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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 2016

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 2016 together with comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	3	**69,780**	149,604
Cost of sales	4	**(93,117)**	(100,860)
Gross (loss)/profit		**(23,337)**	48,744
Selling and marketing expenses	4	**(6,404)**	(3,701)
Administrative expenses	4	**(36,826)**	(55,051)
Other gains – net	5	**9,213**	2,460
Operating loss		**(57,354)**	(7,548)
Finance income	6	**488**	2,692
Finance costs	6	**(2,447)**	(3,823)
Finance costs – net		**(1,959)**	(1,131)
Fair value gain of series A convertible redeemable preferred shares		**–**	39,892
(Loss)/profit before income tax		**(59,313)**	31,213
Income tax expenses	7	**(1,544)**	(5,667)
(Loss)/profit for the year		**(60,857)**	25,546
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		**12,560**	282
Other comprehensive income for the year		**12,560**	282
Total comprehensive (loss)/income for the year		**(48,297)**	25,828
(Loss)/profit attributable to:			
– Shareholders of the Company		**(60,416)**	25,546
– Non-controlling interests		**(441)**	–
		(60,857)	25,546
Total comprehensive (loss)/income attributable to:			
– Shareholders of the Company		**(47,856)**	25,828
– Non-controlling interests		**(441)**	–
		(48,297)	25,828
(Losses)/Earnings per share (expressed in RMB per share)	8		
Basic (losses)/earnings per share		**(0.12)**	0.08
Diluted losses per share		**(0.12)**	(0.04)

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

	Notes	**2016** *RMB'000*	2015 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**57,921**	45,413
Land use right		**16,036**	8,202
Intangible assets		**34,837**	6,074
Long-term prepayments	*12*	**2,995**	4,840
Deferred income tax assets		**–**	3,126
Restricted cash		**2,104**	358
Total non-current assets		**113,893**	68,013
Current assets			
Inventories	*10*	**39,402**	49,249
Trade and bills receivables	*11*	**56,258**	54,766
Prepayments, deposits and other receivables	*12*	**18,421**	91,660
Available-for-sale financial assets		**2,000**	–
Restricted cash		**2,558**	1,244
Cash and cash equivalents		**223,805**	229,433
Total current assets		**342,444**	426,352
Total assets		**456,337**	494,365
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		**35,669**	23,100
Retained earnings		**35,232**	95,657
		401,474	449,330
Non-controlling interests		**13,651**	–
Total equity		**415,125**	449,330

	Notes	2016	2015
		RMB'000	*RMB'000*
LIABILITIES			
Non-current liabilities			
Deferred income		**130**	2,090
Deferred income tax liabilities		**3,614**	–
Total non-current liabilities		**3,744**	2,090
Current liabilities			
Trade payables	*13*	**6,918**	6,435
Advances from customers		**6,035**	8,861
Accruals and other payables		**19,268**	19,516
Current income tax liabilities		**5,247**	8,133
Total current liabilities		**37,468**	42,945
Total liabilities		**41,212**	45,035
Total equity and liabilities		**456,337**	494,365

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

The consolidated financial statements of Denox Environmental & Technology Holdings Limited have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRS**"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of convertible redeemable preferred shares and available-for-sale financial assets, which are carried at fair value.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group in 2016

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning 1 January 2016:

- IFRS 14, 'Regulatory Deferral Accounts'
- Amendment to IFRS 11, 'Accounting for acquisitions of interests in joint operations'
- Amendments to IAS 16 and IAS 38, 'Clarification of acceptable methods of depreciation and amortisation'
- Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'
- Amendment to IAS 27, 'Equity method in separate financial statements'

– Amendments from annual improvements to IFRSs – 2012 - 2014 Cycle, on IFRS 5, 'Non-current assets held for sale and discontinued operations', IFRS 7, 'Financial instruments: Disclosures', IAS 19, 'Employee benefits' and IAS 34, 'Interim financial reporting'

– Amendments to IFRS 10, IFRS 12 and IAS 28 'Investment entities: applying the consolidation exception'

– Amendments to IAS 1 'Disclosure initiative'

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) New standards and amendments issued but are not yet effective for the financial year beginning on 1 January 2017, and have not been early adopted by the Group

A number of new standards and amendments to standards and interpretations to be adopted in future reporting periods, and have not been applied in preparing this consolidated financial information. None of these are expected to have a significant effect on the consolidated financial information of the Group, except the following set out below:

IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ("**OCI**") and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess the full impact of IFRS 9 on its financial statements.

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 is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group will make detailed assessment of the impact over the next twelve months.

IFRS 16, "Leases", will affect primarily the accounting for Group's operating leases. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized in the consolidated balance sheet. The Group is in the process of assessing the impact of the operating lease commitments on recognition of assets and liabilities on the Group's profit, financial position, and classification of cash flows.

There are no other amendments and new or amended standards that are not yet effective that would be expected to have a material impact on the Group.

3. REVENUE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Sales of goods	**69,780**	149,291
Provision of services	**–**	313
	69,780	149,604

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 2016 (2015: 99.8%).

For the years ended 31 December 2016 and 2015, 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	
	2016	2015
Customer A	**28.7%**	n.a.
Customer B	**18.4%**	n.a.
Customer C	**18.0%**	n.a.
Customer D	**13.7%**	n.a.
Customer E	**n.a.**	21.3%
Customer F	**n.a.**	11.6%

4. EXPENSES BY NATURE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Changes in inventories of finished goods and work in progress	**8,949**	35,493
Raw materials consumed and consumable used	**58,483**	45,333
Employee benefit expenses (including share-based compensation expenses)	**14,124**	19,557
Depreciation, amortisation and impairment charges	**26,093**	6,442
Inventory write-down *(Note 10)*	**6,149**	7,450
Professional service fees	**5,091**	605
Utilities charges and office expenses	**3,485**	2,918
Transportation and warehouse expense	**2,856**	1,147
Consulting service fees	**2,301**	2,059
Research and development expenses	**2,162**	1,900
Travelling, communication and entertainment expenses	**2,116**	2,090
Auditors' remuneration:		
– Audit services	**1,440**	1,640
– Non-audit services	**10**	10
Operating lease rentals	**907**	546
Stamp duty, property tax and other surcharges	**881**	1,465
Provision for impairment of receivables *(Note 11)*	**429**	1,949
Conference fee	**87**	78
Bidding service expenses	**62**	251
Listing expenses	**–**	28,010
Warranty reversal	**(210)**	(216)
Others	**932**	885
	136,347	159,612

5. OTHER GAINS – NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Government grants *(a)*	**5,160**	2,110
Compensation income *(b)*	**2,000**	–
Provision of other services	**1,815**	–
Interest income	**300**	45
Foreign exchange gains	**13**	303
Investment income	**12**	–
Loss on disposal of property, plant and equipment	**(87)**	–
Others	**–**	2
	9,213	2,460

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

(b) This amount represented the compensation of RMB2,000,000 received from a customer for breaching the sales contract. Such amount was settled by the customer on January 2017.

6. FINANCE COSTS – NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Finance income		
Interest income on cash and cash equivalents and restricted cash	**488**	272
Net foreign exchange gains on financing activities	**–**	2,420
	488	2,692
Finance costs		
Net foreign exchange losses on financing activities	**(2,360)**	–
Issuance costs for series A convertible redeemable preferred shares	**–**	(3,823)
Interest expense on bank borrowings	**(87)**	–
	(2,447)	(3,823)
Finance costs – net	**(1,959)**	(1,131)

7. INCOME TAX EXPENSES

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current income tax expenses	**322**	6,842
Under provision in prior year	**(1,575)**	–
Deferred income tax credit	**2,797**	(1,175)
	1,544	5,667

The tax on the Group's (loss)/profit 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	
	2016	2015
	RMB'000	*RMB'000*
(Loss)/Profit before income tax	**(59,313)**	31,213
Tax calculated at domestic tax rate applicable to profits in the PRC (25%)	**(14,828)**	7,803
Tax effects of:		
Different tax rates applicable to different tax jurisdiction	**676**	(500)
Preferential tax benefits in the PRC	**4,416**	(2,400)
Tax losses for which no deferred income tax asset was recognised	**5,883**	5,604
Deductible temporary difference for which no deferred income tax asset was recognised	**6,913**	–
Expenses not deductible for tax purpose		
– Share-based compensation	**–**	1,532
– Fair value gain of series A convertible redeemable preferred shares	**–**	(6,582)
– Other permanent difference	**59**	210
Under provision in prior year	**(1,575)**	–
Income tax expenses	**1,544**	5,667

(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 2016 and 2015.

(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 2016.

(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 Group's subsidiaries incorporated in the PRC (the "**PRC Subsidiaries**") during the year ended 31 December 2016 as the directors have confirmed that the Group will reinvest the retained earnings of the PRC Subsidiaries in the foreseeable future.

8. (LOSSES)/EARNINGS PER SHARE

(a) Basic

Basic (losses)/earning per share is calculated by dividing the (loss)/profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during each year.

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
(Loss)/Profit attributable to shareholders of the Company	**(60,416)**	25,546
Weighted average number of ordinary shares in issue (thousand shares)	**500,000**	334,122
Basic (losses)/earnings per share (expressed in RMB per share)	**(0.12)**	0.08

Upon the Company's Initial Public Offering on the Main Board of the Stock Exchange, the Company's then existing ordinary shareholders received 368,071,331 shares. As a result, the then existing outstanding ordinary shares were adjusted to 375,000,000 shares.

For the purpose of computing basic (loss)/earnings per share, the number of ordinary shares outstanding during each year has been adjusted retroactively for the proportional changes in the number of ordinary shares outstanding as a result of the capitalisation of share premium.

(b) Diluted

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

For the year ended 31 December 2016, the Group has no potentially dilutive ordinary shares in issue.

For the year ended 31 December 2015, the Group has only one category of dilutive potential ordinary shares, which is series A convertible redeemable preferred shares and these shares were converted into ordinary shares on 12 November 2015, upon the Company's Initial Public Offering. The series A convertible redeemable preferred shares are assumed to have been converted into ordinary shares from the issuance date to the conversion date, and the net profit is adjusted to eliminate the fair value change in the liability component.

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
(Losses)/earnings		
(Loss)/profit attributable to shareholders of the Company	**(60,416)**	25,546
Adjustment for:		
Fair value change in the liability component of the series A convertible redeemable preferred shares	**–**	(39,892)
Diluted loss attributable to shareholders of the Company	**(60,416)**	(14,346)
Weighted average number of ordinary shares in issue *(thousand shares)*		
Diluted weighted average number of ordinary shares for diluted (losses)/earnings per share *(thousand shares)*	**500,000**	381,023
Diluted losses per share *(expressed in RMB per share)*	**(0.12)**	(0.04)

9. DIVIDENDS

No dividend has been declared or paid by the companies now comprising the Group during the years ended 31 December 2016 and 2015.

10. INVENTORIES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Raw materials	**15,972**	12,143
Work-in-progress	**3,770**	7,057
Finished goods	**8,333**	17,152
Goods in transit	**11,327**	12,897
	39,402	49,249

The cost of inventories recognised as expenses and included in "cost of sales" amounted to approximately RMB92,886,000 (2015: RMB100,086,000), which included inventory write-down of RMB6,149,000 (2015: RMB7,450,000).

11. TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Bills receivable	**4,150**	1,002
Trade receivables	**59,473**	60,700
	63,623	61,702
Less: provision for impairment	**(7,365)**	(6,936)
	56,258	54,766

As at 31 December 2016 and 2015, 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	
	2016	2015
	RMB'000	*RMB'000*
Less than 3 months	**7,551**	8,906
3 months to 6 months	**3,395**	6,809
6 months to 1 year	**14,074**	33,293
1 year to 2 years	**21,237**	7,503
2 years to 3 years	**12,826**	4,189
Over 3 years	**390**	–
	59,473	60,700

(b) Ageing analysis of past due but not impaired trade receivables as at 31 December 2016 and 2015 was as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Less than 6 months	**7,428**	7,653
6 months to 1 year	**9,367**	26,973
1 year to 2 years	**14,930**	4,683
Over 2 years	**8,978**	800
	40,703	40,109

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 RMB40,703,000, were not impaired as at 31 December 2016 (2015: RMB40,109,000) 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:

	2016	2015
	RMB'000	*RMB'000*
At 1 January	**6,936**	4,987
Provision for receivables impairment	**4,513**	3,546
Unused amounts reversed	**(4,084)**	(1,597)
At 31 December	**7,365**	6,936

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. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Included in non-current assets		
Prepayments for acquisition of intangible assets	**–**	2,024
Prepayments for acquisition of property, plant and equipment	**1,744**	1,367
Long-term prepaid expenses	**1,251**	1,449
	2,995	4,840
Included in current assets		
Value-added tax recoverable	**4,764**	523
Deposits	**2,667**	1,772
Prepayment for professional service fee	**2,395**	–
Prepayments to suppliers	**1,945**	3,264
Compensation receivable *(Note 5(b))*	**1,580**	–
Prepayment for marketing service fee	**1,040**	–
Amount due from a third party agent	**927**	927
Export tax refund	**842**	–
Prepaid employees' housing subsidy	**360**	410
Staff advance	**202**	392
Short-term fixed income deposit *(a)*	**–**	83,778
Others	**1,699**	594
	18,421	91,660
Total	**21,416**	96,500

(a) The amount represented a short-term deposit placed with a major commercial bank through a third party asset management company with a maturity of 2 months and a fixed interest rate of 0.68% per annum.

As at 31 December 2016 and 2015, the carrying amounts of prepayments, deposits and other receivables approximated their fair values. As at 31 December 2016 and 2015, 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	
	2016	2015
	RMB'000	*RMB'000*
RMB	**18,689**	12,680
HK$	**1,170**	83,778
US$	**–**	42
EUR€	**1,557**	–
	21,416	96,500

13. TRADE PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Third party	**6,918**	6,435

Ageing analysis of trade payables as at 31 December 2016 and 2015 was as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 6 months	**6,524**	5,627
6 months to 1 year	**–**	480
1 to 2 years	**123**	328
Over 2 years	**271**	–
	6,918	6,435

As at 31 December 2016 and 2015, trade payables were denominated in RMB and the fair value of trade payables approximated their carrying amount at each balance sheet date.

BUSINESS REVIEW

In 2016, although air pollution in the PRC improved as indicated by the statistics of the year, the haze over nearly a half of the territory of the PRC represented by Beijing, Tianjin and Hebei in the autumn and winter of 2016 gave people a feeling of deterioration. Therefore, the market demands for DeNOx catalysts for eliminating nitrogen oxide, one of the main causes for haze, are beyond doubt. However, we have also noted that, although few manufacturers in the PRC are able to produce plate-type DeNOx catalysts, the fierce industry competition commenced in the second half of 2015 has not ended, and the price of catalysts hit the bottom, resulting in continued operational pressure over the Company. At the same time, by virtue of high quality products, the Company made great breakthroughs in respect of sales of catalysts in the European market, and overseas market will also be a key area for development of the Company. The main operations of the Company in 2016 are as follows:

1. Sales and Marketing

In 2016, the market competition of DeNOx catalysts for the power generation industry was extremely fierce, all staff of the sales and marketing department, through cooperation, completed technical proposals of catalysts for approximately 90 projects; and submitted 71 official bids to power generation groups, local electricity authorities and other customers. In addition, the sales and marketing department conducted early-stage technical exchange, product introduction, customer communication, design liaison, etc. with customers for a number of times, and prepared information on catalysts and teaching materials on operation and maintenance of catalysts for all projects and offered trainings on operation and maintenance of DeNOx catalysts to customers. In 2016, the sales and marketing department completed a total of 13 projects and conducted communication before delivery for 23 units to ensure arrival of goods at installation sites without delay and satisfaction of customers' requirements.

2. After-sales Service

In 2016, the Group completed implementation of projects for 13 customers, signed 13 final acceptance certificates and 21 preliminary acceptance certificates, and finished catalyst sampling for 19 projects. All staff of the department maintained an upright and positive attitude. Whenever customers called for after-sales service, the staff would arrive at the scene right away and customers' needs have always been the Group's top priority. With the joint efforts of all staff, the Group received no complaint from the customers throughout the year, and individual projects were highly recognised and praised in writing by customers. While accomplishing the provision of customer services, the after-sales department also strengthened the training for internal staff, particularly new comers, to continuously enhance the overall service awareness and after-sales service skills of after-sales personnel.

3. Products Production

In 2016, the Company completed production of catalysts for 13 power plant projects, and the completion rate of both production plan and delivery was 100%. During the year, the Company strengthened production safety management, and earnestly conducted screening of accident potentials, maintenance of safety facilities, preparation of emergency response plan and drills to ensure no accident in production throughout the year. The department also completed annual evaluation for front-line staff and production management personnel at all levels, and offered training to certain staff for the diesel-powered vehicle project in 2017. The department applied dynamic management methods for production personnel including survival of the fittest and awarding excellent staff and punishing lazy ones to greatly arouse staff's enthusiasm and initiative. Meanwhile, rational proposals and technical innovation were adopted to enhance staff's working efficiency, reduce rejection rate of products and improve product quality.

4. Innovation of Production Technology

The Company determined 2016 as the year for technology innovation. With the great support of the Company, the research group took the lead in fully arousing the enthusiasm of all staff through a number of ways. All staff including front-line staff, grassroots shift leaders and all functional departments were engaged in the innovation. 45 rational proposals and improvement proposals were made by full utilisation of existing equipment, staff, materials and other resources and conditions based on production orders, covering reduction of production consumption, improvement of working efficiency, environmental improvement, recycling of waste, etc. Real achievements were obtained in technology innovation.

5. Research and Development in Technology

In order to further improve product quality, the Company conducted extensive testing on the raw materials, semi-finished products and finished products. After a year of exploration and practices, the testing procedures were refined and improved. Meanwhile, referring to national and industry standards and many other standards, the Company worked out its own standards for the testing of plate-type catalysts, formulated testing standards and inspection reports. The management of laboratories was further refined while standards were made for managing the instrument use in the laboratories. In order to further meet customers' requirements on compulsory test, the Company further optimised production process, which satisfied customers' requirements and reduced production cost.

KEY WORK ARRANGEMENTS FOR 2017

1. The Company will continue to make great efforts in marketing and after-sales services

- The Company will put in greater efforts in promotion and expansion of sales channels, sales and aftersales teams in order to better serve the existing customers and attract new customers.

- The Company will put in greater efforts in after-sales services by setting up project files for each customer, establishing the mechanism for regular contacts through telephone and SMS and building basic information management and life management files for catalysts of customers.

- Relying on our office in the Europe and other overseas agents, the Company will continue to put in greater efforts to develop overseas market striving to enter into more export contracts in 2017.

2. The Company will accelerate commissioning of equipment for catalysts for diesel-powered vehicles and production

Catalysts for diesel-powered vehicles are vigorously developed by the Company and also the principle products and source of profit of the Company in the future. The Company established a preparation team in 2016, striving to achieve production and profiting purposes as soon as possible to lay a solid foundation for the Company's development in a new stage. At present, the progress of diesel-powered vehicles project is delayed to a certain extent due to the higher requirements of catalysts for diesel-powered vehicles on technology and, more importantly, the serious haze in Beijing, Tianjin and Hebei, in which the production bases of the Company are located, in recent years. The Company's production was frequently subject to restriction and suspension as required by local governments. As such, the Company has started to consider purchase of land in other places to build plants for the purpose of avoiding production restriction as imposed by the government.

3. The Company will continue to track and store new environmental protection technologies and products

In accordance with the Company's strategic planning, the Company will continue to make greater efforts to track, introduce, digest and transform new environmental protection technologies. In addition to the current plate-type catalysts and catalysts for diesel-powered vehicles, the Company will intensify the development of catalysts for vessels and other environmental protection technologies and products that could be used for air pollution prevention and control. The Company intends to send staff to the German partner for study, and will need to keep its competitive advantage as a result of its environmental protection technologies and strive to eventually transform these leading technologies into high-quality products and profits for the Company.

4. **The Company will continue to intensify the storage and cultivation of human resources**

In order to meet the rapid development needs of the Company's business in the future, the Company will continue to intensify the recruitment and cultivation of various talents. In 2017, the Company will further conduct assessment and screening of staff and award the teams and individuals who have played a prominent role in technology innovation and project of catalysts for diesel-powered vehicles or achieved outstanding performance. The Company will gradually build a talent team and provide a good development platform for all staff as ever.

5. **The Company determines 2017 as the year for refined management**

Currently, the PRC is experiencing industrial transformation. The overall macroeconomic situation and industrial competition pressure are not optimistic. All industries are confronted with crises of varying degrees. However, we have also profoundly realised that the current crises are also opportunities for certain excellent enterprises. The Company wants to usher in a new development stage by converting crises into opportunities through its own effects. The Company determines 2017 as the year for refined management, which will be consolidated in terms of human resources, administrative logistics, materials procurement, funds, etc.

6. **The Company will continue its efforts for acquisition and reorganisation in the field of energy conservation and environment protection**

Subsequent to the acquisition of the majority of equity interest in Wuxi Denox Environmental & Technology Co., Ltd. in the first half of 2016, in order to solve the problem of single product, the Company will continue to look for acquisition and reorganisation opportunities in the field of energy conservation and environment protection, striving to improve the profitability and risk resistance capacity of the Company.

Financial Review

Revenue

The following table sets forth revenue generated from sale of goods and provision of services in absolute amount and as percentages of total revenue for the years indicated:

	Year ended 31 December			
	2016		2015	
	Revenue	**% of revenue**	Revenue	% of revenue
	RMB'000	***%***	*RMB'000*	*%*
Sales of goods	**69,780**	**100.0**	149,291	99.8
Provision of services	**–**	**–**	313	0.2
Total	**69,780**	**100.0**	149,604	100.0

The revenue of the Group primarily from sales of plate-type DeNOx catalysts products

The Group recorded a total revenue of approximately RMB69.8 million in 2016, which was generated from sales of plate-type DeNOx catalysts products. The decrease in sales of plate-type DeNOx catalysts products by 53.3% as compared to 2015 was primarily attributable to a drop in the selling price of plate-type DeNOx catalysts in the PRC as a result of severe market competition, the average selling price decreased by approximately 53.2% from RMB20,120 per m^3 in 2015 to RMB9,414 per m^3 in 2016.

Cost of sales

Cost of sales of the Group decreased by 7.7% from approximately RMB100.9 million in 2015 to approximately RMB93.1 million in 2016. Through sustained efforts in technical transformation while maintained the high level quality of products, the average cost of production decreased by approximately 7.6% from RMB13,593 per m^3 in 2015 to RMB12,562 per m^3 in 2016.

Gross (loss)/profit

The Group recorded the gross loss of approximately RMB23.3 million in 2016 while recording gross profit of approximately RMB48.7 million in 2015, which was mainly due to the decrease in selling price of plate-type DeNOx catalysts in the PRC.

Selling and marketing expenses

Selling and marketing expenses primarily consist of transportation cost, consulting service expenses and bidding service fee. The Group's selling and marketing expenses increased by 73.0% from approximately RMB3.7 million in 2015 to approximately RMB6.4 million in 2016, which was primarily due to the increase in transportation cost of approximately RMB1.6 million as a result of the increase in shipping costs for overseas sales and consulting services expenses of RMB0.6 million, which was in line with the expansion of overseas operation..

Administrative expenses

Administrative expenses mainly consist of employee benefit expenses, depreciation and amortization, impairment of property, plant and equipment and intangible assets, research and development expenses and professional fees. The Group's administrative expenses decreased by 33.2% from approximately RMB55.1 million in 2015 to approximately RMB36.8 million in 2016. The decrease was primarily attributable to the one-off expenses incurred in the same period last year such as listing expenses of approximately RMB28.0 million and share-based compensation expenses of approximately RMB10.2 million arising from the repurchase of 138,889 ordinary shares and 138,889 ordinary shares from Advant Performance Limited and EEC Technology Limited respectively (the "**Repurchase**"), which was partially offset by impairment of property, plant and equipment and intangible assets incurred in 2016. In view of the unsatisfactory results of plate-type DeNOx catalysts business in 2016 and the sustained low selling price of plate-type DeNOx catalysts, the Group made an impairment loss in respect of property, plant and equipment and intangible assets of approximately RMB15.7 million.

Other gains (net)

Other gains (net) primarily consist of government grants, foreign exchange gains or losses, loss on disposal of property, plant and equipment and compensation income. The Group's other gains (net) increased from approximately RMB2.5 million in 2015 to approximately RMB9.2 million in 2016. Such increase was mainly due to the receipt of approximately RMB5.0 million in 2016 (2015: RMB2.0 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 recorded a compensation income of RMB2.0 million from a customer for breaching a sales contract in 2016.

Finance costs/income (net)

Finance costs/income (net) primarily consist of finance income and finance costs. Finance costs include the costs for issuance of preferred shares of the Company and net foreign exchange losses on financing activities. Finance income includes interest income on cash and cash equivalents and restricted cash; and net foreign exchange gains on financing activities. The Group recorded finance costs/income (net) of approximately RMB2.0 million in 2016, which was mainly attributable to approximately RMB2.4 million foreign exchange losses in banks deposits. In 2015, the Group recorded finance costs/income (net) of approximately RMB1.1 million which was primarily due to the expenses incurred for issuance of the preferred shares of approximately RMB3.8 million, partially offset by approximately RMB2.4 million foreign exchange gains in US$ denominated banks deposits.

Income tax credits/(expenses)

The Group is subject to the PRC and Hong Kong income tax. The enterprise income tax rate generally levied in the PRC and Hong Kong are 25% and 16.5%, respectively. Beijing Denox Environmental & Technology Co., Ltd, a wholly owned subsidiary of the Company ("**Beijing Denox**"), was designated as a "High and New Technology Enterprise" and enjoyed a preferential tax rate of 15% for three years ending 31 December 2017. The Group's income tax expenses decreased from approximately RMB5.7 million in 2015 to approximately RMB1.5 million in 2016. The effective tax rate changed from 18.2% in 2015 to a negative 2.6% in 2016 primarily due to the fact that deductable temporary differences and tax losses were not recognized as deferred income tax assets as the Group recorded loss in 2016.

(Loss)/profit attributable to the shareholders of the Company

As a result of the foregoing, the Group recorded a loss attributable to the shareholders of the Company of RMB60.4 million in 2016 while recording a profit attributable to the shareholders of the Company of RMB25.5 million in 2015.

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	
	2016	2015
Current Ratio *(Note 1)*	**9.1 times**	9.9 times
Quick Ratio *(Note 2)*	**8.1 times**	8.8 times
Return on equity *(Note 3)*	**N/A**	9.6%
Return on total assets *(Note 4)*	**N/A**	6.9%

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 2016 remained relative stable at 9.1 times (2015: 9.9 times) and 8.1 times in 2016 (2015: 8.8 times), respectively.

Return on equity and return on total assets

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

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 2016, the Group had net current assets of approximately RMB305.0 million (2015: approximately RMB383.4 million) of which cash and cash equivalents were approximately RMB223.8 million (2015: approximately RMB229.4 million) and were denominated in RMB, US$, HK$ and Euro€ as at 31 December 2016.

The Group had no bank borrowings as at 31 December 2015 and 2016. The Group had bank guarantees of RMB5.9 million and RMB0.6 million in favor of its customers with respect to the contract penalties or obligations in connection with its performance, product quality and tender as at 31 December 2015 and 2016. Unutilised bank facilities amounted to approximately RMB19.1 million and approximately RMB15.7 million as at 31 December 2015 and 2016, respectively.

In February 2015, the Company issued a total of 742,550 and 403,452 Series A Preferred Shares to Kickstart Holdings Limited ("**Kickstart**") and Sea of Wealth International Investment Company Limited ("**Sea of Wealth**", together with Kickstart, the "**Series A Investors**") at the consideration of approximately US$15.0 million and US$8.1 million, respectively as part of the Pre-IPO investments (as defined below). The aggregate nominal value of the 1,146,002 Series A Preferred Shares was US$11,460.02. The cost per Series A Preferred Share and net cost per Series A Preferred Share was approximately US$0.37 and US$0.36. Such issue price was calculated based on the amount of the consideration paid by the Series A Investors, divided by the number of Shares held by them immediately following completion of the Initial Public Offering (as defined below). As disclosed in the prospectus of the Company dated 30 October 2015 (the "**Prospectus**"), US$6.15 million shall be used for the Repurchase and the remaining balance shall be used for the business expansion, operations and development of the Group. As at 31 December 2015, US$6.15 million and US$12.25 million were utilised for the Repurchase and general working capital, respectively. The remaining balance of US$4.7 million has been utilised as at 31 December 2016.

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 2016, net proceeds not utilised of approximately RMB109.3 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 2016** *RMB'million*	**Balance as at 31 December 2016** *RMB'million*
Development of DeNOx catalysts for diesel-powered vehicles	78.6	14.3	64.3
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	2.5	14.6
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	2.5	4.4
Replacement of the Group's No. 1 production line	5.1	3.5	1.6
Working capital and general corporate purposes	17.1	17.0	0.1
	171.0	61.7	109.3

Borrowings

As at 31 December 2016, the Group had no outstanding bank loans and other borrowings (2015: Nil).

Pledge assets

As at 31 December 2016, the Group pledged assets with an aggregate carrying value of approximately RMB17.8 million (31 December 2015: approximately RMB13.1 million) to secure banking facilities.

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 2015 and 2016, the Group had invested approximately RMB4.1 million and RMB16.0 million for the purchase of property, plant and equipment and RMB2.0 and RMB15.4 million for intangible assets, respectively. These capital expenditures were financed by internal resources of the Group.

As at 31 December 2016, the Group's future capital expenditures contracted but not provided for amounted to approximately RMB4.5 million (31 December 2015: RMB3.1 million).

Contingent liabilities

As at 31 December 2015 and 2016, 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

In April 2016, Beijing Denox acquired 51% equity interest in Wuxi Denox Environmental & Technology Co., Ltd. (formerly known as Wuxi Taidi Metal Products Co., Ltd.* (無錫市泰迪金屬製品有限公司)) ("**Wuxi Denox**") at a total consideration of approximately RMB21.9 million. Wuxi Denox became an indirect non-wholly owned subsidiary of the Company and its financial results were consolidated into the financial results of the Group.

Save as disclosed above, there were no other significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2016.

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

Important events affecting the Group after the reporting period

On 17 February 2017, the Company signed a non-legally binding memorandum of understanding with Nobao Energy Holdings (China) Limited (挪寶能源控股(中國)有限公司) to acquire 99% equity interest of its subsidiary.

Save as disclosed above, no other important events affecting the Group has taken place since 31 December 2016 and up to the date of this report.

Employees

As at 31 December 2016, the Group had 140 employees (2015: 119). 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 2016 (2015: Nil).

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement of the Shareholders to attend and vote at the annual general meeting of the Company to be held on Thursday, 29 June 2017 (the "**Annual General Meeting"**), the register of members of the Company will be closed from 26 June 2017 to 29 June 2017, 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 23 June 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

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 2016, 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 Junhua and Mr. Ong Chor Wei. The Audit Committee has reviewed the audited financial statements for the year ended 31 December 2016 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 2016 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 2016 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 2016 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, 24 March 2017

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. Li Junhua, Mr. Lam Yiu Por and Mr. Ong Chor Wei as independent non-executive Directors.