |
| | | **1,635** | 475 |

(i) For the year ended 31 December 2017, Mr. Chen Zhengfang provided loans to Wuxi Denox of RMB2,280,000. Such loans were unsecured and interest free, which was no fixed payment term.

### (d) 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 | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Basic salaries and allowances | **2,129** | 2,042 |
| Discretionary bonuses | **159** | 159 |
| Other benefits including pension | **211** | 213 |
| | **2,499** | 2,414 |

## 31. SUBSEQUENT EVENTS

There were no material subsequent events during the period from 31 December 2017 to the approval date of these financial statements by the Board of Directors on 23 March 2018.

## 32. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

| | Note | As at 31 December 2017 RMB'000 | As at 31 December 2016 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments in a subsidiary | | **177,631** | 259,408 |
| Amounts due from a subsidiary | | **278,457** | 230,158 |
| Long-term prepayment | | **–** | 346 |
| **Total non-current assets** | | **456,088** | 489,912 |
| **Current assets** | | | |
| Cash and cash equivalents | | **66,478** | 141,444 |
| Prepayments, deposits and other receivables | | **324** | 1,170 |
| **Total current assets** | | **66,802** | 142,614 |
| **Total assets** | | **522,890** | 632,526 |
| **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 | **17,819** | 41,314 |
| Accumulated deficits | a | **(390,090)** | (304,016) |
| **Total Equity** | | **510,712** | 620,281 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Payroll payable | | **203** | 208 |
| Accruals and other payables | | **204** | 357 |
| Amount due to subsidiaries | | **11,771** | 11,680 |
| **Total current liabilities** | | **12,178** | 12,245 |
| **Total liabilities** | | **12,178** | 12,245 |
| **Total equity and liabilities** | | **522,890** | 632,526 |

The balance sheet of the Company was approved by the Board of Directors on 23 March 2018 and was signed on its behalf:

*Director* *Director*

## 32. 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 2016** | 4,474 | 18,180 |
| Loss for the year | (308,490) | – |
| Currency translation differences | – | 23,134 |
| **At 31 December 2016** | (304,016) | 41,314 |
| **At 1 January 2017** | **(304,016)** | **41,314** |
| Loss for the year | **(86,074)** | **–** |
| Currency translation differences | **–** | **(23,495)** |
| **At 31 December 2017** | **(390,090)** | **17,819** |

## 33. BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' emoluments

For the year ended 31 December 2017:

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) | **225** | **18** | **45** | **288** |
| Mr. Kong Hongjun (i) | **186** | **18** | **45** | **249** |
| Mr. Li Ke (i) | **186** | **18** | **45** | **249** |
| **Non-executive Directors** | | | | |
| Mr. Li Xingwu (ii) | **–** | **–** | **–** | **–** |
| Mr. Teo Yi-Da (ii) | **–** | **–** | **–** | **–** |
| **Independent Non-executive Directors** | | | | |
| Mr. Li Ming (iii) | **17** | **–** | **–** | **17** |
| Mr. Li Junhua (iii) | **83** | **–** | **–** | **83** |
| Mr. Lam Yiu Por (iii) | **104** | **–** | **–** | **104** |
| Mr. Ong Chor Wei (iii) | **104** | **–** | **–** | **104** |

## 33. BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

### (a) Directors' emoluments *(continued)*

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 |

(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 2017 and 2016.

(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 a non-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. On 1 November 2017, Mr. Li Ming was appointed as an independent non-executive directors of the Company, Mr. Li Junhua resigned as an independent non-executive director of the Company.

## 33. BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

### (b) Directors' retirement benefits

During the year ended 31 December 2017, 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 (2016: same).

### (c) Directors' termination benefits

During the year ended 31 December 2017, none of the directors received any emolument from the Group as leave the Group or as compensation for loss of office (2016: same).

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

During the year ended 31 December 2017, no consideration has been provided to third parties for making available directors' services (2016: 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 2017 and 2016 or at any time during the years ended 31 December 2017 and 2016.

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 2013 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 | | | | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | **2017** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| Revenue | 126,872 | 217,142 | 149,604 | 69,780 | **48,351** |
| Gross profit/(loss) | 61,424 | 106,413 | 48,744 | (23,337) | **(13,392)** |
| Operating profit/(loss) | 39,176 | 85,883 | (7,548) | (57,354) | **(71,327)** |
| Profit/(loss) before income tax | 38,721 | 86,152 | 31,213 | (59,313) | **(73,567)** |
| Profit/(loss) for the year attributable to shareholders of the Company | 32,708 | 73,535 | 25,546 | (60,416) | **(72,999)** |

## ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | **2017** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| Total assets | 218,464 | 243,567 | 494,365 | 456,337 | **375,930** |
| Total liabilities | 149,490 | 162,833 | 45,035 | 41,212 | **40,613** |
| Total equity | 68,974 | 80,734 | 449,330 | 415,125 | **335,317** |

# GLOSSARY

| | |
|---|---|
| "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 $N_2$ and $H_2O$. The basic element of the catalyst mainly includes $TiO_2$ and $V_2O_5$ |
| "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 |
| "Reporting Period" | the year ended 31 December 2017 |
| "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 |