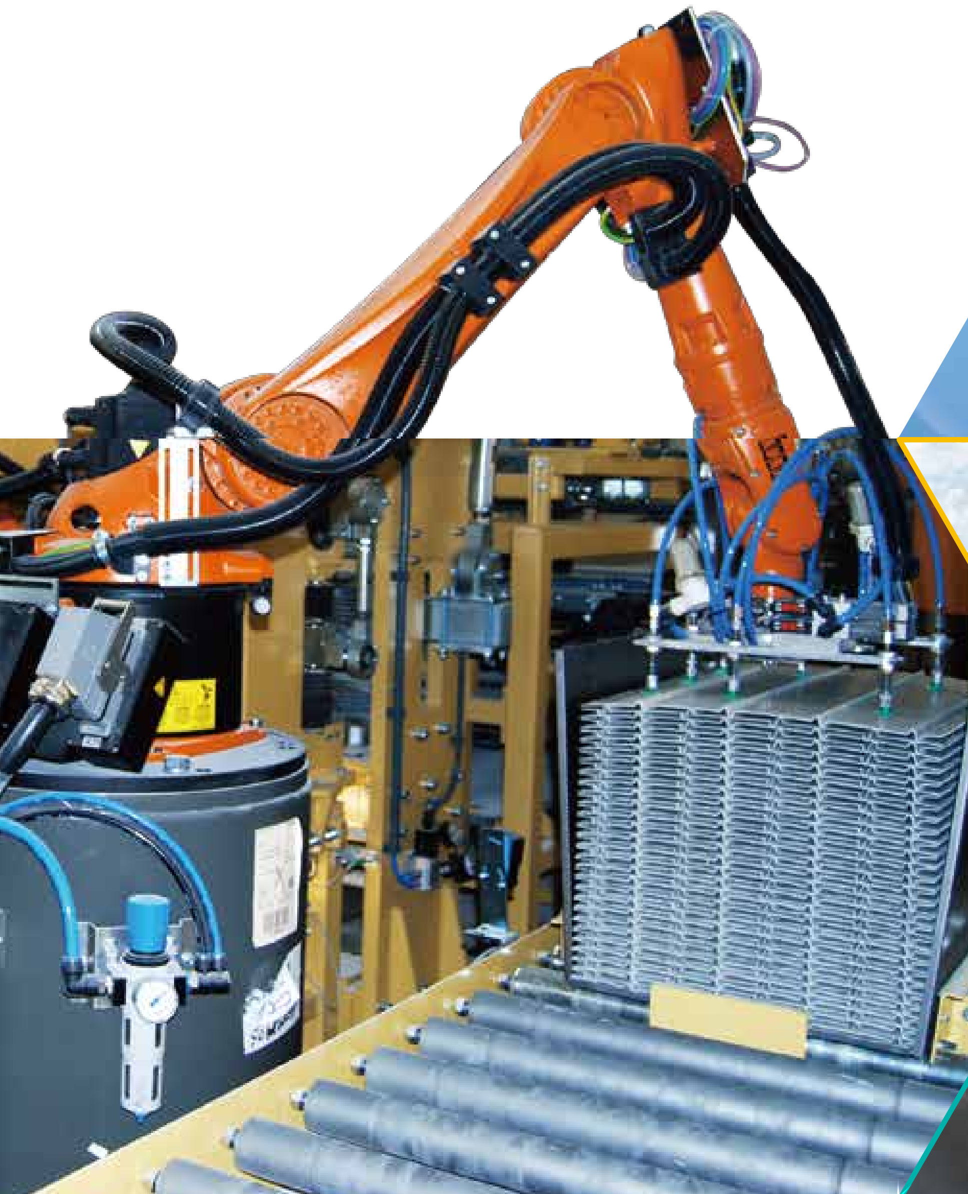
迪诺斯
Denox Environment

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 2018



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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. CHAN Chung Kik, Lewis
Mr. LIU Lianchao

Authorised Representatives

Ms. ZHAO Shu
Mr. LIU Lianchao

Auditor

PricewaterhouseCoopers

Legal Advisers

As to Hong Kong laws

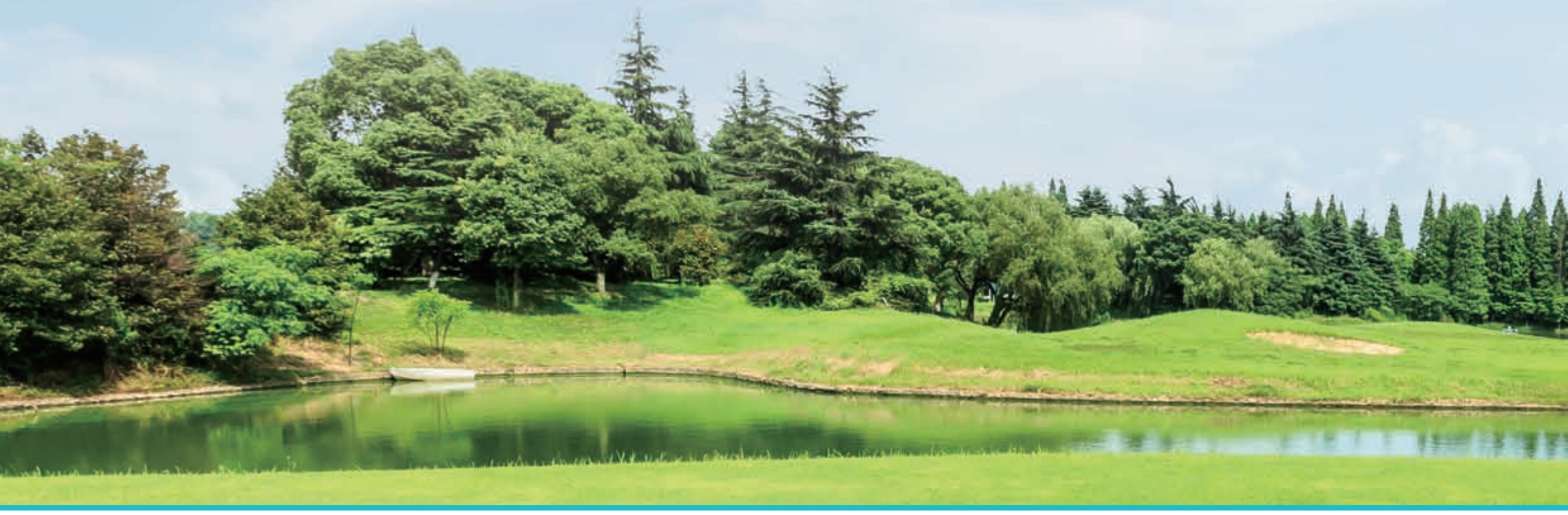
Woo Kwan Lee & Lo

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 2018.

In 2018, the development of China was exposed to an uncommon, complicated and serious domestic and overseas situation, which led to the formation of new economic downward pressure. The thermal power industry where the key customers of the Group are located still showed an obvious downward trend of growth rate, but in terms of the selling prices and competition landscape of the products last year, the price of DeNOx catalysts showed a sign of rebound.

The Group has the primary capability to produce diesel-powered vehicles catalyst and vessels (engine) extrusion catalyst products massively. Meanwhile, as China's Ministry of Environmental Protection released the Limits and Measurement Methods for Emissions from Diesel Fuelled Heavy-Duty Vehicles (China VI), which will have significant impact on the future of the vehicle catalyst industry, the Group is participating in it actively.

Looking ahead to 2019, the Group will continue to focus on the research and development, production and sales of industrial DeNOx catalysts and vehicles DeNOx catalysts. The main operations in 2019 include:

(1) Continue to reinforce the sales and marketing work of the DeNOx catalysts in domestic and overseas thermal power industry of the Group;

(2) Reinforce the research and development, production and sales of DeNOx catalysts in the non-electrical industry such as metallurgical and cement of the Group;

(3) Reinforce the product research and development as well as the sales and marketing of the vessels (engine) industry;

(4) For DeNOx catalysts for diesel-powered vehicles, strengthen the sales of DeNOx catalysts for China V emission standards and cooperation with external technology and market, establish new joint venture for DeNOx catalysts, make good preparation for R&D, production and sales of DeNOx catalysts; and

(5) Continue to focus on the material merger and acquisition as well as reorganization opportunity in the area other than DeNOx catalysts.

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 of the Company (the "**Shareholders**") and partners for their support and understanding. Under a relatively large change in the catalyst industry, we will formulate an operation plan which conforms to the strategy of the Group, so as to accelerate the development of the Group in the non-electrical industry, overseas market, vehicles industry and the vessels (engine) industry, and continue to achieve new results on the basis of significant loss reduction in 2018.

Zhao Shu
Chairlady

29 March 2019

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

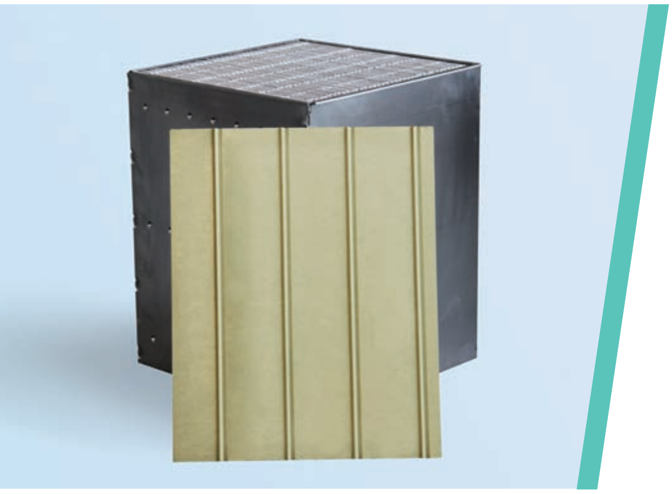
The attendance record of each Director at the Board and board committee meetings, and annual general meeting of the Company held for the year of 2018 is set out below:

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

Independence of the independent non-executive Directors

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

The Company has received from each of the independent non-executive Directors a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board considers all independent non-executive Directors to be 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 the 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 a term of three years with effect from 12 November 2018 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. Three Directors will retire in the forthcoming annual general meeting of the Company, and being qualified, have offered to be re-elected at the annual general meeting.

(F) Board Committees

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

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

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

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

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

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

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

Audit Committee

The Company established an Audit Committee on 19 October 2015 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the CG Code. The latest terms of reference of the audit committee are available on the websites of the Company and the Stock Exchange. 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 two meetings during the Reporting Period 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 2018 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 latest terms of reference of the remuneration committee are available on the websites of the Company and the Stock Exchange. 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 2018	2017
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 8(a) and 32 to the consolidated financial statements, respectively.

Nomination Committee

The Company established a Nomination Committee on 19 October 2015 with written terms of reference. The latest terms of reference of the nomination committee are available on the websites of the Company and the Stock Exchange. The Nomination Committee consists of three members, being Ms. Zhao Shu, Mr. Li Min and Mr. Ong Chor Wei. Two of the members are independent non-executive Directors. The Nomination Committee is chaired by Ms. Zhao Shu.

The primary functions 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 thereof 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 2018, 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 2018, the fees paid/payable to PricewaterhouseCoopers for the audit and review of the financial statements of the Group were RMB1.65 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 2018 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 has also engaged Mr. Chan Chung Kik, Lewis, as the joint company secretary since 8 May 2015, who is responsible for assisting Mr. Liu in performing his duties as the company secretary. For the year ended 31 December 2018, 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(s) of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) for convening 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(s) 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 has been 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.

(M) DIVIDEND POLICY

In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia, the following factors:

- the Company's actual and expected financial performance;
- retained earnings and distributable reserves of the Company and each of the subsidiaries of the Group;
- the Group's working capital requirements, capital expenditure requirements and future expansion plans;
- the Group's liquidity position;
- general economic conditions, business cycle of the Group's business and internal or external factors that may have an impact on the business, financial results and position of the Company; and
- other factors that the Board may deem appropriate and relevant.

Any declaration and payment as well as the amount of the final dividends requires the approval of the Shareholders, and is also subject to all relevant applicable laws, rules and regulations in the Cayman Islands and the Articles of Association. The Board will review the dividend policy from time to time and may exercise its sole and absolute discretion to update, amend and/or modify the dividend policy at any time as it deems fit and necessary.

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 2018.

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 2018

(I) Plate-type DeNOx catalysts

1. Business landscape of the plate-type catalyst industry

In 2018, the capacity of the plate-type DeNOx catalyst market was basically the same as in 2017, there was a significant reduction in the newly added installed capacity of the thermal power industry. The catalyst market of the thermal power industry was mainly derived from the normal replacement of catalysts stored in thermal power plants. The catalyst market will enter into the new stage of norm as we have previously estimated.

In 2018, the DeNOx catalyst market from other industrial industries experienced a faster growth. Even though the capacity of the other industrial industries was limited comparing with the thermal power industry from an aggregate point of view, it may become the focus of the catalyst increment market in the future. These scopes include industries such as cement and metallurgical industry.

In 2018, the selling price of catalysts rebounded. We were of the view that it is very likely that the price of catalyst has passed through its lows, which was favorable to the normal development of the industry. Yet, at the same time, the main raw material for producing catalyst, which is titanium dioxide, raw vanadium and raw molybdenum material, all experienced different levels of price increase in 2018. This brought a new challenge to the operating condition of the Group.

2. The Group's key work in respect of plate-type catalyst products

(1) Marketing and after-sale services

In 2018, the price of DeNOx catalysts in the power industry stabilized and began to rebound. The Marketing Department completed over 240 project catalyst technical proposals, of which 35 were overseas projects (including Taiwan, China as well as India and Europe, etc.) and 33 were official bids with clients such as power generation groups and local power plants. 25 supply contracts were entered into in 2018, the number of which in 2018 slightly increased when compared with 2017. It is worth noting that the Group has tendered 3 projects in 2018. With the influence of Formosa Plastic Group in Taiwan, the Group is hopeful that it can accelerate development in the Taiwan market.

As of January 2019, the Group obtained preliminary acceptance of catalysts for 26 generating units in 19 projects and completed final acceptance for 26 generating units in 17 projects, while 9 closed loop projects were realized in total. Furthermore, the After-Sales Department completed catalyst sampling for 38 generating units in 25 projects.

(2) Products Production

In 2018, the Group completed production of catalysts for 29 projects, the completion rate of both production plan and delivery of goods were 100%. The Group continued to reinforce the production cost control and product quality control on the basis of 2017, which mainly includes:

- Further improving the production process, which can save raw materials, and partially offset the cost increase created by the rise in price of raw materials;
- Further improving and enhancing the automation level of production equipment, further reducing the number of first-line production staff, so as to lower the labor cost and improve production efficiency; and
- Further strengthening product quality control. The production statistics information of the Group showed that the work-in-progress and finished products of main work process were better compared to 2017. The Group passed the audit of three system certification in 2018.

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

1. Industry policy and market analysis of catalysts for diesel-powered vehicles and vessels (engine)

(1) Diesel Vehicles Industry

China officially released the standards of the Limits and Measurement Methods for Emissions from Diesel Fuelled Heavy-Duty Vehicles (China VI) on 3 July 2018. These standards will be gradually implemented from 1 July 2019 to 1 July 2021. Before then, China released the China V emission standards for gasoline vehicles. These standards were gradually implemented from 1 January 2017 to 1 January 2018. Currently, the time between the implementation of the China V standards for gasoline vehicles and the China VI standards is short. The implementation date of the China VI standards is significantly ahead of the expectation of the industry. The Group's business strategy on vehicle catalysts will also be affected by the early release and implementation of the China VI standards.

(2) Vessel (engine) Industry

Due to the features of high efficiency and low pollution, major engines and joint fuel gas-steam circulating power generating units were applied in large-scale in China. Especially in major cities and regions where air pollution control policies were strictly carried out, the application of these equipment can relieve the increasingly grim situation of air pollution resulted from the increase of electricity consumption. National standards for gas-fired generation units are not clearly set. However, in some regions, such as key development zones and key zones of prevention and control of pollutants (such as Beijing, Hebei and Guangdong, etc.), the concentration of NOx emitted by gas-fired generation units is restricted to 15-30mg/Nm3. The number of provinces adopting the emission limitation is also increasing. As such, the demand for installation of DeNOx catalyst for gas-fired generation units is also increasing.

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

(1) Diesel-powered vehicles catalysts

Diesel-powered vehicles catalysts business under the China V standards

Under the China V standards, diesel-powered vehicles catalysts are divided into two types of technologies: extruded and coated. The Group adopts two different methods. Extruded catalysts for vehicles are difficult to produce so we adopted the transfer method from foreign technologies. Production of coated catalysts for vehicles is relatively easier as we develop the production method by ourselves. Currently, achievements of catalyst production technologies of the Group under the China V standards include:

(a) The Group has mastered the production processes for coated catalyst products for vehicles under China V and the ability to produce products in large-scale. The Group has officially started to enter into contracts since the end of 2018 so as to be part of the vehicle industry; and

(b) The Group has mastered the production processes for extruded catalyst products under China V and currently, the production process is in the small-scale trial production stage.

Development of China VI diesel-powered vehicle catalyst

Production of China VI diesel-powered vehicle catalyst is more complicated. The Group is in the process of establishing a joint venture company to carry out research and development, production and sales of China VI catalysts by combining external market and technology. According to the policies related to vehicle emission released by China, catalysts under the China VI standards will be used in large-scale in China starting from 2020. Under the China VI standards, procurement priority will be given to foreign DeNOx catalyst vendors. Domestic DeNOx catalyst vendors will only be chosen when vehicle vendors and engine vendors consider lowering the cost. By that time, price competition in China VI vehicle catalysts will begin. As such, the Group needs to be well-positioned for such competition in 2019.

(2) Vessels (engines) catalysts

The Group has the capacity to produce vessel (engine) catalysts if developed in small-scale. This year, the Group underwent multiple customers discussion with domestic mainstream shipping design institutes, main shipping contractors, engine power companies and main engine project constructors, and thus gained in-depth knowledge of the market needs for vessel (engine) catalysts. Currently, similar to the China VI vehicle catalyst market, the vessel (engine) catalyst market prioritizes the selection of foreign catalyst vendors. Yet, many customers will be willing to purchase domestic catalysts if domestic vendors (including the Group) are able to be confirmed by sub-constructors that each performance tests of catalysts also meet the standards of foreign vendors.

Key work arrangements for 2019

(I) Plate-type DeNOx catalysts

1. Continue to strengthen the follow up and development efforts of overseas markets (including Europe, Taiwan, US, India and other Southeast Asia markets, etc.), so as to capture more overseas orders. With the recent three years of exploration, the Group's strategy of expanding overseas markets gradually matured. The Group will capture more market shares through the combined advantages of price, quality and technology;

2. Increase investment in resources in the catalysts of the non-electrical industry, and strive to procure contracts in new scopes such as cement and metallurgical industries;

3. Maintain a good customer relationship with the existing customers of traditional electricity, so as to secure more orders from the existing customers when they replace the catalysts; and

4. Further expand information channels, nurture our own sales team, combine resources in the society and collect project information through multiple channels.

(II) Diesel-powered vehicle, vessel (engine) catalysts

1. China V diesel-powered vehicle catalysts

2019 marks the end of vehicle vendors market of China V vehicle catalysts, the Group will make use of the market resources developed and maintained this year, so as to increase the sales volume of China V catalysts and further strengthen the influence in the vehicle industry.

2. Vessel (engine) catalysts

Continue to improve the production processes of vessel (engine) catalyst products and the qualification rate of products, and further strengthen the communication with relevant customers, so as to fight for a breakthrough in vessel (engine) catalyst contracts this year.

3. China VI diesel-powered vehicle catalysts

The Group will increase the input in China VI diesel-powered vehicle catalyst products, procure the relevant production equipment as well as set up a strong testing, research and development and application team. The Group will strengthen communication with the vehicle vendors and engine vendors in China, so as to achieve the delivery of qualified China VI catalyst products to the customers as soon as possible and accomplish the import substitution work of China VI catalyst products in the near future.

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

Due to China's macro economy, energy policies and the current situation of industrial competition, the Group now has a weaker profitability of plate-type catalyst products. The overall growth pace of vehicle and vessel (engines) catalyst products of the Group is slower than expected. The Group's product categories remain limited, so the risk aversion ability is weak. As such, while seizing the time to perform the above relevant works, the Group has to continue to seek opportunities regarding merger, acquisition and re-organization in related sectors, so as to enhance scale and achieve profitability soon with its best efforts.

FINANCIAL REVIEW

Revenue from contracts with customers

For the period under review, the Group's revenue from contracts with customers was primarily generated from sales of plate-type DeNOx catalysts with small portion of sales of DeNOx catalysts for diesel-powered vehicles. The Group's revenue from contracts with customers increased by 12.6% from approximately RMB48.4 million in 2017 to approximately RMB54.4 million in 2018, which was due to a 5.9% increase in the average selling price of plate-type DeNOx catalysts from RMB7,962 per m^3 in 2017 to RMB8,406 per m^3 in 2018 and the 6.3% increase in sales volume of plate-type DeNOx catalysts from 6,073 m^3 in 2017 to 6,455 m^3 in 2018.

Cost of sales of goods

Cost of sales of goods of the Group decreased by 5.6% from approximately RMB61.7 million in 2017 to approximately RMB58.3 million in 2018, which was mainly due to the reduction in production cost of plate-type DeNOx catalysts by increasing production efficiency.

Gross loss

As a result of the increase in the selling price and sales volume of plate-type DeNOx catalysts, the gross loss reduced from approximately RMB13.4 million in 2017 to approximately RMB3.8 million in 2018.

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 increased by 49.1% from approximately RMB6.0 million in 2017 to approximately RMB8.9 million in 2018 due to the increase in the shipment transactions and the surcharges paid for the extended locations and increase in employee benefit expenses.

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 decreased by 33.3% from approximately RMB42.1 million in 2017 to approximately RMB28.1 million in 2018 which was primarily attributable to (i) provision for impairment of trade receivables has been recorded in net impairment losses on financial assets since 1 January 2018 (2017: approximately RMB4.2 million); and (ii) the decrease in the impairment losses of property, plant and equipment and intangible assets from approximately RMB18.6 million (for plate-type DeNOx catalysts business) in 2017 to approximately RMB8.3 million (for DeNOx catalysts for diesel-powered vehicles and vessels business) in 2018.

Research and development expenses

The Group incurred research and development expenses of approximately RMB3.7 million in 2018 (2017: approximately RMB10.8 million) mainly for DeNOx catalysts for diesel-powered vehicles and vessels.

Net reversal of impairment losses on financial assets

The Group reversed the provision for impairment of trade receivables of approximately RMB1.5 million due to the receipt of long outstanding debts in 2018 while a provision of approximately RMB4.2 million was made and recorded in the administrative expenses in 2017.

Finance income/(costs) net

Finance costs/income (net) primarily consist of finance income and finance costs. Finance income includes interest income on cash and cash equivalents and restricted cash; and net foreign exchange gains on financing activities. Finance costs include the net foreign exchange losses on financing activities. The Group recorded (i) an interest income of approximately RMB0.5 million in 2018 (2017: approximately RMB0.2 million); and (ii) an approximately RMB3.3 million foreign exchange gains mainly from cash and cash equivalents denominated in Hong Kong dollars and United States dollars due to the depreciation of Renminbi in 2018 while recorded an approximately RMB2.4 million foreign exchange losses in 2017.

Loss attributable to the Shareholders of the Company

As a result of the foregoing, the loss attributable to the Shareholders of the Company decreased by 45.6% from approximately RMB73.0 million in 2017 to approximately RMB39.7 million in 2018.

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	
	2018	2017
Current Ratio *(Note 1)*	**7.2 times**	7.3 times
Quick Ratio *(Note 2)*	**6.1 times**	6.4 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 and quick ratio as of 31 December 2017 remained relatively stable at 7.2 times (2017: 7.3 times) and 6.1 times in 2018 (2017: 6.4 times), respectively.

Return on equity and return on total assets

The Group did not record return on equity and return on total assets in 2017 and 2018 as it recorded a loss attributable to the Shareholders of the Company for the years ended 31 December 2017 and 2018.

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 2018, the Group had net current assets of approximately RMB221.3 million (2017: approximately RMB242.4 million) of which cash and cash equivalents were approximately RMB145.4 million (2017: approximately RMB180.4 million) and were denominated in RMB, US$, HK$ and Euro€ as at 31 December 2018.

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 DeNOx catalyst industry.

Use of net proceeds from the Listing

As at 31 December 2018, net proceeds not utilised of approximately RMB83.6 million were deposited into interest bearing bank accounts with licensed commercial banks and will be applied according to the section headed "Use of proceeds" of the prospectus of the Company dated 30 October 2015.

	Planned Amount RMB'million	Amount utilised up to 31 December 2018 RMB'million	Balance as at 31 December 2018 RMB'million
Development of DeNOx catalysts for diesel-powered vehicles	78.6	30.3	48.3
Acquisition of potential target companies in the Group's industry that can help to expand the Group's market coverage or key raw material suppliers	46.2	21.9	24.3
Research and development	17.1	10.7	6.4
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	3.9	3.0
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	87.4	83.6

Borrowings

The Group had no outstanding bank loans and other borrowings as at 31 December 2017 and 2018.

Capital expenditure and commitments

The Group incurred capital expenditure to expand its operations, maintain its equipment and increase its operational efficiency. For the year ended 31 December 2018, the Group had invested approximately RMB4.4 million for the purchase of property, plant and equipment (2017: approximately RMB9.0 million). These capital expenditures were financed by internal resources of the Group.

As at 31 December 2018, the Group's future capital expenditures contracted but not provided for amounted to approximately RMB0.6 million (31 December 2017: approximately RMB0.8 million).

Contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2017 and 2018.

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 2018.

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

Important events affecting the Group after the reporting period

On 21 January 2019, the Company's controlling shareholder, namely Advant Performance Limited, and parties acting in concert with it as well as two substantial shareholders, EEC Technology Limited and Kickstart Holdings Limited, and other management shareholders (together, the "**Relevant Shareholders**") entered into framework agreements with TianXing Vermilion Bird Limited (the "**Potential Purchaser**"), regarding a possible acquisition by the Potential Purchaser of the Relevant Shareholders' aggregate shareholding of 276,143,020 ordinary shares in the Company, representing approximately 55.75% of the entire issued share capital of the Company (the "**Potential Disposal**"). As at the date of this report, the Relevant Shareholders and the Potential Purchaser have not entered into any formal or legally binding definitive agreement in respect of the Potential Disposal.

Employees

As at 31 December 2018, the Group had 160 employees (2017: 155). 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 RMB8,406 per m^3 in 2018 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 2018, 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 14.8% and 49.3% 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 2018 which is the major reason for the exchange gains recognised by the Group. During the year ended 31 December 2018, 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 2018.

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 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 2018 are set out in the accompanying financial statements on page 74.

Final Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

Closure of Register of Members

For determining the entitlement of the Shareholders to attend and vote at the annual general meeting of the Company to be held on Friday, 21 June 2019 (the "**Annual General Meeting**"), the register of members of the Company will be closed from 17 June 2019 to 21 June 2019, 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 14 June 2019.

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 137.

Property, Plant and Equipment

Details of the movements in property, plant and equipment during the year ended 31 December 2018 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 2018, the aggregate sales attributable to the largest customer and the five largest customers of the Group accounted for approximately 14.8% and 49.3% 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 28.1% and 62.7% 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 (or his/her associates if such Eligible Participant is a connected person) (as defined in the Listing Rules) 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. LAM Yiu Por
Mr. LI Min
Mr. ONG Chor Wei

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

In accordance with Article 84(1) of the Articles of Association, one-third of the Directors for the time being shall retire from their offices by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. As such, Mr. Li Ke, Mr. Li Xingwu and Mr. Lam Yiu Por shall retire from office and being eligible, offer themselves for re-election at the Annual General Meeting.

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

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 2018 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.

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 2.20 to the consolidated financial statements.

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

As at 31 December 2018, 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)	2.98%
	Interest in controlled corporation *(Note 3)*	152,031,609 (L)	30.60%
Mr. Li Xingwu	Interest in controlled corporation *(Note 4)*	51,075,015 (L)	10.28%
Mr. Kong Hongjun	Interest in controlled corporation *(Note 5)*	8,887,475 (L)	1.79%
Mr. Li Ke	Interest in controlled corporation *(Note 6)*	2,962,474 (L)	0.60%

Notes:

1. The letter "L" denotes the person's long position in the Shares.
2. The percentages are calculated based on 496,758,000 Shares in issue as at 31 December 2018.
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 2018, 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.

Equity Linked Agreements

Save as disclosed in the section headed "Share Option Scheme", no equity linked agreements were entered into during or subsisted at the end of the year ended 31 December 2018.

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 2018 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 2018, 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)	30.60%
EEC Technology Limited	Beneficial owner	51,075,015 (L)	10.28%
Kickstart Holdings Limited	Beneficial owner	40,188,996 (L)	8.09%
Spring Capital Asia Fund, L.P.	Interest in controlled corporation *(Note 3)*	40,188,996 (L)	8.09%

Notes:

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

2. The percentages are calculated based on the 496,758,000 Shares in issue as at 31 December 2018.

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 2018, 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 2018.

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 2018.

Purchase, Sale or Redemption of Listed Securities

During the year ended 31 December 2018, the Company bought back a total of 4,651,000 Shares of the Company on the Stock Exchange. All the Shares bought back were subsequently cancelled by the Company. Details of those transactions are as follows:

Month of buy-back	Number of Shares bought back	Price Per Share Highest HK$	Price Per Share Lowest HK$	Aggregate price HK$
September	2,323,000	0.275	0.242	587,925
October	919,000	0.290	0.260	257,825
December	1,409,000	0.520	0.495	720,720

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

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 2018 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 2019 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, 29 March 2019

BOARD OF DIRECTORS

Executive Directors

Ms. Zhao Shu (趙姝), aged 53, 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 22 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 51, 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 51, 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 52, 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 48, 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:

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 42, 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 20 years of experience in the field of finance and accounting. He has been the vice president and chief financial officer of Greentech Technology International 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). 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 was an independent non-executive director of China Tontine Wines Group Limited (Stock code: 389) during the period of November 2018, and was a non-executive director of Zhong Ao Home Group Limited (stock code: 1538) during the period of April 2015 to May 2017, these three companies which are listed on the Main Board of the Stock Exchange.

Mr. Li Min (李民), Ph.D. aged 50, 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 49, 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 28 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 44, 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 46, 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 22 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. Corporate Responsibility

Adhering to the corporate culture of "integrity, responsibility, gratitude, innovation, inclusiveness, social commitment and teamwork", the Group sees corporate responsibility as the cornerstone to develop its business under the aspects of safety, quality, innovation, employee, environment and society. The Group takes proactive approach to fulfil its environmental and social responsibilities. With perseverance on the mission of "providing clean air, enjoying healthy life together", the Group devotes to becoming a domestic first-class and internationally renowned high-tech environmental protection company, and to making increasing contributions to energy conservation, emission reduction and the development of a living environment with clean water and blue sky in China.

2. Stakeholder Engagement

Needs and Expectations of Stakeholders

Stakeholder engagement is critical to achieving the goal of sustainable development in a successful and effective manner. The Group actively communicates with stakeholders through various channels such as e-mail, websites, shareholders' meetings, annual report, interim reports, announcements, circulars, conferences, etc., to obtain a broad understanding of their views on the environmental and social aspects of the Group and to enable the identification and evaluation of environmental and social risks, such that the Group will be able to accommodate the requirements and expectations of stakeholders by making corresponding adjustments to its development strategy.

Stakeholders	Needs and Expectations	Responses
Relevant government departments	Comply with environmental and safety-related laws and regulations	Enhance the screening and identification of safety hazards and work with relevant departments proactively to conduct safety inspections; Implement environmental protection measures accordingly
Customers	Products complying with relevant laws and regulations, ensure products quality and provide after-sale service; Products complying with national environmental requirements	Keep abreast of the latest environmental protection policies and market demand, enrich the variety of products, and commit to research and development and technical transformation of DeNOx catalysts; Strengthen product quality control and improve product quality
Employees	Reasonable working hours; Clean and tidy workplace	Establish a reasonable work schedule; Arrange regular cleaning for office and production plant
Suppliers	Fair and transparent procurement; Win-win cooperation	Conduct annual supplier assessment, formulate qualified supplier list and ensure that the products provided by suppliers meet the quality, environmental and safety requirements
Neighbourhood Communities	Protect the community environment	Strengthen the emission reduction technology of DeNOx catalyst to assist the emission reduction of the key pollution industries; Implement environmental protection measures and enhance environmental governance

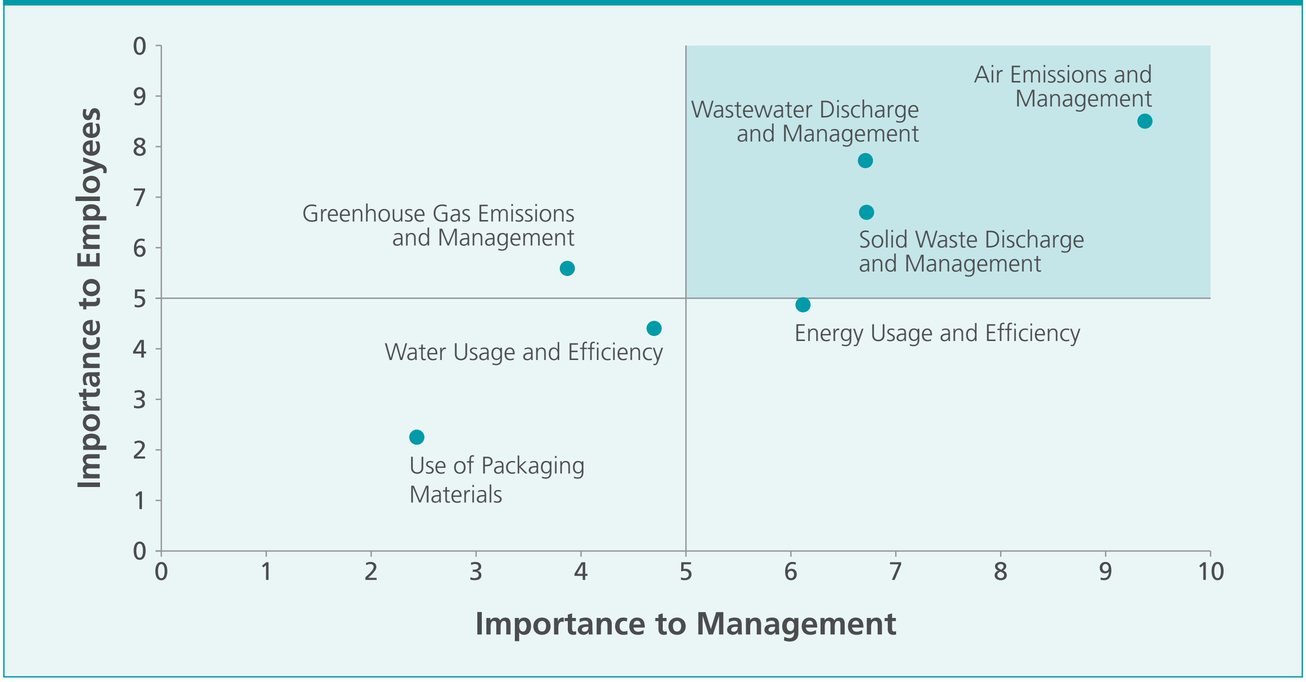
Materiality Assessment

In order to further understand stakeholders' expectations and concerns of the Group in fulfilling its corporate social responsibility, the Group conducted a materiality assessment in 2018 with the participation of management and employees through a survey to identify the relatively material issues of the Group. The result serves as a reference for the Group's strategic direction of sustainable development and determines the key areas of disclosure in the ESG Report.

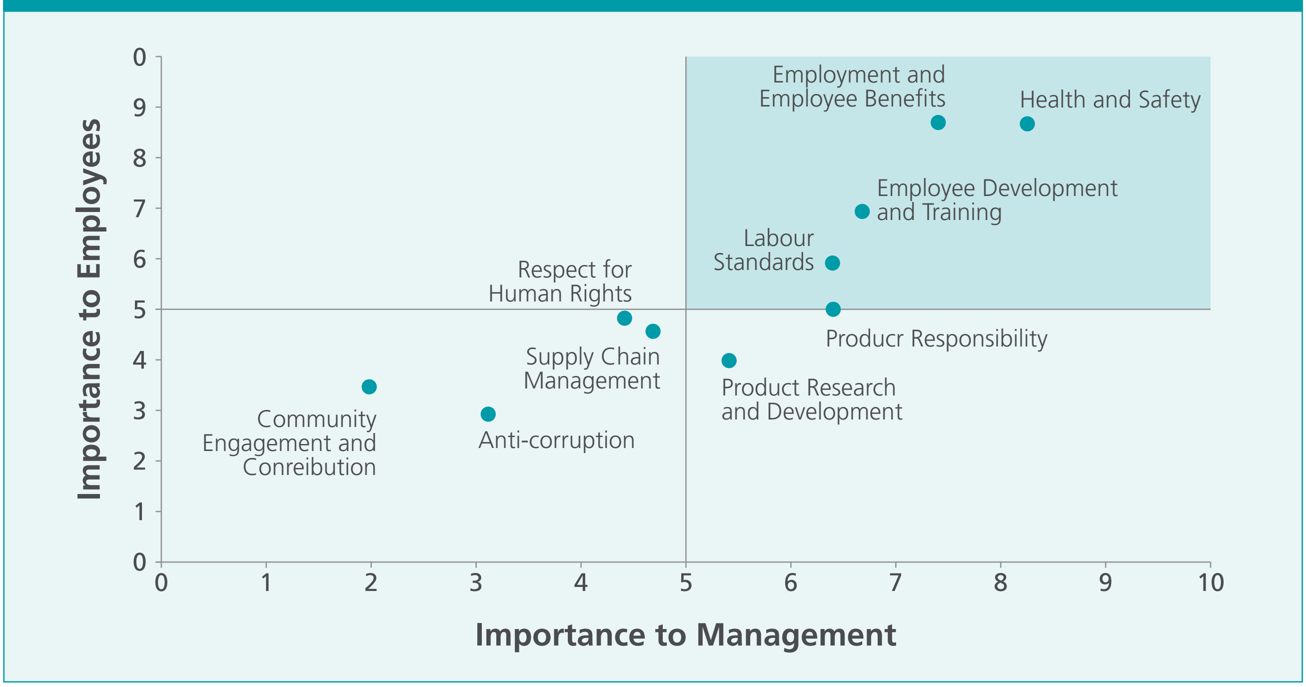
Materiality assessment is conducted in the following four main steps:

Identification	The Group sorted out relevant ESG issues from the ESG Reporting Guide to the Listing Rules of the SEHK and other national and international sustainability reporting guidelines and ensured that the issues reflect the nature of the Group's business (including 7 environmental-related issues and 10 social-related issues).
Survey	The management and employees of the Group prioritised the importance of each issue using an online survey.
Analysis	The Group analysed the results of the survey based on two dimensions, the "Importance to Management" and the "Importance to Employees" and compiled a materiality matrix. The Group defined the boundary of importance by a score of higher than 5 points (out of 10 points). 3 environmental-related material issues and 5 social-related material issues were identified.
Verification	The Group reviewed and verified the material issues and confirmed that these identified issues were of great significance to the Group thus become the key areas of disclosure in this ESG Report.

Materiality Matrix (Environmental Aspect)



Materiality Matrix (Social Aspect)



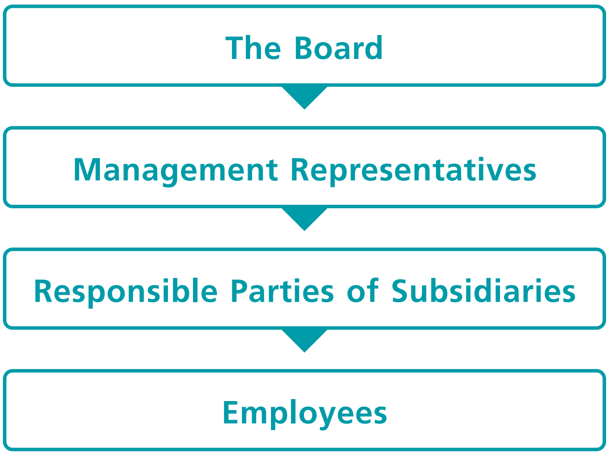
3. Responsible Operation

3.1. Comprehensive Management

Sustainability Management Framework

In order to integrate the concept of sustainable development into the Group's daily operations, the Group established a sustainability management framework with the participation of all levels in the Group, so as to promote sustainable development continuously and strengthen the implementation of internal management measures.

The Group's sustainability management framework is as follows:



Sustainability Management System

A sound quality, environmental, occupational health and safety management system is the cornerstone of the Group's sustainable development. The Group established a quality, environmental, occupational health and safety management system according to the requirement of *GB/T 19001-2016/ISO 9001:2015 Quality Management Systems – Requirements, GB/T 24001-2016/ISO 14001:2015 Environmental Management Systems – Requirements with Guidance for Use and GB/T 28001-2011/OHSAS 18001:2007 Occupational Health and Safety Management Systems – Requirements*. Beijing Denox and Gu' an Denox have been audited by third-party agencies and the quality management system, the environmental management system and the occupational health and safety management system have been certified to be in conformity to the above standards.

Upholding the management policy of "preventing pollution, health-oriented and earning the trust of customers by quality services; complying with regulations, continuous improvement and contributing to the society with high quality products", the Group ensures to comply with applicable laws and regulations and satisfies customers' needs through the effective implementation of the quality, environmental, occupational health and safety management system. The management system is also used to keep the environmental and social impacts of the operations, products and services of the Group under control.

The Group reviews the adaptability, sufficiency and effectiveness of the quality, environmental and occupational health and safety management systems on an annual basis, to ensure that the requirements of national standards are met continuously and effectively and are consistent with the Group's policies and objectives.

Risk Management

The Group developed the *Risk and Opportunity Response Control Procedure*, established risk and opportunity management measures and internal control systems, and set up risk and opportunity assessment teams to identify, analyse and evaluate the risks related to quality, environment, occupational health and safety, and to consider measures taken in a comprehensive manner to reduce the potential harm or loss.

3.2. Managing and Governing Corporation by the Rule of Law

Legal Compliance

To gather, update and identify the legal regulations that are applicable to the Group in a timely manner, the Group formulated and implemented the *Legal Regulatory and Other Requirements Control Procedure* and established a list of legal regulations and other requirements with the names of the legal regulations and their applicable clauses. The Group reviews the effectiveness of the list annually to ensure that its production and operation comply with the relevant laws and regulations. The Human Resources and Administration Department of the Group keeps abreast of the latest initiatives and policies of national and regional legislative bodies, follows legal regulations and other requirements and updates the list in a timely manner, and explains how the requirements of legal regulatory are to be applied to the operation of the Group.

Anti-corruption

The Group treats business integrity as an important part of sustainable development and promotes the concept of integrity and compliance-based governance during the operation. The Group strictly complies with the relevant laws and regulations relating to the prevention of bribery, extortion, fraud and money laundering that have a significant impact on the Group, 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, the Anti-unfair Competition Law of the People's Republic of China, the Anti-money Laundering Law of the People's Republic of China,* etc. On this basis, the Group has formulated the *Anti-corruption and Bribery Control Procedure* to govern the corporation by the rule of law. The Board is responsible for the internal controls of the Group. The Group handles the reports in respect of financial filings, internal controls or any other suspected misconduct or negligence within the Group fairly and properly by the implementation of the whistleblowing policy.

A *Statement of Undertaking Combating Bribery/Corruption* shall be signed by the individuals of key positions, while a *Statement of Undertaking Combating Bribery/Corruption for Supplier* shall be signed by suppliers, service providers and contractors who have business transactions with the Group. In case of any violation of the requirements, the suppliers or services providers would be disqualified and, in the event of a commercial bribery offence, it would be referred to the judiciary. The Human Resources and Administration Department of the Group sets up opinion boxes and hotlines to provide channels for employees and companies that have business transactions with the Group to report corruptions. The procedures of receipt of complaints, investigation and other aspects are kept in strict confidence.

During the Reporting Period, the Group had not received any cases regarding the violations of laws and regulations relating to the protection of bribery, extortion, fraud and money laundering that have a significant impact on the Group, nor did it receive any litigation cases against its employees involving bribery, extortion and money-laundering.

4. Environmental Protection

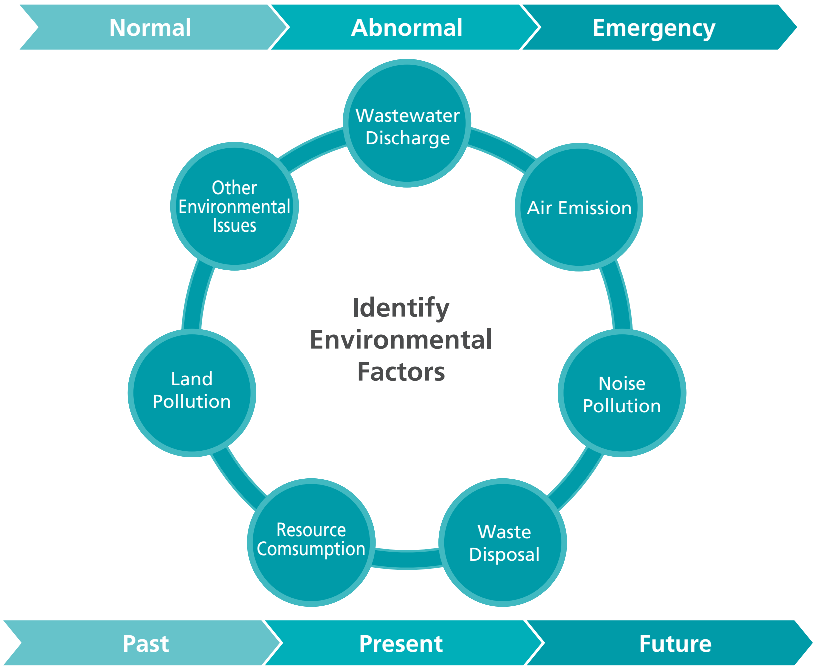
4.1. Environmental Management

Adhering to the environmental management policy of "complying with laws and regulations, energy-saving, pollution prevention, and continuously improving the environmental performance", the Group has established an Environmental Management System and implements effective environmental protection measures contained. 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 that have a significant impact on the Group, including 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 Environment Pollution Caused by Solid Wastes,* 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,* the *Integrated Emission Standard of Air Pollutants,* the *Implementation Rules of the Action Plan for the Implementation of Air Pollution Prevention and Control in Beijing-Tianjin-Hebei Region and Surrounding Areas,* etc.

Besides, the Group has established and implemented internal environmental management policies such as the *DeNOx Production Environmental Protection Management System*, the *Control Procedure of Environmental, Occupational Health and Safety Operation,* etc. The Group also sets environmental targets and implements environmental protection measures.

Environmental Targets:	Achievement of Targets in 2018:
100% meets the national and local standards related to environmental protection	✓
0 Environmental pollution incident	✓

The Group has formulated the *Control Procedure of Environmental Factors Identification and Assessment* to identify and evaluate the Group's material environmental factors in the process of procurement, sales, technical development, production and after-sales service, and to ensure that environmental factors that may cause negative environmental impacts are effectively controlled. The Group considers three statuses (normal, abnormal and emergency), three timeframes (past, present and future) and seven factors (wastewater discharge, air emissions, noise pollution, waste disposal, resources consumption, land pollution and other environmental issues) during the identification and assessment process of environmental factors. In view of the environmental factors identified with a high degree of environmental impact, the Group has accordingly formulated feasible management plans and responses based on the actual situation, followed by planned and phased implementation of measures to reduce the impacts on the environment.



During the Reporting Period, the Group had not received any cases regarding the violations of laws and regulations relating to emissions of gases and GHG, discharges into water and land, waste generation and handling, and noise pollution that have a significant impact on the Group.

4.2. Reduce Environmental Pollution

Emissions of the Group are mainly related to air pollutants, wastewater, waste and noise generated during the production process. The Group is committed to prevention and control of pollution, compliance with national laws and regulations relating to environmental protection, reducing pollutant emissions, so as to establish an "environmentally friendly enterprise".

Air Pollutant and GHG Emissions

The main air pollutants of the Group are sulphur dioxide and nitrogen oxides produced by boilers, burners and roasting furnaces during combustion, as well as a small amount of dust generated in the production process. The Group uses natural gas, which is considered as clean energy to reduce the generation of air pollutants at source. The Group has also adopted effective measures to conduct exhaust gas treatment, including the setting up of exhaust gas treatment facilities at the exhaust vents of all production equipment. The Group also stipulates that exhaust gases must be treated using measures such as recovery, absorption, adsorption and catalytic combustion and to meet the requirements setting out in the *Integrated Emission Standard of Air Pollutants (GB 16297-1996)* before their discharge. Direct emissions without treatment are strictly prohibited. A small amount of dust is generated from the production process and we have installed dust collection devices in our production equipment to ensure that the dust is properly handled. During the Reporting Period, the Group has successfully replaced gas boilers for heating from the production plant by using electricity for heating to reduce the emission of air pollutants.

In response to the country's environmental policies and to tackle heavily polluted weather, the Group has formulated the *Implementation of Emergency Response Plan for Heavily Polluted Weather* according to relevant national and provincial regulations, such as the *Interim Measures for Contingency Plans for Environmental Emergencies, the Air Pollution Prevention and Control Action Plan of General Office,* and the *Emergency Response Plan for Heavily Polluted Weather.* The Group has established an emergency response team, which conducts the cut-off arrangement for the production according to the grading of heavily polluted weather issued by the government when necessary. During the Reporting Period, the Group followed the emergency measures in response to the heavily polluted weather and stopped its operation for 29 days, which reduced about an equivalent of 0.2575 tonnes of dust emissions in total.

The major air pollutants and GHG emissions during the Reporting Period are as follows:

Emissions[2]	Units	Data[3]	
		2018	2017
Air pollutants[4]			
Sulphur dioxide	Tonnes	0.090	0.025
Nitrogen oxides	Tonnes	0.181	0.078
Carbon oxide	Tonnes	0.110	–
Dust	Tonnes	0.169	3
GHG emissions			
Scope 1: direct emissions[5]	Tonnes CO_2 equivalent	224.451	134.185
Scope 2: indirect emissions[6]	Tonnes CO_2 equivalent	2,986.591	2,286.222
Scope 3: other indirect emissions[7]	Tonnes CO_2 equivalent	21.737	–

1 The scope of the environmental data includes the office in Beijing, and the production plants in Gu'an and Wuxi.

2 In 2018, the Group carried out production trials of diesel vehicle catalysts. The increased usage of stationary sources and other production equipment results in the increased energy use, emissions of air pollutants and GHG emissions.

3 Due to the dynamic changes of the price of denitrification catalysts, the calculation of intensity of environmental performance of the Group has been changed from thousand RMB revenue to m^3 production volume to better represent the Group's environmental performance.

4 Air pollutants includes those emitted from stationary sources, vehicles and cooking. The emissions were calculated using the *National Emission Inventory Guidebook for On-road Vehicles* issued by the National Development and Reform Commission of the People's Republic of China and the *Discharge Coefficients of Industrial Pollutants in the First National General Survey of Pollution Sources* and *Discharge Coefficients of Urban Pollutants in the First National General Survey of Pollution Sources* issued by the National Development and Reform Commission of the People's Republic of China.

5 Scope 1 GHG emissions came primarily from the use of stationary source and vehicles. Scope 1 GHG emissions were calculated using the *Calculation Method and Reporting Guidance on Greenhouse Gas Emissions by Other Industrial Enterprises (Trial)* issued by the National Development and Reform Commission of the People's Republic of China.

6 Scope 2 GHG emissions came primarily from the purchased electricity. Scope 2 GHG emissions were calculated using the *2011-2012 Regional Power Grid Average CO_2 Emission Factors in China* published by the National Development and Reform Commission of the People's Republic of China.

7 Scope 3 GHG emissions includes business air travel by employees. Scope 3 GHG emissions were calculated using the carbon emissions calculator developed by the International Civil Aviation Organization, a United Nations agency.

Emissions[2]	Units	Data[3] 2018	2017
Planted trees	No. of trees	2	2
Emissions reduction due to planted trees[8]	Tonnes CO_2 equivalent	0.046	0.046
Total GHG emissions[9]	Tonnes CO_2 equivalent	3,232.733	2,420.361
Total GHG emissions intensity	Tonnes CO_2 equivalent per m^3 production volume	0.472	0.384

Wastewater Discharge

The Group's wastewater discharge mainly comes from domestic sewage generated in the office area, as well as industrial wastewater and domestic sewage discharge in the production plants. Among them, all the domestic sewage generated from the office is discharged into the municipal pipelines through the drainage system of the building.

Most of the water used during the production process of the Group is evaporated during the process of product ageing and roasting. There was no significant wastewater discharge. In addition, the Group has installed comprehensive wastewater treatment facilities to treat all types of wastewater generated during the operation and maintains the treatment facilities regularly to ensure smooth operation so that the quality of wastewater discharge meets the requirements of the *Integrated Wastewater Discharge Standard (GB 8978-1996)* and the local wastewater treatment plant. The Group also tests the quality of wastewater regularly to ensure compliance with the discharge standard.

During the Reporting Period, 3,728 tonnes[10] of wastewater were discharged by the Group.

Waste Handling

The Group is committed to strengthening the management of waste and abides by relevant national standards, such as the *Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes (GB 18599-2001)* and the *Standard for Pollution Control on Hazardous Waste Storage (GB 18597-2001)*. The Group has formulated the Waste Management Procedures and the *DeNOx Hazardous Waste Management System* to regulate the procedures for the collection, storage and handling of all types of wastes, and to prevent the mixing of hazardous wastes into non-hazardous wastes and causing environmental pollution or any influence.

8 The GHG emissions reduction were from planted trees. Emissions reduction were calculated using the *Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong* published by the Electrical and Mechanical Services Department and Environmental Protection Department of Hong Kong.

9 The total GHG emissions include scope 1 GHG emissions, scope 2 GHG emissions and scope 3 GHG emissions of the Group, with the deduction of emissions reduced due to planted trees.

10 The amount of wastewater discharged is a conservative estimation of the Group based on previous performance and with reference to similar facilities.

11 During the Reporting Period, the Group expanded the data collection scope of non-hazardous waste to include domestic waste, food waste and production waste.

12 The Group has started to record the amount of packaging materials used during the Reporting Period.

The Group's waste mainly consists of non-hazardous wastes (including dust, cutting materials, general waste, food waste, scrap paper, etc.) and hazardous wastes (including waste chemicals, waste batteries, waste cartridges, waste toner cartridges, waste electronic products, etc.). The Group classifies, collects and stores each type of non-hazardous wastes, and they are collected by the property management company for further handling. Meanwhile, the Group strengthens the supervision and management of the waste storage location and keeps it clean. Aiming to achieve 100% safe disposal rate of hazardous wastes, the Group sets up labelled storage containers to collect different types of hazardous wastes and they are collected by qualified waste disposal units for centralised handling.

In order to reduce the amount of solid waste, the Group collects the shredded materials generated during the mixing process and reuses them in the production process. The annual recycling amount is about 0.2 tonne.

During the Reporting Period, the amounts of wastes[1] handled by the Group are as follows:

Waste	Unit	Data[3]	
		2018	2017
Non-hazardous waste[11]			
Total non-hazardous waste	Tonnes	79	3
The intensity of non-hazardous waste	Tonne per m^3 production volume	0.012	4.754×10^{-4}
– Domestic waste	Tonnes	61	–
– Food waste	Tonnes	12	–
– Production waste	Tonnes	6	–
Hazardous waste			
Total hazardous waste (except ink cartridges)	Tonnes	1.200	1
The intensity of hazardous waste (except ink cartridges)	Tonnes per m^3 production volume	1.751×10^{-4}	1.585×10^{-4}
– Waste hydraulic oil	Tonne	1	–
– Waste Paint containers	Tonne	0.200	–
Ink cartridges	No. of ink cartridges	4	–

Noise Pollution Management

The noise pollution of the Group mainly arises from the operation of production equipment. The Group has formulated the Control Procedure of Noise Pollution to strengthen the management of noise sources and to reduce noise pollution at source.

Control on Equipment Installation and Trial-run	– Installs a stable and reliable equipment foundation to reduce mechanical noise caused by vibration and installs shock absorbers on the equipment with high rotational inertia and high speed.
	– Calibrates the equipment according to the approved drawings during installation.
Control on Operation	– Strictly follows the operating manual during equipment start-up to prevent noise caused by improper operation.
	– Repairs and maintains the equipment regularly to have a fluent flow of oil, water and gas to ensure the equipment operates in good condition.

The Group also conducts regular noise monitoring to ensure that noise reduction measures are effectively implemented.

4.3. Use of Resources

The Group strictly abides by the laws and regulations relating to the use of resources, such as the *Cleaner Production Promotion Law of the People's Republic of China and the Energy Conservation Law of the People's Republic of China.* By formulating and implementing various internal management practices, such as the *Operational Control Procedure of Environment and Occupational Health and Safety* and the *Measures of Energy Management of Production Centre,* the Group enhances energy consumption management and implements energy saving measures to ensure that energy is utilised fully and effectively.

Energy Use

The Group's main energy source is electricity use. To use energy in the daily operations scientifically and reasonably, the Group has established different systems and implemented different measures to manage the use of energy during production and office operation.

In terms of production, the Group has established the *Measures of Energy Management of Production Centre* and assigned energy management specialists to record the use of energy on a monthly basis, to monitor energy use, and to address anomalies.

For office operation, the Group has formulated energy conservation plan and implemented energy conservation measures, including:

– Set the indoor air temperature to 26°C in summer and 20°C in winter.

– The Equipment Management Department is responsible for the management of electricity use in the office. The lighting of the guest meeting room would be turned on upon the arrival of the guest and would be turned off immediately once they left.

– Electrical appliances that are used every day, such as computers, copiers and air conditioners are turned off after working hours.

– Record vehicle fuel consumption on a monthly basis.

Types of energy[1, 3]	Unit	Energy consumption[3] 2018	2017
Electricity	kWh	3,421,416.600	2,625,964.500
Electricity intensity	kWh per m^3 production volume	499.258	416.093
Natural gas	10 thousand m^3	8.344	3.900
Intensity of natural gas	10 thousand m^3 per m^3 production volume	1.218×10^{-3}	6.180×10^{-4}
Gasoline	Litre	20,593.000	21,697.400
Intensity of gasoline	Litre per m^3 production volume	3.005	3.438
Liquefied petroleum gas	Litre	1,485.000	–
Intensity of liquefied petroleum gas	Litre per m^3 production volume	0.217	–

Water Usage

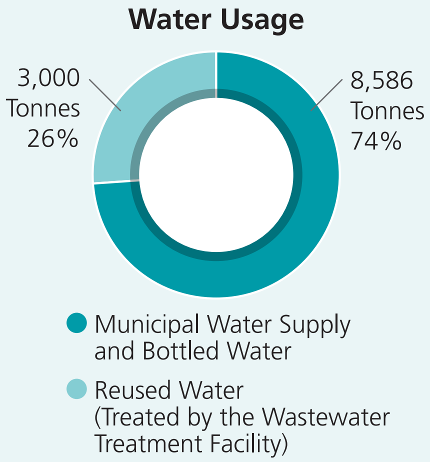
The Group's water use mainly comes from municipal water mains and has not encountered any difficulty in water sourcing. The water consumption of the Group includes production use and domestic use. To conserve water resources effectively, the Group has formulated the *Procedure of Resources Conservation Management* to enhance the management of water use. The Group implements a number of water conservation measures to reduce water consumption, which include:

– Raise employees' awareness of water conservation, conserve the use of water and turn on and off the water fixtures when needed and promptly.

– Proper control of the opening degree of the water valve to prevent water wastage.

– Strengthen the daily maintenance of water fixtures and water pipes. Repair the water supply system when dripping and leakage occur in a timely manner.

To further improve water efficiency, the Group reuses water treated by the wastewater treatment system for irrigation, road sprinkling, and sanitary cleaning of production plants. The Group reuses about 3,000 tonnes of water annually.



Water Use	Unit	2018	2017
Municipal water supply and bottled water	Tonnes	8,585.838	8,474.500
The intensity of municipal water supply and bottled water	Tonnes per m^3 production volume	1.253	1.343

Use of Paper and Packaging Materials

The Group implements a variety of measures to reduce paper use, including the reuse of letter envelopes, the transmission of internal documents via e-mail, the installation of paper recycling bins, the reuse of single-sided printed paper, etc. The Group promotes the principle of moderate packaging in terms of the use of packaging materials and reduces the consumption of packaging materials.

Types of packaging materials[12]	Unit	Usage
Wood	Tonnes	70.500
Plastic	Tonnes	2.250
Paper	Tonne	0.167
Metal	Tonnes	5.300
Total packaging materials	Tonnes	78.217
The intensity of packaging materials	Tonne per m^3 production volume	0.011

[12] The Group has started to record the amount of packaging materials used during the Reporting Period.

4.4. Innovative Emission Reduction Technology

As an environmentally-friendly corporation, the Group does not only actively reduces the impact of its operations on the environment but also focuses on the research and development of green products to accommodate the national emission reduction policies and to meet the community's demand for denitrification catalysts. The Group actively invests in strengthening the research and development of DeNOx catalysts for thermal power generating units, diesel-powered vehicles and vessels (engines) to achieve better economic and social benefits for customers in relation to emissions reduction.

On 22 June 2018, China's Ministry of Environmental Protection released the *Limits and Measurement Methods for Emissions from Diesel Fuelled Heavy-Duty Vehicles* ("**China VI**"), which sets out the timetable for the implementation of pollutant emission limits for heavy-duty diesel-powered vehicles under China VI emission standards. The Group actively responds to the requirements of the country. During the Reporting Period, the Group has strengthened the research and development works and trial production of molecular sieve catalysts under China VI emission standards, and will continue to enhance its technical development to cater to the needs of the dynamic market and actively contribute to pollution mitigation.

5. People-oriented

5.1. Employee Policy

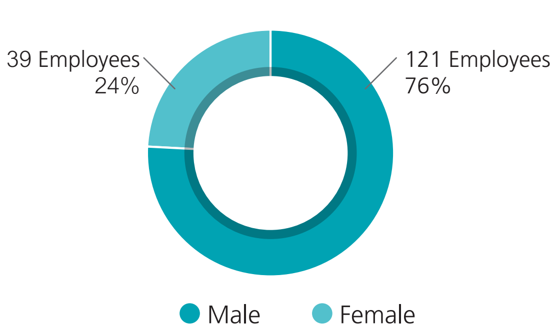
To protect the legitimate rights and interests of employees and maintain a long-term and stable labour relationship, the Group has formulated and implemented sound labour contract systems, comprehensive remuneration, welfare and promotion systems, reasonable working hours and people-oriented leave and holiday systems, etc. The Group strictly complies with the laws and regulations relating to employment and labour standards that have a significant impact on the Group, including but not limited to the *Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, the Trade Union Law of the People's Republic of China,* and the *Law of the People's Republic of China on the Protection of Minors.* The Group provides legal and reasonable remuneration and benefits to employees, ensuring fair treatment is received among all employees. During the Reporting Period, the Group had not received any cases regarding the violations of laws and regulations relating to employment and labour standards that have a significant impact on the Group.

To strengthen the company's employment management system and to implement a fair, impartial and transparent recruitment process, the Group has formulated the *Employee Recruitment System* and the *Management Approach for Employee Selection* to standardise the recruitment requirements and procedures. The Group enters into employment contracts with the employees legitimately. All contracts have included terms relating to remuneration, benefits, employee health and safety, confidentiality obligations and grounds for termination. The Group also established regulations relating to employee turnover and dismissal to safeguard the interests of both the employees and the Group.

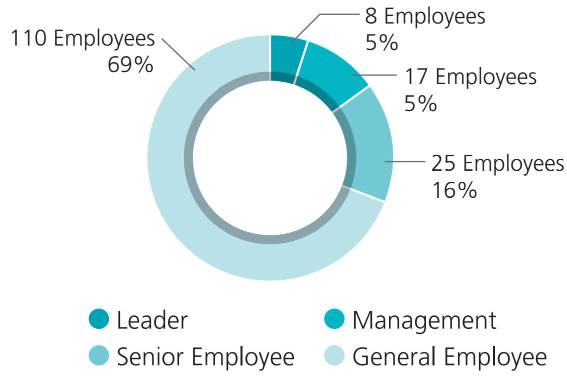
To reflect the adoption of fair and impartial salary arrangement principle and enhance employee's performance, the Group has formulated the *Management Approach for Remuneration System* and implemented regulations relating to remuneration and promotion. The Group offers opportunities for the adjustment of remuneration and job promotion in response to employees' performance, work experience, educational background and professional qualifications. The remuneration package includes salary, retirement pension, discretionary bonus, medical insurance plan and other applicable social insurance. In addition, the Group has established the *Work Attendance Regulation* to ensure that its employees are entitled to paid leave, maternity leave, paternity leave and other statutory holidays. Moreover, marriage leave and bereavement leave are also provided to the employees.

The Group advocates equal and diversified opportunities of employment in the processes of recruitment, remuneration and job promotion without any forms of discrimination against employees based on factors such as their races, nationalities, colours and gender.

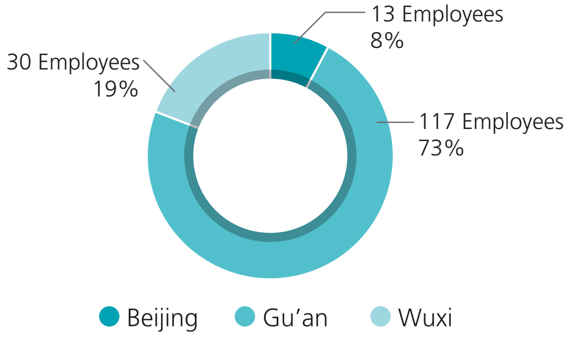
The Number and Percentage of Employee by Gender



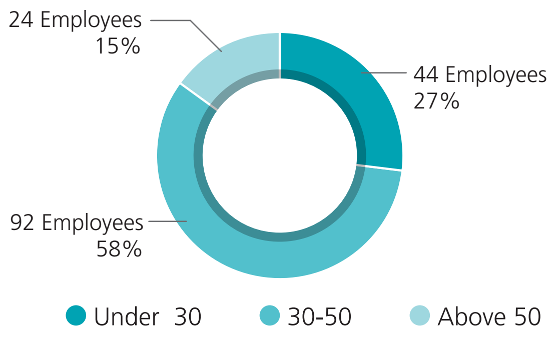
The Number and Percentage of Employee by Employment Type



The Number and Percentage of Employee by Geographical Region



The Number and Percentage of Employee by Age Group

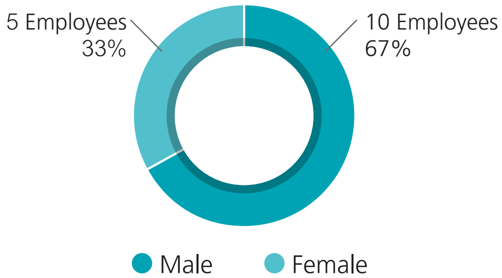


The Group resolutely prohibits the employment of persons under the age of 16. The Group requires candidates to provide valid identity certification during recruitment process and employment to prove that they meet the statutory age requirements, ensuring that the Group fully complies with the laws and regulations relating to the prohibition of child labour. If any cases of child labour are found, the Group would immediately terminate the employment relationship with relevant parties, investigate the incident and improve the recruitment process.

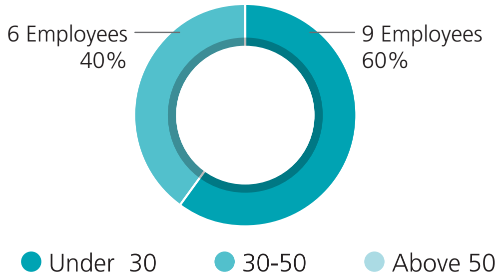
The Group stipulates that employees work eight hours a day and has formulated the *Control Procedure against Forced Labour and the Use of Prisoners*. The Group strictly forbids forced labour, at the same time, the Group has never employed prisoners who are serving their sentences and has never conducted business with any unit or organisation that employs prisoners. During the Reporting Period, there were no cases of child labour and forced labour found within the Group.

The Group attaches great importance to employee communication and has formulated the *Management Procedures of Employee's Opinions, Suggestions, Appeal Processing and Feedback*. The Group has established complaint channels, handling procedures, processing time limits, etc. to handle employee's opinions and suggestions in a timely manner. The Group also encourages employees who contribute to the Company's business plan and rewards those who provide advice or suggestions.

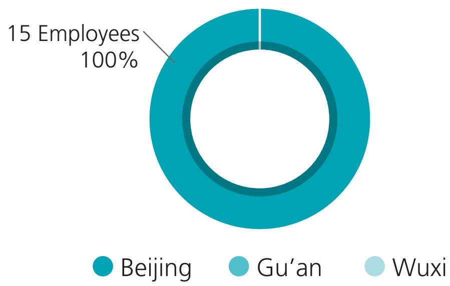
The Number and Percentage of Employee Turnover by Gender



The Number and Percentage of Employee Turnover by Age Group



The Number and Percentage of Employee Turnover by Region



5.2. Caring for Employees

Aiming to create a workplace for employee's development, the Group regularly organises trips and activities for its employees to enrich their lives and allow them to relax and release stress.

The Group organised company trips for employees

The Group organised the 2nd sports event for employees

5.3. Development and Training

The Group is committed to promoting the continued growth of the employees, encouraging and empowering the employees to reach their full potential. The Group develops and continuously improves the training system and provides on-the-job training and development opportunities for its employees so that their performance will continue to improve. The Group has formulated the *Control Procedure of Human Resources* and has stipulated that training shall be arranged for every employee before their duties are being taken up. Also, on-the-job training is provided to strengthen employees' skills and awareness in quality, occupational health and safety and environmental protection. The Group formulates an *Annual Training Plan* to enable new employees to fully master the basic skills required to perform their duties, while allowing existing employees to enhance their work and production skills.

Identify Training Needs	Develop Training Plan	Implement Training	Post-training Assessment
The Group identifies training needs based on employees' job duties, responsibilities and employee competency evaluations.	The Group develops the Annual Training Plan according to the training needs of each department.	To ensure the quality, training is held by persons with relevant professional qualifications or with relevant training experience.	Post-training assessments are conducted through interviews, written tests, practical operations, on-site inspection, job assessment, etc. to ensure that employees meet the job duties and responsibilities.

During the Reporting Period, training programs including the new employee training, safety training, environmental training, product sales training, production training, procurement training, etc. were conducted.

Case-study for Training

During the Reporting Period, occupational health and safety training has been organised by the Group to ensure that all employees had a clear understanding of safe production, and to enhance their safety awareness.

5.4. Health and Safety

Health and Safety Management

Conducting our productions safely is one of the Group's key direction, with the Group adhering to the principle of "safety comes first, prevention as core, and integrated control" and seeing ensuring safe production as its long-lasting mission. The Group continuously raises the safety awareness of all employees and implements safety measures to ensure that the production operations are conducted in a safe manner.

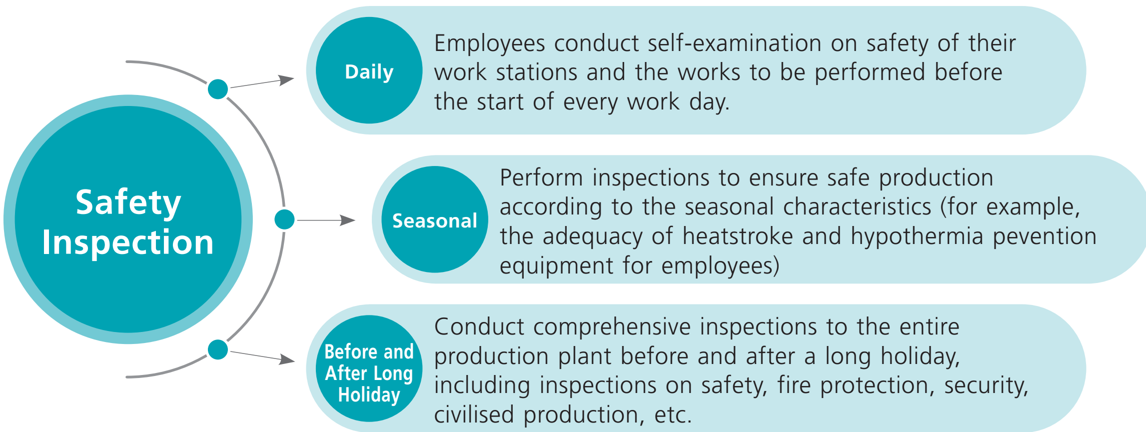
The Group has established and implemented an *Occupational Health and Safety Management System* to integrate stringent safety standards and procedures into the operation, sales, production and service processes. The Group strictly complies with the laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards that have a significant impact on the Group, including but not limited to 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.* The Group has formed a Safety Production Leading Team, stated the job safety responsibilities and set safety objectives to ensure that relevant measures are strictly implemented by all employees of all departments.

Occupational Health and Safety Targets:	Accomplishment of Targets in 2018:
0 Safety accident rate	✓
0 Fire incident rate	✓

During the Reporting Period, there was no work-related death nor lost working days due to work injury.

Workplace safety and Occupational Health and Safety

In order to establish a good workplace, the Group has formulated a work procedure titled *Regulations of Safe Production Inspection*, which stipulates inspection procedures to identify dangerous elements in production processes for the elimination of potential occupational hazards in a timely manner to prevent accidents, and to improve working conditions of our employees. The Group's safety inspections are mainly divided into three types:



The Group would formulate practical corrective plans and hazards removal measures in a timely manner for any safety hazards identified, to ensure that the measures are effectively implemented and potential hazards are completely eliminated.

In addition, in order to actively prevent, control and eliminate occupational hazards that may arise during the production process, the Group has developed and implemented its' *Occupational Health Management Policy and the Labour Protection Equipment Management Policy,* and provided employees with necessary personal protection equipment according to their job duties and actual needs. The Group cares about the health conditions of our employees. The Group has formulated the *Regular Health Inspection Policy for Employees* to stipulate employees to undergo regular physical examinations for the prevention and control of occupational injuries.

During the Reporting Period, the Group had not received any cases regarding the violations of laws and regulations relating to providing a safe working environment and protecting employees from occupational injuries that have a significant impact on the Group.

Emergency Preparation and Response

The Group has established and continuously enhances the *Control Procedure of Emergency Preparation and Response* and has stipulated the emergency preparation and response procedures for potential safety incidents and possible emergencies to minimise the impacts on the environment and bodily injury. The Group has also established a decisive, capable and fast-responding internal emergency rescue team, to provide emergency preparedness and response in the prevention and control of hazards or emergencies.

The Group formulates the *Emergency Action Plan* annually and organises different types of emergency drills to enhance the rescue team and other employees' familiarity with the emergency plan, and hence to improve their emergency responsiveness.

Emergency Plan Drill

Fire Drill

Mechanical Injury Drill

6. Quality Products

6.1. Quality Management

Adhering to the philosophy of "advanced technology, excellent quality and service and distinctive reputation", the Group abides by its quality commitment and strives to provide customers with quality products and services by improving its quality control system and strengthening quality management. The Group strictly abides by the laws and regulations relating to product responsibility that have a significant impact on the Group, 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* and the *Regulation on the Implementation of the Trademark Law of the People's Republic of China.* The Group has set quality targets and strives to improve the quality of its products and services continuously.

Quality Targets:		Accomplishment of Targets in 2018:
Procurement compliance Rate	≥ 99%	✓
Product on-time delivery rate	100%	✓
Customer satisfaction rate	≥ 90%	✓
Contract fulfilment rate	100%	✓

During the Reporting Period, the Group had not received any cases regarding the violations of laws and regulations relating to product responsibility that have a significant impact on the Group.

6.2. Quality Monitoring

The Group believes that the performance, quality and safety of its products are critical to customers, and to the reputation and success of the Group. The Group implements quality assurance and monitoring procedures during the processes of raw materials procurement; during production and during the delivery of final products; to ensure only quality and safe products and services are delivered to its customers.

Materials Procurement: To strengthen the quality control of raw materials, and to ensure specifications, performance and appearance of the materials are meeting the quality requirements, the Group established the *Incoming Inspection Standard,* which specifies the inspection methods for incoming materials and those unqualified materials would be requested to replaced or returned.

Production Process: The Group conducts secret inspections, handover inspections and sub-item inspections during the production process. The finished products would be examined with relevant technical requirements to ensure their quality.

After Delivery/Used: The Group treats the identification of unqualified products after delivery or used as a major quality issue. The Group would initiate negotiation with customers in a timely manner and would take corrective or preventive measures appropriately. The Group established the *Control Procedure of Unqualified Products* and the *Control Procedure for Nonconformity, Corrective and Preventive Measures* to stipulate the assessment and handling procedures for unqualified products. Unqualified products are identified, isolated and handled according to the specified procedures.

The Group regularly conducts product testing according to the *Testing Guideline of SCR Catalysts for the Thermal Power Plants (DL/T1286-2013)* to ensure that the products' chemical composition complies with relevant regulations and ensures products are safe and healthy to use.

Intelligent Manufacturing Drives Efficiency Upgrade

During the Reporting Period, the Group invested in the automation and upgrading of production equipment. The production efficiency and products quality are continuously enhanced by increasing the level of automation.

The Group has properly managed the products labelling. Items such as the product name, product number and product quality inspection certificate are shown on the product label to prevent products from being misused in the delivery process. Moreover, each product of the Group possesses a distinctive identification which enables traceability on the source of the product, the responsible person and the distribution of the product. This enables that if any problems occur, the Group can utilise the unique product identification to identify the root cause in time, and take appropriate measures to ensure that the products meet specified requirements.

6.3. Customer-oriented

The Group values customers' opinions and suggestions. By keeping abreast of the market demand, we continue to pursue innovation and improve our service quality continuously. The Group actively communicates with customers during the sales process to build good customer relationships and improve customer satisfaction continuously.

Pre-sale service: The Group communicates with customers to confirm customers' needs through various channels.

In-sale service: The Group provides corresponding services according to the needs of customers, introduces products and services to customers and answers their inquiries with patience.

After sales service: The Group has established the *Control Procedure of Customer Satisfaction,* requiring employees to collect feedback from customers after product delivery. The Group investigates and analyses customers' satisfaction level and collects their opinions on the products and services. If any problems are found, the Group would immediately deal with the problems, striving to meet customer's expectations.

The Group has established the *Customer Complaint Handling Procedure* to handle customer complaints systematically. The Group documents the complaint, and conducts investigation and analysis in a timely manner after receiving a customer complaint. To handle customer complaints in a timely and effective manner, the Group actively negotiates and proposes suitable solutions to customers. Moreover, the Group utilises the lessons learnt from the complaint handling process and continuously improves its business management and operation, thus to achieve better levels of service quality.

During the Reporting Period, the Group had not received any complaints, and was recognised and commended by its customers.

Fiscal Year	Delivered Quantity (Units)	No. of Complaints
2016	26	0
2017	34	0
2018	38	0

The Group attaches great importance to privacy protection. The Group strictly abides by the relevant privacy protection measures to ensure the security of information of the Group and its customers. During the Reporting Period, the Group had not received any cases regarding the violations of laws and regulations relating to privacy matters that have a significant impact on the Group.

6.4. Protection of Intellectual Property Rights

The Group has a unique competitive advantage in the industry of denitration catalyst with its advanced technology. The Group strictly abides by the laws and regulations that are significant to the Group, such as the *Patent Law of the People's Republic of China,* the *Tort Liability* Law *of the People's Republic of China,* and the *Copyright Law of the People's Republic of China.* The Group has established procedures and measures for regulating its intellectual property, so as to improve the technological innovation system. As of 31 December 2018, the Group had obtained a total of 16 patents.

6.5. Supply Chain Management

As a responsible corporate, the Group attaches great importance to the environmental and social impacts of its business and strives to grow together with suppliers. Therefore, the Group selects its suppliers carefully and manages the environmental and social risks of the supply chain properly. The Group specifies in the service agreements that suppliers are required to comply with relevant laws and regulations to comply with safety and environmental requirements during the production, packaging, transportation, loading and unloading processes, etc.

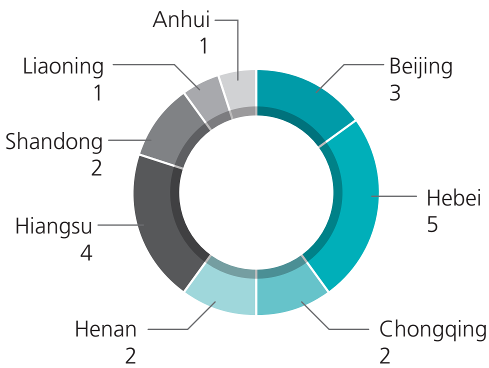
The Group has established a stringent supplier management system and has formulated the *Control Procedure of External Provision Process and Service* to regulate the products and services procurement process. The Group performs on-site inspections and qualification assessments to investigate the potential suppliers. The evaluation criteria include:

Evaluation Criteria		
Products and service qualification	Company qualification (production and operation license and related qualification certificate)	Personnel qualification
Suitability of proposal and quoted price	Attendance of timely delivery	Quality-related qualification or the product quality
Business offer	Environmental protection	Safety protection

In addition, the Group has established the *Supplier Survey and Evaluation Form* and conducts comprehensive supplier evaluation annually. Also, the Group maintains a good working relationship and create a positive business environment with suppliers.

The regional distribution of the suppliers of the Group is as follows:

The Number of Supplier by by Geographical Region



7. Community Concerns

The Group communicates with the community actively to understand their needs and expectations. We understand that the community pays particular attention to the environmental impacts associated with the Group's operations and we have been continuously improving our environmental management system to minimise the environmental impacts, and hence, to reduce our impacts in the neighbourhood. The Group also established a complaints and responses mechanism. If comments from the neighbourhood community are received, the Group would investigate and evaluate the issues mentioned in the comments actively and provide feedback.

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 (the "**Group**") set out on pages 74 to 136, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- 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 2018, 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 our 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 judgment, 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.

The key audit matter identified in our audit is related to impairment of property, plant and equipment and intangible assets.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of property, plant and equipment and intangible assets Refer to note 4(c), note 12 and note 14 to the consolidated financial statements. As at 31 December 2018, the net carrying amounts of the Group's property, plant and equipment and intangible assets were RMB47,825,000 and RMB12,129,000, respectively. During the year ended 31 December 2018, impairment provision of RMB6,046,000 and RMB4,240,000 against the carrying amounts of property, plant and equipment and intangible assets were recorded, respectively. During the year ended 31 December 2018, the Group incurred continued loss from operations and delay in realisation of revenue from sale of DeNOx catalysts for diesel-powered vehicles and vessels, indicating that the carrying values of the Group's property, plant and equipment and intangible assets as detailed in note 12(i) may be impaired. Management performed assessment on impairment of the assets at cash generating unit (the "**CGU**") level. Impairment losses were identified and allocated to the relevant assets including machinery, construction in progress, technical know-how and patent rights.	Our procedures in relation to the impairment of property, plant and equipment and intangible assets include: • We understood, evaluated and tested management's key controls over the Group's impairment assessment including the periodic impairment indication evaluations as to whether indicators of impairment existed by corroborating with management and market information; • We assessed the reasonableness of management's determination of CGU based on our knowledge of the business including the use of the assets and internal reporting process; • We assessed the appropriateness of management's use of valuation methodology and its compliance with management's circumstances and relevant accounting standards; • We assessed management's future forecast and calculation of the CGUs' value in use, including:

Key Audit Matter	How our audit addressed the Key Audit Matter
Management applied significant judgement in determining the value in use of the relevant CGUs, of which the key assumptions adopted in the calculation of value in use include: • sales growth rates and gross profit margin rates within the forecast period; and • discount rate We focused on this area because of the magnitude of impairment provision amount and significance of management judgement and assumptions applied.	– assessing the reasonableness of sales growth rates and gross profit margin rates by comparing the historical operating results and future operating plans of the CGU, taking into consideration of the economic and industry outlook; – assessing the discount rate by reference to market data, and risk factor of comparable companies and market premium; – assessing the reasonableness of other key input data such as capital expenditure and market share by comparing with the management budget and corroborating with industry information; – testing the mathematical accuracy of the discounted cash flows model and the allocation of impairment losses to relevant assets. Based on the above procedures performed, we considered that the reasonableness of management's judgement and assumptions applied in impairment assessment of property, plant and equipment and intangible 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 the 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 judgment 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 them 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 Dou Wang, Angel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue from contracts with customers	5	**54,436**	48,351
Cost of sales of goods	6	**(58,283)**	(61,743)
Gross loss		**(3,847)**	(13,392)
Selling and marketing expenses	6	**(8,895)**	(5,964)
Administrative expenses	6	**(28,084)**	(42,095)
Research and development expenses	6	**(3,740)**	(10,830)
Net reversal of impairment losses on financial assets	18(c)	**1,517**	–
Other gains – net	7	**13**	954
Operating loss		**(43,036)**	(71,327)
Finance income	9	**3,819**	159
Finance costs	9	**–**	(2,399)
Finance income/(costs) – net		**3,819**	(2,240)
Loss before income tax		**(39,217)**	(73,567)
Income tax (expenses)/benefits	10	**(239)**	2
Loss for the year		**(39,456)**	(73,565)
Other comprehensive income/(loss)			
Items that may be reclassified to consolidated statement of comprehensive income:			
Currency translation differences	23	**3,260**	(6,243)
Other comprehensive income/(loss) for the year		**3,260**	(6,243)
Total comprehensive loss for the year		**(36,196)**	(79,808)
Income/(Loss) attributable to:			
– Shareholders of the Company		**(39,716)**	(72,999)
– Non-controlling interests		**260**	(566)
		(39,456)	(73,565)
Total comprehensive income/(loss) attributable to:			
– Shareholders of the Company		**(36,456)**	(79,242)
– Non-controlling interests		**260**	(566)
		(36,196)	(79,808)
Loss per share attributable to shareholders of the Company (expressed in RMB per share)			
Basic and diluted loss per share	11	**(0.08)**	(0.15)

The notes on pages 80 to 136 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**47,825**	56,635
Land use rights	13	**15,334**	15,685
Intangible assets	14	**12,129**	19,987
Long-term prepayments	19	**1,768**	1,135
Restricted cash	20	**1,901**	1,901
Total non-current assets		**78,957**	95,343
Current assets			
Inventories	17	**40,629**	35,578
Trade receivables	18	**49,717**	49,715
Financial assets at fair value through other comprehensive income	21	**6,569**	–
Prepayments, deposits and other receivables	19	**13,597**	12,255
Restricted cash	20	**889**	2,658
Cash and cash equivalents	20	**145,424**	180,381
Total current assets		**256,825**	280,587
Total assets		**335,782**	375,930
LIABILITIES			
Non-current liabilities			
Deferred income	25	**10**	70
Deferred income tax liabilities	16	**1,811**	2,365
Total non-current liabilities		**1,821**	2,435
Current liabilities			
Trade payables	24	**3,822**	5,980
Advances from customers		**10,147**	5,711
Accruals and other payables	25	**15,009**	20,672
Current income tax liabilities		**6,511**	5,815
Total current liabilities		**35,489**	38,178
Total liabilities		**37,310**	40,613
Net assets		**298,472**	335,317

CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 31 December 2018

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	22	**31,596**	31,802
Treasury stock	22	**(635)**	–
Share premium	23	**850,648**	851,181
Capital reserves	23	**(552,410)**	(552,410)
Other reserves	23	**33,164**	29,685
Accumulated losses		**(77,236)**	(38,026)
		285,127	322,232
Non-controlling interests		**13,345**	13,085
Total equity		**298,472**	335,317
Total equity and liabilities		**335,782**	375,930

The notes on pages 80 to 136 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 74 to 136 were approved by the Board of Directors on 29 March 2019 and were signed on its behalf:

Director *Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Note	Attributable to shareholders of the Company							
		Share capital RMB'000	Share premium RMB'000	Capital reserves RMB'000	Other reserves RMB'000	Retained earnings/ (Accumlated losses) 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		–	–	–	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

		Attributable to shareholders of the Company								
	Note	Share capital RMB'000	Treasury stock RMB'000	Share premium RMB'000	Capital reserves RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2018		31,802	–	851,181	(552,410)	29,685	(38,026)	322,232	13,085	335,317
Changes in accounting policy – IFRS 9	2.2(a)	–	–	–	–	–	725	725	–	725
Restated total equity as at 1 January 2018		31,802	–	851,181	(552,410)	29,685	(37,301)	322,957	13,085	336,042
Comprehensive loss										
Loss for the year		–	–	–	–	–	(39,716)	(39,716)	260	(39,456)
Other comprehensive income										
Currency translation differences		–	–	–	–	3,260	–	3,260	–	3,260
Total comprehensive income		–	–	–	–	3,260	(39,716)	(36,456)	260	(36,196)
Transaction with shareholders										
Appropriation to statutory reserves	23	–	–	–	–	219	(219)	–	–	–
Repurchase of ordinary shares	22	(206)	(635)	(533)	–	–	–	(1,374)	–	(1,374)
Total transaction with shareholders, recognised directly in equity		(206)	(635)	(533)	–	219	(219)	(1,374)	–	(1,374)
Balance at 31 December 2018		31,596	(635)	850,648	(552,410)	33,164	(77,236)	285,127	13,345	298,472

The notes on pages 80 to 136 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash used in operations	27(a)	**(35,494)**	(27,624)
Interest received		**231**	159
Income tax paid		**(98)**	(679)
Net cash used in operating activities		**(35,361)**	(28,144)
Cash flows from investing activities			
Payments for property, plant and equipment		**(4,426)**	(9,004)
Release of pledged deposits		**1,769**	103
Proceeds from disposal of property, plant and equipment	27(b)	**32**	–
Payments to acquire financial assets at fair value through profit or loss (2017: available-for-sale financial assets)		**–**	(31,000)
Proceeds from disposal of financial assets at fair value through profit or loss (2017: available-for-sale financial assets)		**–**	33,000
Interest from financial assets at fair value through profit or loss (2017: available-for-sale financial assets)		**–**	261
Net cash used in investing activities		**(2,625)**	(6,640)
Cash flows from financing activities			
Dividends paid to non-controlling interests in subsidiaries		**(2,201)**	–
Repurchase of ordinary shares	22	**(1,374)**	–
Net cash used in financing activities		**(3,575)**	–
Net decrease in cash and cash equivalents		**(41,561)**	(34,784)
Cash and cash equivalents at the beginning of the financial year	20	**180,381**	223,805
Exchange gains/(losses) on cash and cash equivalents		**6,604**	(8,640)
Cash and cash equivalents at end of year	20	**145,424**	180,381

The notes on pages 80 to 136 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 29 March 2019.

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, except for certain 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 2018:

- IFRS 9 Financial Instruments, and
- IFRS 15 Revenue from Contracts with Customers.
- Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Annual Improvements to IFRS Standards 2015-2017 Cycle, and

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

2.1 Basis of preparation *(continued)*

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

The Group had to change its accounting policies and make certain retrospective adjustments following the adoption of IFRS 9 and IFRS 15 (Note 2.2). The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods 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 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 by lessees, 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.

Impact

The Group has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

The Group is a lessee of various offices which are currently classified as operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB790,000 (Note 28). IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessee to recognise certain leases outside the consolidated balance sheet. Instead, all non-current leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group's consolidated balance sheet. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in property, plant and equipment and an increase in financial liabilities in the consolidated balance sheet. In the consolidated statement of comprehensive income, leases will be recognised in the future as capital expenditure on the purchasing side and will no longer be recorded as an operating expense. As a result, the operating expense under otherwise identical circumstances will decrease, while depreciation and amortisation and the interest expense will increase.

Date of adoption by Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). The Group considers that the impact of adopting this lease standard is insignificant.

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

2.1 Basis of preparation *(continued)*

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

Date of adoption by Group *(continued)*

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.

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

(a) Impact on the financial statements

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. As explained in note 2.2(b) and 2.2(c) below, IFRS 9 and IFRS 15 were generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. As explained in note 2.2(b) and 2.2(c) below, IFRS 9 and IFRS 15 were generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail below.

Consolidated balance sheet (extract)	**1 January 2018 As originally presented** RMB'000	**IFRS 9** RMB'000	**1 January 2018 Restated** RMB'000
Current assets			
Trade receivables	49,715	725	50,440
Equity			
Accumulated losses	(38,026)	725	(37,301)

(b) IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

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

2.2 Changes in accounting policies *(continued)*

(b) IFRS 9 Financial Instruments *(continued)*

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 2.12 below. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

The total impact on the Group's accumulated deficits as at 1 January 2018 is as follows:

	Notes	RMB'000
Closing accumulated losses 31 December 2017 – IAS 39		(38,026)
Adjustment to accumulated losses from adoption of IFRS 9 on 1 January 2018 – Decrease in provision for trade receivables	(ii)	725
Opening accumulated losses 1 January 2018 – IFRS 9		(37,301)

(i) Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories.

The Group's financial assets include cash and cash equivalents, trade receivables, other receivables and financial assets at fair value through other comprehensive income, see Note 20, 18, 19 and 21 for details about each type of financial asset.

There were no changes to the classification and measurement of the Group's financial instrument.

(ii) Impairment of financial assets

The Group has below types of financial assets that are subject to IFRS 9's new expected credit loss model:

- Trade receivables
- Other receivables
- Cash and cash equivalents

The Group was required to revise its impairment methodology under IFRS 9 for each of these class of assets. The impact of the change in impairment methodology on the Group's accumulated losses and equity is disclosed in the table in Note 2.2 above. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

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

2.2 Changes in accounting policies *(continued)*

(b) IFRS 9 Financial Instruments *(continued)*

(ii) Impairment of financial assets *(continued)*

Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. This resulted in an decrease of the loss allowance on 1 January 2018 by RMB725,000 for trade receivables. Note 3.1(b) provides for details about the calculation of the allowance.

Other financial assets at amortised cost

Other financial assets at amortised cost are other receivables. In view of the history of cooperation with debtors and the sound collection history of receivable due from them, the outstanding other receivable balances due from them are considered to be low credit risk.

(c) IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The adoption of the new revenue standard had no impact on the Group's consolidated financial statements.

2.3 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.

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

2.3 Principal of consolidation *(continued)*

(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.

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)*

2.4 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.

2.5 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.

2.6 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 2018 and 2017 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 income/(costs)-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)*

2.6 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.

2.7 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.

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

2.7 Property, plant and equipment *(continued)*

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:

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

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 2.11).

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.

2.8 Land use rights

Land use rights represent 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.

2.9 Intangible assets

(a) Goodwill

Goodwill is measured as described in Note 2.3(b). 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 ("**CGUs**") 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.

(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.

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

2.9 Intangible assets *(continued)*

(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.

2.10 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.

2.11 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)*

2.12 Investments and other financial assets

2.12.1 Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.12.2 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.

2.12.3 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 profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in consolidated statement of comprehensive income.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in 'other gains-net', together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

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

2.12 Investments and other financial assets *(continued)*

2.12.3 Measurement *(continued)*

Debt instruments *(continued)*

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in 'other gains-net'. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in 'other gains-net' and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within 'other gains-net' in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established. Changes in the fair value of financial assets at FVPL are recognised in 'other gains-net' in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.12.4 Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

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

2.12 Investments and other financial assets *(continued)*

2.12.5 Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017 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.

(i) Reclassification

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

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

(ii) Subsequent measurement

The measurement at initial recognition did not change an adoption of IFRS 9, see description above.

Subsequent to the initial, recognition loans and receivables was subsequently carried at amortised cost using the effective interest method.

Details on how the fair value of financial instruments is determined are disclosed in Note 2.12.3.

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

2.12 Investments and other financial assets *(continued)*

2.12.5 Accounting policies applied until 31 December 2017 *(continued)*

(iii) impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was 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) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could 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 was 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 could 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 was recognised in consolidated statement of comprehensive income.

Impairment testing of trade receivables is described in Note 3.1(b)

(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.

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

2.12 Investments and other financial assets *(continued)*

2.12.5 Accounting policies applied until 31 December 2017 (continued)

(iii) impairment *(continued)*

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

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.

2.13 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.

2.14 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 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 the estimated costs of completion and the estimated costs necessary to make the sale. 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 goods sold 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 receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 18 for further information about the Group's accounting for trade receivables and Note 3.1(b) for a description of the Group's impairment policies.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Where any group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Company as treasury shares until the shares are cancelled or reissued.

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 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.

(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.

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

2.19 Current and deferred income tax

(b) Deferred income tax *(continued)*

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.

2.20 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.

2.21 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.

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

2.21 Provisions *(continued)*

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.

2.22 Revenue recognition

Revenue is recognized when or as the control of the goods is transferred to customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods may be transferred over time or at a point in time.

When either party to a contract has performed, the Group presents the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group records the payment or receivable (which is earlier) as contract liability. A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The Group's contract liabilities were mainly resulted from sales of plate-type DeNOx catalysts, which is recorded in advances from customers under current liabilities before and after the adoption of IFRS 15.

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 to the Group when the Group's products are qualified. Sales of plate-type DeNOx catalysts are recognised when control of the goods is transferred to the customers, generally coincides with the time of receipt of the preliminary acceptance certificate.

The Group also manufactures and sells DeNOx catalysts for diesel-powered vehicles. The Group normally signs the framework agreements with customers on annual basis. Selling price is negotiated and fixed at each purchase order. Revenue from the sale of DeNOx catalysts for diesel-powered vehicle is recognised at the point of time when the control of the catalysts is transferred to customer, which is upon the completed delivery of the goods to the customer site.

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

2.23 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings 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.

2.24 Interest income

Interest income from financial assets at fair value through profit or loss is included in the net fair value gains/(losses) on these assets.

Interest income on financial assets at amortised cost and financial assets at fair value through other comprehensive income (2017 – loans and receivables) calculated using the effective interest method is recognised in the statement of profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other gains.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

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

2.25 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.

2.26 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.

2.27 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 2018 and 2017.

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.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

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 2018 would have been lower/higher by RMB1,405,000 (2017: RMB1,086,000), 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 2018 would have been lower/higher by RMB113,000 (2017: RMB1,228,000), 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 2018 would have been lower/higher by RMB4,391,000 (2017: RMB5,660,000), 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 RMB684,000 (2017: RMB674,000), mainly as a result of net foreign exchange losses on translation of RMB-denominated cash and cash equivalents and RMB-denominated other payable.

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets (other than cash and cash equivalents and restricted cash, details of which have been disclosed in Note 20), 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 financial assets at fair value through profit or loss (2017 – available-for-sale financial assets). During the years ended 31 December 2018 and 2017, the interest rate risk was not material to the Group.

(b) Credit risk

Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as trade and bills receivables and other receivables.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

To manage this risk, 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 national and regional commercial banks in the PRC and reputable international financial institutions in Hong Kong.

Category	As at 31 December **2018** **RMB'000**	2017 RMB'000
Group 1	**105,408**	178,950
Group 2	**40,007**	1,422
	145,415	180,372

Therefore the Group expects that there is no significant credit risk associated with cash deposits at bank since they are all deposited at state-owned banks and other highly reputable financial institutions. Management does not expect that there will be any significant losses from non-performance of these counterparties.

For trade and other receivables, the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverability of these receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group considers the probability of default upon initial recognition of assets and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- internal credit rating

- external credit rating

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

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

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant changes to the debtor's ability to meet its obligations

- significant changes in the expected performance or behaviour of the debtor, including changes in the payment status of the debtor

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 31 December and 1 January 2018 (on adoption of IFRS 9) was determined as follows for trade receivables:

31 December 2018	Current	More than 1 year	More than 2 years	More than 3 years	Total
Expected loss rate	**6.25%**	**12.32%**	**24.82%**	**49.15%**	
Gross carrying amount	**29,377**	**10,572**	**13,081**	**6,043**	**59,073**
Loss allowance	**1,837**	**1,302**	**3,247**	**2,970**	**9,356**

1 January 2018	Current	More than 1 year	More than 2 years	More than 3 years	Total
Expected loss rate	7.06%	13.90%	28.01%	55.46%	
Gross carrying amount	29,536	17,092	6,303	8,382	61,313
Loss allowance	2,084	2,375	1,765	4,649	10,873

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk (continued)

Trade receivables *(continued)*

The loss allowances for trade receivables as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

	Loss allowances for trade receivables RMB'000
At 31 December 2017 – calculated under IAS 39	11,598
Amounts restated through opening accumulated losses	(725)
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9	10,873

Other financial assets at amortised cost

Other financial assets at amortised cost are other receivables. In view of the history of cooperation with debtors and the sound collection history of receivable due from them, the outstanding other receivable balances due from them are considered to be low credit risk.

(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 of financial liabilities which were all due within 12 months. The undiscounted cash flows equal their carrying balances as the impact of discounting is not significant.

Contractual maturities of financial liabilities	**2018** RMB'000	**2017** RMB'000
As at 31 December 2018		
Trade payables	**3,822**	**5,980**
Accruals and other payables (excluding payroll payable and tax payable)	**11,770**	**17,556**
	15,592	**23,536**

3. FINANCIAL RISK MANAGEMENT *(continued)*

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.

3.3 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 2018	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Financial assets				
– Financial assets at fair value through other comprehensive income	**–**	**–**	**6,569**	**6,569**

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

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
- 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 year ended 31 December 2018

	Financial assets at fair value through other comprehensive income RMB'000
Beginning balance at 1 January 2018	**–**
Acquisitions	**50,756**
Disposals	**(44,187)**
Closing balance at 31 December 2018	**6,569**

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

	Available-for-sale financial assets RMB'000
Beginning balance at 1 January 2017	2,000
Acquisitions	31,000
Disposals	(33,000)
Closing balance at 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 rights 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 2.11. The recoverable amounts, being the higher of fair value less costs to sell or value in use, 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 sales growth rates and gross profit margin rates assumptions within the forecast period, could materially affect the recoverable amount and as a result affect the Group's financial position and results of operations. Details of the key assumptions and inputs used are disclosed in Note 12.

(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.

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

(e) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in Note 3.1(b).

(f) 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.

(g) 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.

5. REVENUE FROM CONTRACTS WITH CUSTOMERS

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Sales of plate-type DeNOx catalysts	**54,280**	48,351
Sales of DeNOx catalysts for diesel-powered vehicles	**156**	–
Timing of revenue recognition		
– At a point in time	**54,436**	48,351

5. REVENUE FROM CONTRACTS WITH CUSTOMERS *(continued)*

For the years ended 31 December 2018 and 2017, 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	
	2018	2017
Customer A	**14.76%**	n.a.
Customer B	**5.16%**	21.1%
Customer C	**n.a.**	10.1%

The Group has recognised following liabilities related to contracts with customers:

	As at 31 December 2018	**As at 1 January** 2018
Advances from customers – sale of plate-type DeNOx catalysts	**10,147**	5,711

The following table shows how much of the revenue recognised for the year ended 31 December 2018 related to carried-forward advances from customers:

	Year ended 31 December 2018
Advances from customers – sale of plate-type DeNOx catalysts	**5,711**

6. EXPENSES BY NATURE

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Changes in work in progress, finished goods and goods in transit	**(7,808)**	912
Raw materials consumed and consumable used	**47,278**	41,668
Employee benefit expenses (Note 8)	**15,395**	14,774
Depreciation and amortisation (Notes 12,13,14)	**7,649**	9,670
Utilities charges and office expenses	**4,022**	3,322
Transportation and warehouse expense	**3,742**	2,403
Research and development expenses	**3,740**	10,830
Impairment losses of property, plant and equipment and intangible assets (excluding goodwill) (Notes 12,14)	**10,286**	11,376
Travelling, communication and entertainment expenses	**2,485**	2,295
Professional service fees	**2,250**	4,617
Consulting service fees	**2,020**	2,160
Auditor's remuneration	**1,650**	1,580
Stamp duty, property tax and other surcharges	**928**	956
Operating lease rentals	**904**	963
Bidding service expenses	**830**	376
Provision for warranty	**428**	(118)
Conference fee	**30**	37
Impairment losses of goodwill (Note 14)	**–**	7,262
Inventory write-down (Note 17)	**1,748**	(209)
Provision for impairment of receivables (Note 18)	**–**	4,233
Others	**1,425**	1,525
	99,002	120,632

7. OTHER GAINS - NET

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Government grants (a)	**164**	366
Net foreign exchange (losses)/gains	**(115)**	305
Investment income (b)	**–**	261
Losses on disposal of property, plant and equipment	**(30)**	–
Others	**(6)**	22
	13	954

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

(b) For the year ended 31 December 2017, investment income represented primarily interest income gained from Group's investment in available-for-sale financial assets.

8. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Wages, salaries and bonuses	**12,510**	12,188
Social welfare pension	**1,072**	967
Other social insurance and housing funds	**1,049**	958
Other welfare and allowance	**764**	661
	15,395	14,774

8. EMPLOYEE BENEFIT EXPENSES *(continued)*

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2017: three) directors whose emoluments are reflected in the analysis shown in Note 33. The emoluments payable to the remaining two (2017: two) individuals during the year are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Basic salaries and allowances	**1,217**	1,224
Discretionary bonuses	**104**	105
Social security insurance	**79**	76
	1,400	1,405

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

	Year ended 31 December	
	2018	2017
Emolument band:		
Nil to HK$500,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1
	2	2

9. FINANCE INCOME/(COSTS) – NET

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Finance income		
Interest income on cash and cash equivalents and restricted cash	**472**	159
Net foreign exchange gains on financing activities	**3,347**	–
	3,819	159
Finance costs		
Net foreign exchange losses on financing activities	**–**	(2,399)
Finance income/(costs) – net	**3,819**	(2,240)

10. INCOME TAX EXPENSES/(BENEFITS)

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Current tax		
Current income tax expenses	**793**	1,247
Total current tax expenses	**793**	1,247
Deferred income tax		
Decrease in deferred tax liabilities (Note 16)	**(554)**	(1,249)
Total deferred tax benefits	**(554)**	(1,249)
Income tax expenses/(benefits)	**239**	(2)

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	
	2018	2017
	RMB'000	RMB'000
Loss before income tax	**(39,217)**	(73,567)
Tax calculated at domestic tax rate applicable to profits in the PRC (25%)	**(9,804)**	(18,392)
Tax effects of:		
Different tax rates applicable to different tax jurisdiction	**1,244**	1,130
Preferential tax benefits in the PRC	**3,631**	4,135
Tax losses for which no deferred income tax asset was recognised	**5,447**	7,572
Utilisation of previously unrecognised deductible temporary difference	**(1,806)**	–
Deductible temporary difference for which no deferred income tax asset was recognised	**1,431**	5,470
Expenses not deductible for tax purpose		
– Entertainment	**96**	83
Income tax expenses/(benefits)	**239**	(2)

10. INCOME TAX EXPENSES/(BENEFITS) *(continued)*

(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 2018 and 2017.

(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.

Beijing Denox and Gu'an Denox qualified as "New High-tech Enterprise" under the CIT Law in 2018. Accordingly, they were entitled to a preferential EIT rate of 15% for a three-year period since the qualification day. The applicable EIT rate of both entities was 15% in 2018.

(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 2018 as the directors have confirmed that the Group will reinvest the retained earnings of the PRC Subsidiaries in the foreseeable future.

11. LOSS PER SHARE

(a) Basic loss per share

Basic loss per share is calculated by dividing:

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

	Year ended 31 December	
	2018	2017
Loss attributable to shareholders of the Company (RMB'000)	**(39,716)**	(72,999)
Weighted average number of ordinary shares in issue (thousand shares)	**498,978**	500,000
Basic loss per share attributable to the Shareholders of the Company (cents)	**(8)**	(15)

(b) Diluted loss per share

Diluted loss 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.

The Group had no dilutive potential ordinary shares in issue during the years ended 31 December 2018 and 2017.

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 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
Year ended 31 December 2018							
Opening net book value	**31,797**	**8,504**	**358**	**682**	**62**	**15,232**	**56,635**
Additions	**–**	**638**	**105**	**16**	**–**	**219**	**978**
Transfer from CIP	**–**	**2,855**	**–**	**–**	**–**	**(2,855)**	**–**
Disposals	**–**	**(48)**	**(6)**	**(8)**	**–**	**–**	**(62)**
Depreciation charge	**(2,254)**	**(979)**	**(151)**	**(254)**	**(42)**	**–**	**(3,680)**
Impairment(i)	**–**	**(1,993)**	**–**	**–**	**–**	**(4,053)**	**(6,046)**
Closing net book value	**29,543**	**8,977**	**306**	**436**	**20**	**8,543**	**47,825**
At 31 December 2018							
Cost	**39,153**	**47,694**	**1,603**	**1,773**	**423**	**12,596**	**103,242**
Accumulated depreciation and impairment	**(9,610)**	**(38,717)**	**(1,297)**	**(1,337)**	**(403)**	**(4,053)**	**(55,417)**
Net book value	**29,543**	**8,977**	**306**	**436**	**20**	**8,543**	**47,825**

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

(i) Following the accounting policies stated in Note 2.11, the Group performs impairment testing on property, plant and equipment and intangible asset as the Group's continued loss from operations and delay in realisation of revenue generated from the sale of DeNOx catalysts for diesel powered vehicles and vessels indicate that the carrying amount may not be recoverable. During the year ended 31 December 2018, impairment of RMB6,046,000 and RMB4,240,000 has been provided for property, plant and equipment and intangible assets, respectively (2017: RMB7,898,000 and RMB10,740,000 for property, plant and equipment and intangible assets, respectively).

The Group's property, plant and equipment and intangible assets has been allocated to the following product lines or business process as cash-generating units for impairment testing. The following is a summary the carrying amount of property, plant and equipment and intangible assets included in each of the cash-generating units:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Property, plant and equipment		
– Wuxi Denox stainless mesh production ("Wuxi CGU")	**3,967**	6,230
– Plate-type DeNOx catalysts production ("Plate-type CGU")	**2,530**	8,989
– DeNOx catalysts for diesel powered vehicles and vessels ("Diesel powered Vehicles and Vessels CGU")	**17,069**	16,415
Total carrying amount	**23,566**	31,634
Intangible assets		
– Wuxi CGU	**5,212**	8,626
– Plate-type CGU	**306**	1,553
– Diesel powered Vehicles and Vessels CGU	**10,847**	13,281
Total carrying amount	**16,365**	23,460

The recoverable amounts of the above cash-generating units have been determined based on their value in use. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering the remaining useful lives period.

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

(i) *(continued)*

For each of the CGUs, the key assumptions used for the value-in-use calculations in 2018 and 2017 are as follows. In addition, where there has been an impairment loss in CGUs, the recoverable amount is also disclosed in below.

2018	Wuxi CGU	Plate-type CGU	Diesel-powered Vehicle and Vessels CGU
Pre-tax discount rate (%)	**24.16%**	**19.04%**	**17.77%**
Sales growth rate (%)	**4.85%~12.23%**	**7.46%~30.94%**	**0.00%~370.59%**
Gross profit margin (%)	**21.21%~23.95%**	**8.17%~23.17%**	**–19.21%~18.25%**
Recoverable amount of CGU (RMB'000)	**7,859**	**N/A**	**18,950**

2017	Wuxi CGU	Plate-type CGU
Pre-tax discount rate (%)	23.22%	18.64%
Sales growth rate (%)	–26.95%~16.31%	0.00%~31.30%
Gross profit margin (%)	26.04%~29.89%	4.64%~18.47%
Recoverable amount of CGU (RMB'000)	10,697	3,325

(ii) Impact of possible changes in assumptions

If the estimated cost of capital used in determining the pre-tax discount rate had been 1% higher than management's estimates, the Group would have recognised a further impairment against the carrying amount of property, plant and equipment and intangibles assets of RMB1,870,000.

If the estimated sales quantity had been 1% lower than management's estimates, the Group would have recognised a further impairment against the carrying amount of property, plant and equipment and intangibles assets of RMB1,120,000.

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

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Cost of sales	**3,163**	3,692
Administrative expenses	**6,563**	9,415
	9,726	13,107

As at 31 December 2018, 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 RMB6,207,000 (2017: RMB7,189,000).

13. LAND USE RIGHTS

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Opening net book value	**15,685**	16,036
Amortisation charge	**(351)**	(351)
Closing net book value	**15,334**	15,685

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

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Cost of sales	**229**	229
Administrative expenses	**122**	122
	351	351

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 2017					
Opening net book value	7,262	1,274	26,295	6	34,837
Amortisation charge	–	(424)	(3,685)	(1)	(4,110)
Impairment (Note 12)	(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
Year ended 31 December 2018					
Opening net book value	**–**	**271**	**19,711**	**5**	**19,987**
Amortisation charge	**–**	**(135)**	**(3,482)**	**(1)**	**(3,618)**
Impairment (Note 12)	**–**	**–**	**(4,240)**	**–**	**(4,240)**
Closing net book value	**–**	**136**	**11,989**	**4**	**12,129**
As at 31 December 2018					
Cost	**7,262**	**8,124**	**31,640**	**7**	**47,033**
Accumulated amortisation and impairment	**(7,262)**	**(7,988)**	**(19,651)**	**(3)**	**(34,904)**
Net book value	**–**	**136**	**11,989**	**4**	**12,129**

14. INTANGIBLE ASSETS *(continued)*

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Cost of sales	**3,885**	4,108
Administrative expenses	**3,973**	10,742
	7,858	14,850

15. SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2018:

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	RMB250,000,000/ RMB250,000,000	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	RMB250,000,000/ RMB250,000,000	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	
	2018	2017
	RMB'000	RMB'000
Wuxi Denox Environmental& Technology Com., Ltd.	**260**	(566)

15. SUBSIDIARIES *(continued)*

(a) Significant restrictions

Cash and cash equivalents and restricted cash of the Group, amounting to approximately RMB81,558,000, 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	
	2018	2017
	RMB'000	RMB'000
The balance comprises temporary differences attributable to:		
Valuation adjustment resulting from acquisition of a subsidiary	**1,811**	2,365
Total deferred tax liabilities	**1,811**	2,365

Movement	**Valuation adjustments resulting from acquisition of a subsidiary** RMB'000
As at 1 January 2017	3,614
Charged to the consolidated statement of comprehensive income	(1,249)
As at 31 December 2017	2,365
Charged to the consolidated statement of comprehensive income	(554)
At 31 December 2018	1,811

16. DEFERRED INCOME TAX *(continued)*

Deferred tax liabilities *(continued)*

Deferred income tax assets are recognized for tax loss and deductible temporary difference carry-forwards to the extent that the realization of related tax benefits through future taxable profits is probable. As at 31 December 2018, the Group did not recognise deferred income tax assets of RMB27,649,000 (31 December 2017: RMB23,783,000) in respect of tax losses amounting to RMB114,358,000 (31 December 2017: RMB78,161,000) and deductible temporary differences for which no deferred tax assets was recognised of RMB60,084,000 (31 December 2017: RMB61,546,000), respectively that can be carried forward against future taxable income. Estimated tax losses of RMB106,386,000 (31 December 2017: RMB71,667,000) will expire within 5 years from 31 December 2018 respectively. The remaining portion of the tax losses, mainly relating to Hong Kong company, can be carried forward indefinitely.

17. INVENTORIES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Raw materials	**14,534**	14,018
Work-in-progress	**4,716**	3,999
Finished goods	**10,814**	7,150
Goods in transit	**10,565**	10,411
	40,629	35,578

Inventories recognised as cost of sales during the year ended 31 December 2018 amounted to RMB56,165,000 (2017: RMB61,600,000).

Provision for write-downs of inventories to net realisable value amounted to RMB1,748,000 during the year ended 31 December 2018 (2017: reversal of RMB209,000). These were recognised as cost of sales in consolidated statement of comprehensive income.

18. TRADE RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade receivables	**59,073**	61,313
Less: allowance (Note 3.1)	**(9,356)**	(11,598)
	49,717	49,715

18. TRADE RECEIVABLES *(continued)*

Trade receivables are denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	**56,329**	59,031
US$	**2,564**	2,282
EUR€	**180**	–
	59,073	61,313

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Less than 3 months	**23,493**	18,555
3 months to 6 months	**1,808**	10,519
6 months to 1 year	**4,076**	462
1 year to 2 years	**10,572**	17,092
2 years to 3 years	**13,081**	6,303
Over 3 years	**6,043**	8,382
	59,073	61,313

(b) Fair values of trade receivables

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

(c) Impairment and risk exposure

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. This resulted in an decrease of the loss allowance on 1 January 2018 by RMB725,000 for trade receivables. Note 3.1(b) provides for details about the calculation of the allowance.

The loss allowance decreased by a further RMB1,517,000 to RMB9,356,000 for trade receivables during the current reporting period. The creation and release of provision for impaired receivables have been included in 'net reversal of impairment losses on financial assets' in the consolidated statement of comprehensive income. In 2017, losses of RMB4,233,000 were recognised in the administrative expenses in relation to the impaired receivables. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The maximum exposure to credit risk as at 31 December 2o18 was the carrying amounts of the trade receivables. The Group did not hold any collateral as security.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Included in non-current assets		
Prepayments for acquisition of property, plant and equipment	**902**	431
Long-term prepaid expenses	**866**	704
	1,768	1,135
Included in current assets		
Value-added tax recoverable	**7,543**	6,626
Deposits	**1,461**	1,773
Prepayments to suppliers	**1,105**	713
Amount due from a third party agent	**927**	927
Prepayments for rental of office	**575**	–
Export tax refund	**503**	117
Staff advance	**388**	465
Prepayment for professional service fee	**199**	–
Prepaid employees' housing subsidy	**146**	311
Prepayment for marketing service fee	**–**	324
Others	**750**	999
	13,597	12,255
Total	**15,365**	13,390

As at 31 December 2018 and 2017, the carrying amounts of prepayments, deposits and other receivables approximated their fair values. As at 31 December 2018 and 2017, 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	
	2018	2017
	RMB'000	RMB'000
RMB	**15,058**	13,066
HK$	**258**	324
US$	**49**	–
	15,365	13,390

20. CASH AND BANK BALANCES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Current		
Cash at bank and in hand	**145,424**	180,381
Restricted cash (a)	**889**	2,658
	146,313	183,039
Non-current		
Restricted cash (a)	**1,901**	1,901
Total cash and cash equivalents and restricted cash	**148,214**	184,940

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

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	**32,018**	45,104
HK$	**80,896**	97,031
US$	**34,315**	30,525
EUR€	**985**	12,280
	148,214	184,940

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Group holds the following financial instruments:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Bill Receivables	**6,569**	–

As at 31 December 2018, financial assets at fair value through other comprehensive income represented bills receivable where the contractual cash flows are solely principal and interest and the objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets.

22. SHARE CAPITAL AND TREASURY STOCK

	Number of shares of US$0.01 each issued	Share capital RMB'000	Treasury stock RMB'000
As at 31 December 2017	500,000,000	31,802	–
Repurchase and cancellation of ordinary shares	(3,242,000)	(206)	–
Repurchase of ordinary shares	–	–	–
			(635)
As at 31 December 2018	496,758,000	31,596	(635)

During September, October and December 2018, the Company repurchased in aggregate 4,651,000 ordinary shares of the Company on the Stock Exchange of Hong Kong Limited. The total amount paid to repurchase of these ordinary shares was HK$1,566,000 (approximately RMB1,374,000).

3,242,000 out of 4,651,000 repurchased ordinary shares had been cancelled and deducted from the share capital and share premium wihin shareholder's equity. The remaining shares were recored as treasury stock as at 31 December 2018.

23. SHARE PREMIUM AND CAPITAL AND OTHER RESERVES

	Share premium RMB'000	Capital reserves RMB'000	Statutory reserves RMB'000	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Total RMB'000
At 1 January 2017	851,181	(552,410)	12,406	10,214	13,049	334,440
Appropriation to statutory reserves	–	–	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
Appropriation to statutory reserves	–	–	219	–	–	219
Currency translation differences	–	–	–	–	3,260	3,260
Repurchase and cancellation of ordinary shares (Note 22)	(533)	–	–	–	–	(533)
At 31 December 2018	850,648	(552,410)	12,884	10,214	10,066	331,402

23. SHARE PREMIUM AND CAPITAL AND OTHER RESERVES *(continued)*

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 2018 and 2017, RMB219,000 and RMB259,000 were appropriated from retained earnings to the statutory surplus reserve fund.

24. TRADE PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Third party	**3,822**	5,980

Ageing analysis of trade payables based on invoice date as at 31 December 2018 and 2017 was as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Within 6 months	**3,558**	5,521
6 months to 1 year	**–**	206
1 to 2 years	**124**	–
Over 2 years	**140**	253
	3,822	5,980

As at 31 December 2018 and 2017, all trade payables were denominated in RMB.

25. ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Included in current liabilities		
Payables for purchases of property, plant and equipment and CIP	**4,285**	8,563
Payroll and welfare payables	**3,121**	2,676
Payables for purchases of land use rights	**2,573**	2,573
Payables for consulting service fee	**1,352**	913
Amount due to non-controlling interest (Note 29(b))	**830**	1,635
Accruals and payables for utilities and transportation fee	**826**	652
Accrual for audit fees	**600**	600
Warranty provision	**621**	536
Value-added and other taxes payables	**118**	439
Dividend payables to original shareholder of Wuxi Taidi before the business combination	**–**	1,726
Payable for professional service fee	**–**	36
Others	**683**	323
	15,009	20,672
Included in non-current liabilities		
Deferred government grants	**10**	70
	15,019	20,742

26. DIVIDENDS

No dividend has been declared or paid by the Group during the years ended 31 December 2018 and 2017.

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	
	2018	2017
	RMB'000	RMB'000
Loss before income tax	**(39,217)**	(73,567)
Adjustments for:		
– Depreciation and impairment of property, plant and equipment (Note 12)	**9,726**	13,107
– Amortisation of land use rights (Note 13)	**351**	351
– Amortisation and impairment of intangible assets (Note 14)	**7,858**	14,850
– Loss on disposal of property, plant and equipment (Note 7)	**30**	–
– (Reversal of)/provision for impairment of receivables	**(1,517)**	4,233
– Write-down of inventories (Note 17)	**1,748**	(209)
– Foreign exchange (gain)/loss (Note 9)	**(3,347)**	2,399
– Interest income (Note 9)	**(472)**	(159)
– Investment income (Note 7)	**–**	(261)
Operating loss before working capital changes	**(24,840)**	(39,256)
Change in operating assets and liabilities:		
– Inventories	**(6,799)**	4,034
– Trade receivables	**2,240**	2,209
– Financial assets at fair value through other comprehensive income	**(7,869)**	–
– Prepayments, deposits and other receivables	**(1,261)**	6,713
– Trade payables	**(2,158)**	(938)
– Advance from customers	**4,436**	(324)
– Accruals and other payables	**757**	(62)
Cash flow used in operations	**(35,494)**	(27,624)

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Net book amount disposed (Note 12)	**62**	–
Loss on disposal of property, plant and equipment (Note 7)	**(30)**	–
Proceeds from disposal of property, plant and equipment	**32**	–

28. COMMITMENTS

(a) Capital commitments

As at 31 December 2018 and 2017, the Group's capital expenditure commitment is shown below:

	As at 31 December	
	2018	2017
	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	**642**	782

(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	
	2018	2017
	RMB'000	RMB'000
No later than 1 year	**–**	313
Over 1 year	**790**	–
	790	313

29. 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.

29. RELATED PARTY TRANSACTIONS *(continued)*

The Controlling Shareholder of the Company is Zhao Shu who directly and indirectly holds 33.58% of the Company's shares as at 31 December 2018 (the percentage is calculated based on 496,758,000 shares in issue as at 31 December 2018).

(a) The following companies and persons are related parties of the Group during the years ended 31 December 2018 and 2017:

Names of the related parties	Nature of relationship
Mr. Chen Qizhao	Close family member of the Controlling Shareholder
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 29(b) below:

(i) Operating lease expenses charged by related parties

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Mr. Chen Qizhao	**313**	313
Zhongyu Environmental Engineering (Beijing) Co., Ltd.	**36**	27
	349	340

(c) Balance with related parties

(i) Prepayment of operating lease

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Mr. Chen Qizhao	**626**	–
Zhongyu Environmental Engineering (Beijing) Co., Ltd.	**116**	152
	742	152

29. RELATED PARTY TRANSACTIONS *(continued)*

(c) Balance with related parties *(continued)*

(ii) Payable to related parties

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Shareholder loan		
– Mr. Chen Zhengfang	**830**	1,160
Dividend payable		
– Mr. Chen Zhengfang	**–**	475
	830	1,635

Mr. Chen Zhengfang provided shareholder loans to Wuxi Denox. These loans were unsecured, interest free, and with 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	
	2018	2017
	RMB'000	RMB'000
Basic salaries and allowances	**2,133**	2,129
Discretionary bonuses	**158**	159
Other benefits including pension	**226**	211
	2,517	2,499

30. SUBSEQUENT EVENTS

(a) In January 2019, the Company's Controlling Shareholder and parties acting in concert as well as two substantial shareholders, EEC Technology Limited and Kickstart Holdings Limited, and other management shareholders (together, the "Relevant Shareholders") has entered into a framework agreements with TianXing Vermilion Bird Limited ("TianXing"), a third party regarding a potential disposal of approximately 55.75% of the entire issued share capital of the Company (the "Potential Disposal"). The framework agreement does not constitute legally a binding commitment of the Relevant Shareholders and TianXing, and the agreement will automatically terminate on the earlier of the date of the signing of the effective definitive sale and purchase agreement on 30 April 2019. The discussion between the Relevant Shareholders and TianXing in relation to the Potential Disposal are still ongoing.

(b) In February 2019, Gu'an Denox, a subsidiary of the Company and two third party individuals established Langfang Denox Environment & Technology Co., Ltd., a company engaged in development and manufacture of DeNOx catalyses for vehicles. The Group will make a capital contribution of RMB2,000,000 to hold 40% of its total equity interest of the new company.

31. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Investments in a subsidiary		**–**	177,631
Amounts due from a subsidiary		**288,490**	278,457
Total non-current assets		**288,490**	456,088
Current assets			
Cash and cash equivalents		**65,477**	66,478
Prepayments, deposits and other receivables		**334**	324
Total current assets		**65,811**	66,802
Total asset		**354,301**	522,890
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital		**31,596**	31,802
Share premium		**850,648**	851,181
Other reserves	a	**38,006**	17,819
Accumulated Losses	a	**(578,142)**	(390,090)
Total Equity		**342,108**	510,712
LIABILITIES			
Current liabilities			
Payroll payable		**204**	203
Accruals and other payables		**183**	204
Amount due to subsidiaries		**11,806**	11,771
Total current liabilities		**12,193**	12,178
Total liabilities		**12,193**	12,178
Total equity and liabilities		**354,301**	522,890

The balance sheet of the Company was approved by the Board of Directors on 29 March 2019 and was signed on its behalf:

Director *Director*

31. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(continued)*

(a) Reserve movement of the Company

	Accumulated losses RMB'000	Other reserves RMB'000
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
At 1 January 2018	**(390,090)**	**17,819**
Loss for the year	**(188,052)**	**–**
Currency translation differences	**–**	**24,468**
At 31 December 2018	**(578,142)**	**42,287**

32. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

For the year ended 31 December 2018:

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)	**229**	**18**	**49**	**296**
Mr. Kong Hongjun (i)	**190**	**18**	**49**	**257**
Mr. Li Ke(i)	**190**	**18**	**49**	**257**
Non-executive Directors				
Mr. Li Xingwu (ii)	**–**	**–**	**–**	**–**
Mr. Teo Yi-Da (ii)	**–**	**–**	**–**	**–**
Independent Non-executive Directors				
Mr. Li Ming (iii)	**103**	**–**	**–**	**103**
Mr. Lam Yiu Por (iii)	**103**	**–**	**–**	**103**
Mr. Ong Chor Wei (iii)	**103**	**–**	**–**	**103**

32. BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

(a) Directors' emoluments *(continued)*

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

(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 2018 and 2017.

(ii) On 7 November 2014, and 9 February 2015, Mr. Li Xingwu, 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 2018 and 2017.

(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 the independent non-executive directors of the Company, Mr. Li Junhua resigned as non-executive director of the Company.

32. BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

(b) Directors' retirement benefits

During the year ended 31 December 2018, 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 (2017: same).

(c) Directors' termination benefits

During the year ended 31 December 2018, none of the directors received any emolument from the Group as leave the Group or as compensation for loss of office (2017: same).

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

During the year ended 31 December 2018, no consideration has been provided to third parties for making available directors' services (2017: 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 2018 and 2017 or at any time during the years ended 31 December 2018 and 2017.

FINANCIAL SUMMARY

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 year ended 31 December 2014 had been prepared as if the Group had been in existence throughout the year presented, or since the respective dates of incorporation or establishment of the group companies.

RESULTS

	Year ended 31 December				
	2014	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	217,142	149,604	69,780	48,351	**54,436**
Gross profit/(loss)	106,413	48,744	(23,337)	(13,392)	**(3,847)**
Operating profit/(loss)	85,883	(7,548)	(57,354)	(71,327)	**(43,036)**
Profit/(loss) before income tax	86,152	31,213	(59,313)	(73,567)	**(39,217)**
Profit/(loss) for the year attributable to shareholders of the Company	73,535	25,546	(60,416)	(72,999)	**(39,716)**

ASSETS AND LIABILITIES

	As at 31 December				
	2014	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	243,567	494,365	456,337	375,930	**335,782**
Total liabilities	162,833	45,035	41,212	40,613	**37,310**
Total equity	80,734	449,330	415,125	335,317	**298,472**

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 N2 and H2O. The basic element of the catalyst mainly includes TiO 2 and V2O5
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules
"plate-type DeNOx catalyst"	a plate-type DeNOx catalyst takes metal as the carrier. Surface coating is composed of active ingredient
"PRC"	the People's Republic of China
"Reporting Period"	the year ended 31 December 2018
"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