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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 2018

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 2018 together with comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers	3	**54,436**	48,351
Cost of sales of goods	4	**(58,283)**	(61,743)
Gross loss		**(3,847)**	(13,392)
Selling and marketing expenses	4	**(8,895)**	(5,964)
Administrative expenses	4	**(28,084)**	(42,095)
Research and development expenses	4	**(3,740)**	(10,830)
Net reversal of impairment losses on financial assets		**1,517**	–
Other gains – net	5	**13**	954
Operating loss		**(43,036)**	(71,327)
Finance income	6	**3,819**	159
Finance costs	6	**–**	(2,399)
Finance income/(costs) – net		**3,819**	(2,240)
Loss before income tax		**(39,217)**	(73,567)
Income tax (expenses)/benefits	7	**(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		**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)	8		
Basic and diluted loss per share		**(0.08)**	(0.15)

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Note	**2018**	2017
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**47,825**	56,635
Land use rights		**15,334**	15,685
Intangible assets		**12,129**	19,987
Long-term prepayments		**1,768**	1,135
Restricted cash		**1,901**	1,901
Total non-current assets		**78,957**	95,343
Current assets			
Inventories	*10*	**40,629**	35,578
Trade receivables	*11*	**49,717**	49,715
Financial assets at fair value through other comprehensive income		**6,569**	–
Prepayments, deposits and other receivables		**13,597**	12,255
Restricted cash		**889**	2,658
Cash and cash equivalents		**145,424**	180,381
Total current assets		**256,825**	280,587
Total assets		**335,782**	375,930
LIABILITIES			
Non-current liabilities			
Deferred income		**10**	70
Deferred income tax liabilities		**1,811**	2,365
Total non-current liabilities		**1,821**	2,435
Current liabilities			
Trade payables	*12*	**3,822**	5,980
Advances from customers		**10,147**	5,711
Accruals and other payables		**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

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
EQUITY			
Equity attributable to shareholders of the Company			
Share capital		**31,596**	31,802
Treasury stock		**(635)**	–
Share premium		**850,648**	851,181
Capital reserves		**(552,410)**	(552,410)
Other reserves		**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

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 "**Stock Exchange**").

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, 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

The Group had to change its accounting policies and make certain retrospective adjustments following the adoption of IFRS 9 and IFRS 15. 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. 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.

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 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 vehicle	**156**	–
	54,436	48,351
Timing of revenue recognition		
– At a point in time	**54,436**	48,351

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	**12.54%**	n.a.
Customer B	**4.38%**	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**

4. 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	**15,395**	14,774
Depreciation and amortisation	**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)	**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/(reversal of) warranty	**428**	(118)
Conference fee	**30**	37
Impairment losses of goodwill	**–**	7,262
Provision for/(reversal of) inventory write-down *(Note 10)*	**1,748**	(209)
Provision for impairment of receivables *(Note 11)*	**–**	4,233
Others	**1,425**	1,525
	99,002	120,632

5. 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.

6. 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)

7. 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	**(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
Deductible temporary difference for which no deferred income tax asset was recognised	**(375)**	5,470
Expenses not deductible for tax purpose		
– Entertainment	**96**	83
Income tax expenses/(benefits)	**239**	(2)

(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.

8. LOSS PER SHARE

(a) Basic loss per share

Basic loss per share is calculated by dividing:

- the loss attributable to owners 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
Total basic loss per share attributable to the ordinary equity holders 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.

As the Group incurred loss for the year ended 31 December 2018 and 2017, diluted loss per share equals to basic loss per share.

9. DIVIDENDS

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

10. 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 (2017: reversal of RMB209,000). These were recognised as cost of sales in consolidated statement of comprehensive income.

11. TRADE RECEIVABLES

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

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.

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 2018 was the carrying amounts of the trade receivables. The Group did not hold any collateral as security.

12. 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.

BUSINESS REVIEW

(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 sell 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 compare 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 saved 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 was 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 of 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 continued to 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 catalyst, 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 in 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.

The Group had no bank borrowings and bank facility as at 31 December 2017 and 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	**Amount utilised up to 31 December 2018**	**Balance as at 31 December 2018**
	RMB'million	*RMB'million*	*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 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

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 announcement, 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.

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 of the Company 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 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 14 June 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the reporting period, 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	Price Per Share Lowest	Aggregate price
		HK$	*HK$*	*HK$*
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.

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 2018, 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 the chairlady of the Group and has extensive experience in the business operation and management of the Group 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 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.

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 2018 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 2018 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 2018 and notice of the Annual General Meeting will be made available on the websites of the Company and the 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, 29 March 2019

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.