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# 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 RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The board of directors (the "**Board**") of Denox Environmental & Technology Holdings Limited (the "**Company**") hereby presents the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2017 together with comparative figures for the year ended 31 December 2016 as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2017*

| | Note | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| Revenue | 3 | **48,351** | 69,780 |
| Cost of sales of goods | 4 | **(61,743)** | (93,117) |
| **Gross loss** | | **(13,392)** | (23,337) |
| Selling and marketing expenses | 4 | **(5,964)** | (6,404) |
| Administrative expenses | 4 | **(42,095)** | (34,664) |
| Research and development expenses | 4 | **(10,830)** | (2,162) |
| Other gains – net | 5 | **954** | 9,213 |
| **Operating loss** | | **(71,327)** | (57,354) |
| Finance income | 6 | **159** | 488 |
| Finance costs | 6 | **(2,399)** | (2,447) |
| Finance costs – net | | **(2,240)** | (1,959) |
| **Loss before income tax** | | **(73,567)** | (59,313) |
| Income tax benefit/(expenses) | 7 | **2** | (1,544) |
| **Loss for the year** | | **(73,565)** | (60,857) |
| **Other comprehensive (loss)/income** | | | |
| Items that may be reclassified to consolidated statement of comprehensive income: | | | |
| Currency translation differences | | **(6,243)** | 12,560 |
| **Other comprehensive (loss)/income for the year** | | **(6,243)** | 12,560 |
| **Total comprehensive loss for the year** | | **(79,808)** | (48,297) |
| **Loss attributable to:** | | | |
| – Shareholders of the Company | | **(72,999)** | (60,416) |
| – Non-controlling interests | | **(566)** | (441) |
| | | **(73,565)** | (60,857) |
| **Total comprehensive loss attributable to:** | | | |
| – Shareholders of the Company | | **(79,242)** | (47,856) |
| – Non-controlling interests | | **(566)** | (441) |
| | | **(79,808)** | (48,297) |
| **Losses per share (expressed in RMB per share)** | 8 | | |
| Basic losses per share | | **(0.15)** | (0.12) |

## CONSOLIDATED BALANCE SHEET

*As at 31 December 2017*

| | Note | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **56,635** | 57,921 |
| Land use right | | **15,685** | 16,036 |
| Intangible assets | | **19,987** | 34,837 |
| Long-term prepayments | *12* | **1,135** | 2,995 |
| Restricted cash | | **1,901** | 2,104 |
| **Total non-current assets** | | **95,343** | 113,893 |
| **Current assets** | | | |
| Inventories | *10* | **35,578** | 39,402 |
| Trade and bills receivables | *11* | **49,715** | 56,258 |
| Prepayments, deposits and other receivables | *12* | **12,255** | 18,421 |
| Available-for-sale financial assets | | **–** | 2,000 |
| Restricted cash | | **2,658** | 2,558 |
| Cash and cash equivalents | | **180,381** | 223,805 |
| **Total current assets** | | **280,587** | 342,444 |
| **Total assets** | | **375,930** | 456,337 |
| **EQUITY** | | | |
| **Equity attributable to shareholders of the Company** | | | |
| Share capital | | **31,802** | 31,802 |
| Share premium | | **851,181** | 851,181 |
| Capital reserves | | **(552,410)** | (552,410) |
| Other reserves | | **29,685** | 35,669 |
| (Accumulated deficits)/Retained earnings | | **(38,026)** | 35,232 |
| | | **322,232** | 401,474 |
| Non-controlling interests | | **13,085** | 13,651 |
| **Total equity** | | **335,317** | 415,125 |

| | Note | **2017** | 2016 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income | | **70** | 130 |
| Deferred income tax liabilities | | **2,365** | 3,614 |
| **Total non-current liabilities** | | **2,435** | 3,744 |
| **Current liabilities** | | | |
| Trade payables | *13* | **5,980** | 6,918 |
| Advances from customers | | **5,711** | 6,035 |
| Accruals and other payables | | **20,672** | 19,268 |
| Current income tax liabilities | | **5,815** | 5,247 |
| **Total current liabilities** | | **38,178** | 37,468 |
| **Total liabilities** | | **40,613** | 41,212 |
| **Total equity and liabilities** | | **375,930** | 456,337 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

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 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.

### 2. BASIS OF PREPARATION

#### (i) Compliance with IFRS

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

#### (ii) Historical cost convention

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

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

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

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

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

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

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

**IFRS 9 Financial Instruments**

*Nature of change*

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

*Impact*

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

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

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

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

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

*Date of adoption*

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

**IFRS 15 Revenue from Contracts with Customers**

*Nature of change*

IFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations.

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

*Impact*

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

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

(2) Identify separate performance obligations in a contract;

(3) Determine the transaction price;

(4) Allocate transaction price to performance obligations; and

(5) Recognise revenue when performance obligation is satisfied.

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

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

*Date of adoption*

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

**IFRS 16 Leases**

*Nature of change*

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

The accounting for lessors will not significantly change.

*Impact*

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

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

*Date of adoption*

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

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

## 3. REVENUE

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

The main products of the Group are plate-type DeNOx catalysts, which accounted for all of the Group's turnover for the year ended 31 December 2017 (2016: 100%).

For the years ended 31 December 2017 and 2016, revenue from certain individual customer accounted for 10 percent or more of the Group's total revenue for the respective year. The revenue of these customers are summarised below:

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

## 4. EXPENSES BY NATURE

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

## 5. OTHER GAINS – NET

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

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

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

## 6. FINANCE COSTS – NET

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

## 7. INCOME TAX EXPENSES

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

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

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| **Loss before income tax** | **(73,567)** | (59,313) |
| Tax calculated at domestic tax rate applicable to profits in the PRC (25%) | **(18,392)** | (14,828) |
| Tax effects of: | | |
| Different tax rates applicable to different tax jurisdiction | **1,130** | 676 |
| Preferential tax benefits in the PRC | **4,135** | 4,416 |
| Tax losses for which no deferred income tax asset was recognised | **7,572** | 5,883 |
| Deductible temporary difference for which no deferred income tax asset was recognised | **5,470** | 6,913 |
| Expenses not deductible for tax purpose | | |
| – Entertainment | **83** | 59 |
| Under provision in prior year | **–** | (1,575) |
| Income tax expenses | **(2)** | 1,544 |

**(a) Cayman Islands income tax**

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

**(b) Hong Kong profits tax**

Enterprises incorporated in Hong Kong are subject to profits tax rates of 16.5% for all the years presented. No Hong Kong tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the years ended 31 December 2017 and 2016.

**(c) PRC corporate income tax**

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

Being a high and new technology enterprise certified by local science and technology department and local finance and taxation administration, Beijing Denox has been granted a preferential rate of 15% in 2017.

**(d) PRC withholding income tax**

Pursuant to the applicable PRC tax regulations, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group has not provided for these withholding income taxes on the profit generated from the PRC Subsidiaries during the year ended 31 December 2017 as the directors have confirmed that the Group will reinvest the retained earnings of the PRC Subsidiaries in the foreseeable future.

## 8. LOSSES PER SHARE

### (a) Basic losses per share

Basic losses per share is calculated by dividing:

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

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

### (b) Diluted losses per share

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

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

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

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

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

## 9. DIVIDENDS

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

## 10. INVENTORIES

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

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

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

## 11. TRADE AND BILLS RECEIVABLES

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

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

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

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Less than 3 months | **18,555** | 7,551 |
| 3 months to 6 months | **10,519** | 3,395 |
| 6 months to 1 year | **462** | 14,074 |
| 1 year to 2 years | **17,092** | 21,237 |
| 2 years to 3 years | **6,303** | 12,826 |
| Over 3 years | **8,382** | 390 |
| | **61,313** | 59,473 |

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

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

Past due trade receivables are defined as trade receivables outstanding after 30 days, the official credit term, from the date on which the Group establishes the right of collection. Based on the past experiences and review of the operating situation of the customers, the directors are of the view that past due trade receivables, amounting to approximately RMB38,869,000, were not impaired as at 31 December 2017 (2016: RMB40,703,000) as there are no significant changes in the credit quality of individual customers.

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

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

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the income statement (Note 4). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

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

## 12. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

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

As at 31 December 2017 and 2016, the carrying amounts of prepayments, deposits and other receivables approximated their fair values. As at 31 December 2017 and 2016, there were no significant balances that were past due.

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

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

| | **As at 31 December** | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| RMB | **13,066** | 18,689 |
| HK$ | **324** | 1,170 |
| EUR€ | **–** | 1,557 |
| | **13,390** | 21,416 |

## 13. TRADE PAYABLES

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

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

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

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

## BUSINESS REVIEW

### (I) Plate-type DeNOx catalysts

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

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

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

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

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

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

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

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

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

### *(2) Product Production*

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

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

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

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

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

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

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

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

## KEY WORK ARRANGEMENTS FOR 2018

### (i) Plate-type DeNOx catalyst

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

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

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

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

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

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

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

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

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

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

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

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

## FINANCIAL REVIEW

### Revenue

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

### Cost of sales of goods

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

### Gross loss

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

### Selling and marketing expenses

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

### Administrative expenses

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

**Research and development expenses**

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

**Other gains (net)**

Other gains (net) primarily consist of government grants, foreign exchange gains and interest income. The significant decrease in other gains (net) from approximately RMB9.2 million in 2016 to approximately RMB1.0 million in 2017 was mainly due to the one-off gains in relation to government grants of RMB5.0 million from local government of Hebei Province for the successful listing of the shares of the Company on the Main Board of the Stock Exchange and a compensation income of RMB2.0 million from a customer for breaching a sales contract were recorded in 2016.

**Loss attributable to the shareholders of the Company**

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

**Other performance indicators**

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

| | **As at or for the year ended 31 December** | |
|---|---|---|
| | **2017** | 2016 |
| Current Ratio *(Note 1)* | **7.3 times** | 9.1 times |
| Quick Ratio *(Note 2)* | **6.4 times** | 8.1 times |
| Return on equity *(Note 3)* | **N/A** | N/A |
| Return on total assets *(Note 4)* | **N/A** | N/A |

*Notes:*

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

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

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

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

**Current ratio and quick ratio**

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

**Return on equity and return on total assets**

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

**Liquidity and Capital Resources**

The Group's financial position remains solid and the Group possessed sufficient cash to meet its commitments and working capital requirements. As at 31 December 2017, the Group had net current assets of approximately RMB242.4 million (2016: approximately RMB305.0 million) of which cash and cash equivalents were approximately RMB180.4 million (2016: approximately RMB223.8 million) and were denominated in RMB, US$, HK$ and Euro€ as at 31 December 2017.

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

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

***Use of net proceeds from the Listing***

As at 31 December 2017, net proceeds not utilised of approximately RMB91.8 million were deposited into interest bearing bank accounts with licensed commercial banks and will be applied according to the section headed "Use of proceeds" of the Prospectus.

| | **Planned Amount** *RMB'million* | **Amount utilised up to 31 December 2017** *RMB'million* | **Balance as at 31 December 2017** *RMB'million* |
|---|---|---|---|
| Development of DeNOx catalysts for diesel-powered vehicles | 78.6 | 23.6 | 55.0 |
| Acquisition of potential target companies in the Group's industry that can help to expand the Group's market coverage or key raw material suppliers | 46.2 | 21.9 | 24.3 |
| Research and development | 17.1 | 9.9 | 7.2 |
| Expansion of the Group's sales network and establishment of the Group's regional sales offices in China as well as in Europe | 6.9 | 3.2 | 3.7 |
| Replacement of the Group's No. 1 production line | 5.1 | 3.5 | 1.6 |
| Working capital and general corporate purposes | 17.1 | 17.1 | – |
| | 171.0 | 79.2 | 91.8 |

## Borrowings

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

## Capital expenditure and commitments

The Group incurred capital expenditure to expand its operations, maintain its equipment and increase its operational efficiency. For the years ended 31 December 2016 and 2017, the Group had invested approximately RMB16.0 million and RMB9.0 million for the purchase of property, plant and equipment and Nil and RMB15.4 million for intangible assets, respectively. These capital expenditures were financed by internal resources of the Group.

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

## Contingent liabilities

As at 31 December 2016 and 2017, the Group did not have any material contingent liabilities.

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

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

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

## Important events affecting the Group after the reporting period

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

## Employees

As at 31 December 2017, the Group had 115 employees (2016: 140). Remuneration policies are reviewed regularly to ensure that the Group is offering competitive employment packages to employees. Remuneration of the Group's employees includes salaries, pension, discretionary bonus, medical insurance scheme and other applicable social insurance. The Group's remuneration policy for the directors, senior management and employees was based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the profit performance of the Group and the individual performance of the Directors, senior management members and employees. Further, the Group adopted the share option scheme on 14 October 2015. Further information of such share option scheme will be available in the annual report of the Company. 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.

## FINAL DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

## CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement of the shareholders of the Company to attend and vote at the annual general meeting of the Company to be held on Thursday, 7 June 2018 (the "**Annual General Meeting**"), the register of members of the Company will be closed from 4 June 2018 to 7 June 2018, both days inclusive, during which period no transfer of the Company's shares will be registered. In order to be eligible to attend and vote at the Annual General Meeting, all transfers documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 1 June 2018.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

## 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 year ended 31 December 2017, the Company has complied with the applicable code provisions of the Corporate Governance Code (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 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.

## REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company comprises three independent non-executive Directors, namely, Mr. Lam Yiu Por, Mr. Li Min and Mr. Ong Chor Wei. The Audit Committee has reviewed the audited financial statements for the year ended 31 December 2017 in conjunction with the Company's auditors and management and has also discussed auditing, risk management, internal control and financial reporting matters including accounting practices and principles adopted by the Group.

## SCOPE OF WORK OF THE AUDITOR

The figures in respect of this preliminary announcement of the Group's results for the year ended 31 December 2017 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

## PUBLICATION OF 2017 ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Company's website (www.china-denox.com) and the Stock Exchange's website (www.hkexnews.com.hk). The Company's annual report for the year ended 31 December 2017 and notice of the Annual General Meeting will be made available on the websites of the Company and Stock Exchange and will be despatched to the shareholders of the Company in due course.

By Order of the Board
**Denox Environmental & Technology Holdings Limited**
**Zhao Shu**
*Chairlady*

Hong Kong, 23 March 2018

*As at the date of this announcement, the Board comprises Ms. Zhao Shu, Mr. Kong Hongjun and Mr. Li Ke as executive Directors; Mr. Li Xingwu and Mr. Teo Yi-Dar as non-executive Directors; and Mr. Lam Yiu Por, Mr. Li Min and Mr. Ong Chor Wei as independent non-executive Directors.*