



迪诺斯

Denox Environment

DENOX ENVIRONMENTAL & TECHNOLOGY
HOLDINGS LIMITED

迪諾斯環保科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1452

2022

Annual Report



CONTENTS

2	Corporate Information
4	Chairlady's Statement
6	Corporate Governance Report
18	Directors' Report
39	Directors and Senior Management
44	Environmental, Social and Governance Report
100	Independent Auditor's Report
106	Consolidated Statement of Profit or Loss and Other Comprehensive Income
107	Consolidated Statement of Financial Position
109	Consolidated Statement of Changes in Equity
111	Consolidated Statement of Cash Flows
113	Notes to the Consolidated Financial Statements
179	Five Years Financial Summary
180	Glossary



CORPORATE INFORMATION

Board of Directors

Executive Directors

Ms. ZHAO Shu (*Chairlady*)

Mr. LI Ke

Mr. KONG Hongjun (*resigned on 18 March 2022*)

Non-executive Directors

Mr. LI Xingwu

Mr. TEO Yi-Dar (*resigned on 25 February 2022*)

Independent Non-executive Directors

Ms. CHAN Yeuk Wa

Mr. LI Min

Mr. ONG Chor Wei

Audit Committee

Ms. CHAN Yeuk Wa (*Chairlady*)

Mr. LI Min

Mr. ONG Chor Wei

Remuneration Committee

Mr. LI Min (*Chairman*)

Ms. ZHAO Shu

Mr. ONG Chor Wei

Nomination Committee

Ms. ZHAO Shu (*Chairlady*)

Mr. LI Min

Mr. ONG Chor Wei

Joint Company Secretaries

Mr. LIU Lianchao

Ms. YU Anne (*appointed on 29 August 2022*)

Mr. WONG Yu Kit (*resigned on 29 August 2022*)

Authorised Representatives

Ms. ZHAO Shu

Mr. LIU Lianchao

Auditor

CL Partners CPA Limited

Certified Public Accountants

Registered Public Interest Entity Auditor

905-906, Tower 2

China Hong Kong City

Tsim Sha Tsui

Hong Kong

Registered Office in Cayman Islands

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman, KY1-1111

Cayman Islands



CORPORATE INFORMATION

Principal Place of Business in Hong Kong

40th Floor, Dah Sing Financial Centre
No. 248 Queen's Road East
Wanchai
Hong Kong

Headquarters and Principal Place of Business in the PRC

Room 1506-1, 12th Floor, Block 2
No. 128 Western South Fourth Ring Road
Fengtai District
Beijing 100070
PRC

Cayman Islands Principal Share Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
17/F., Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
China Construction Bank Corporation
China Merchants Bank

Company's Website

www.china-denox.com

Stock Code

01452



CHAIRLADY'S STATEMENT



Dear Shareholders,

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of Denox Environmental & Technology Holdings Limited (the “**Company**”, stock code: HK01452), I am pleased to present the results of the Company and its subsidiaries (collectively, the “**Group**” or “**Denox**”) for the year ended 31 December 2022.

Review on the work of the Group for 2022

During the three-year period of the pandemic (2020-2022), China's gross domestic product (GDP) grew at a compound annual growth rate of 4.5%, which is rare and commendable to be at the forefront of major economies in the world. Particularly, 2022 was an extremely complex year for the global economy, yet China has maintained overall economic and social stability in the face of multiple unexpected factors such as the pandemic. Under the triple pressure of demand contraction, supply shock, and weakening expectations on China's economy, the contribution of final consumption to economic growth weakened significantly, the growth rate of industrial economy fell back to a lower level than that before the pandemic, and the pandemic also disrupted the recovery of the service industry and resulted in obvious structural differentiation. China's GDP reached RMB121 trillion in 2022, up by 3.0% from the previous year at constant price calculation.

In 2022, with the concerted efforts of all employees, the Group basically ensured stable production and operation.

In the field of industrial catalysts: In 2022, the value of newly signed contracts for catalysts increased significantly year on year, and successfully achieved the Group's set goal. The Group increased its efforts in market development of catalysts in various fields of industry, optimized sales channels, and further reduced the cost per unit of catalysts, thereby enhancing market competitiveness.

In the field of vehicle catalysts: In 2022, the restriction on the flow of personnel and production materials due to the pandemic caused the most significant impact on the vehicle industry and logistics industry, and the Group's vehicle catalysts, as a part of the industrial chain, were also greatly affected. Under this circumstance, the Group controlled recurring costs and expenses, and reduced research and development expenses as much as possible to survive the cold winter, so as to preserve its strength and wait for the industry recovery.

Outlook on the work of the Group for 2023

In 2023, the Group will continue to strengthen the research and development and application of new technologies for industrial catalysts, the expansion of overseas markets for industrial catalysts, and the Group's cost and expense control. The main business work plan includes:

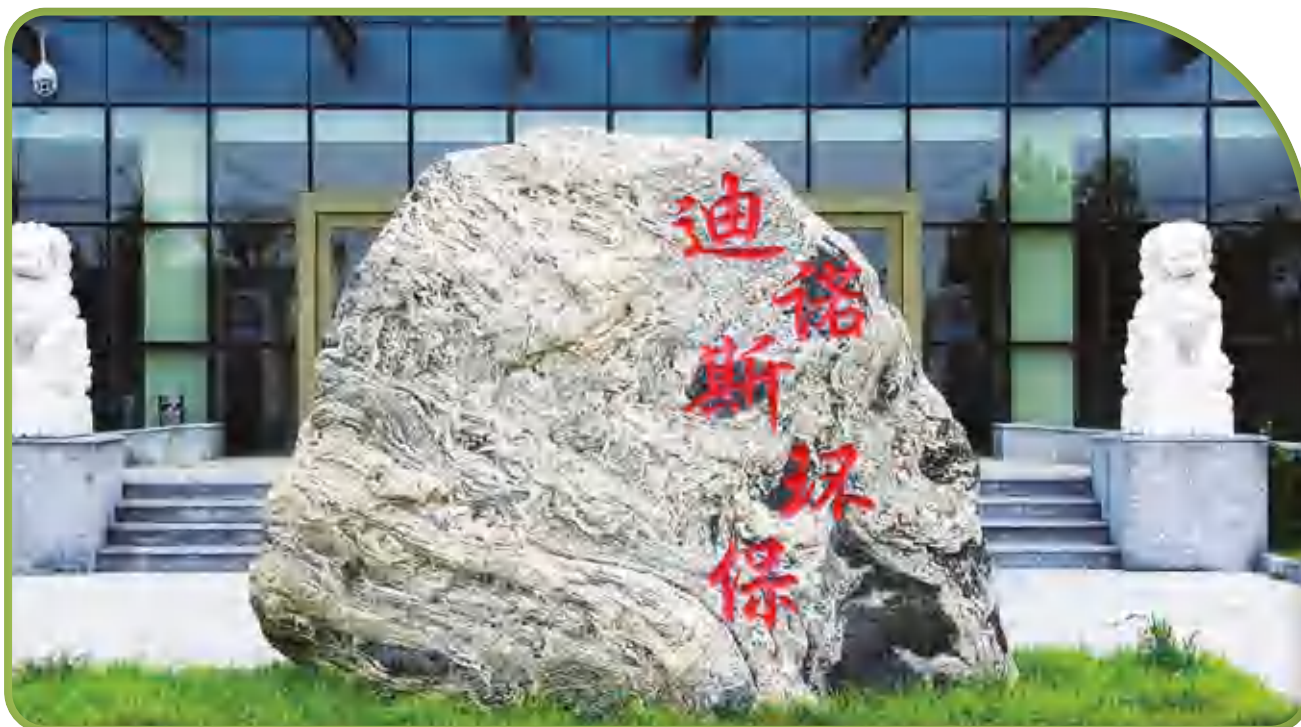
- (1) In view of the current traditional catalyst business in the industrial field entering the mature period, which has resulted in fierce market competition and low product gross profit, the Group will focus on the demand for new DeNOx catalysts from some sectors in the industrial field, enhance the research and development of catalysts for new sectors in the industrial field in 2023, and strive to make achievements in new fields.
- (2) Continue to strengthen market development. Further to the market performance of the previous year, the Group will continue to seek greater breakthroughs in both domestic and foreign markets. In 2022, the Group has improved the remuneration incentive system for marketing personnel, and set up an overseas sales team, aiming to achieve better market performance in 2023.
- (3) The overall sales scale of the Group is relatively small, and the overall cost and expense accounts for a relatively high proportion. In this regard, while strengthening its market expansion in 2023, the Group will further deepen benchmarking with the peers, endeavour to take various measures to assure the gross profit of products, promote piece-rate system and other methods to further control staff costs and other expenses, and attach importance to cash flow indicators.

Finally, on behalf of the Board, I would like to thank all the employees of the Group for their dedication and contribution, and all the Shareholders and partners for their support and understanding. The Group will seize the favorable opportunity of rapid economic recovery after the pandemic, continue to reinforce the technology research and development of DeNOx catalysts for different fields, and continue to strengthen market development and cost reduction and efficiency improvement, in pursuit of the improvement in the Group's operating results.

Zhao Shu
Chairlady

29 March 2023

CORPORATE GOVERNANCE REPORT



The Board is pleased to present this Corporate Governance Report for the Reporting Period.

The Company is committed to achieving high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability.

(A) Corporate Governance Practices

The Company has adopted the CG Code as its own code to govern its corporate governance practices. The Company has been conducting its business according to the principles of the CG Code during the Reporting Period.

Throughout the Reporting Period, the Company has complied with the relevant code provisions of the CG Code with the exception of code provision C.2.1 as set out in the section titled " (D) Chairman and Chief Executive" below.

The Board will continue to review and monitor the CG Practices of the Company with an aim to maintaining and improving a high standard of corporate governance practices.

(B) Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 of the Listing Rules as its code of conduct regarding Directors' securities transactions. Having made specific enquiry to all Directors, each of the Director has confirmed that he/she has complied with the required standards set out in the Model Code throughout the Reporting Period and up to the date of this annual report.

(C) Directors

Board Composition

The Board currently consists of six Directors, comprising two executive Directors, one non-executive Director and three independent non-executive Directors. As at the date of this annual report, the composition of the Board is set out as follows:

Executive Directors

Ms. ZHAO Shu

Mr. LI Ke

Non-executive Director

Mr. LI Xingwu

Independent non-executive Directors

Ms. CHAN Yeuk Wa

Mr. LI Min

Mr. ONG Chor Wei

The biographical information of the Directors and the relationships between the members of the Board (if any) are set out and disclosed in the section headed “Directors and Senior Management” section on page 39 to 43 of this annual report.

Roles and Responsibilities

The Board is responsible for determining our business and investment plans, preparing our annual financial budgets and financial reports, formulating proposals for profit distributions as well as exercising other powers, functions and duties as conferred by the Articles of Association. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operations and management of the Company are delegated to the executive Directors and senior management. They report periodically to the Board for their work and business decisions.

In addition, the operation of the senior management and our Board, which are comprised of experienced individuals, effectively checks and balances the power and authority of Ms. Zhao Shu, the chairlady and chief executive officer of our Group. Our Board currently comprises two executive Directors (including Ms. Zhao Shu), one non-executive Director and three independent non-executive Directors, and therefore has a fairly strong independence element in its composition.



CORPORATE GOVERNANCE REPORT

Directors must dedicate sufficient time and attention to the Group's affairs. Besides, the Company also requested all Directors to disclose to the Company annually the number and the nature of offices held in public companies or organisations and other significant commitments with an indication of the time involved.

In essence, the Board will take into account the re-electing Director's attendance of Board meetings and serving on committees of the Board in assessing his/her ability to devote sufficient time and attention to participate in the affairs of the Company. In addition, the Company will take into account the background, expertise and experience of the re-electing Directors in assessing the possible contribution by the re-electing Director to the Company.

Attendance Record of the Directors

The attendance record of each Director at the Board meetings and Board committees' meetings and annual general meeting of the Company held for the year of 2022 is set out below:

	Number of Meetings attended/held				2022 Annual general meeting
	Board	Audit Committee	Remuneration Committee	Nomination Committee	
Executive Directors					
Ms. ZHAO Shu	4/4	N/A	2/2	1/1	1/1
Mr. LI Ke	4/4	N/A	N/A	N/A	1/1
Mr. KONG Hongjun (<i>resigned on 18 March 2022</i>)	N/A	N/A	N/A	N/A	N/A
Non-executive Directors					
Mr. LI Xingwu	3/4	N/A	N/A	N/A	1/1
Mr. TEO Yi-Dar (<i>resigned on 25 February 2022</i>)	N/A	N/A	N/A	N/A	N/A
Independent non-executive Directors					
Ms. CHAN Yeuk Wa	4/4	3/3	N/A	N/A	1/1
Mr. LI Min	3/4	2/3	1/2	0/1	1/1
Mr. ONG Chor Wei	4/4	3/3	2/2	1/1	1/1

In addition, in order to facilitate open discussion with all Independent Non-Executive Directors, the chairman of the Board had held a meeting with all the Independent Non-Executive Directors without the presence of other executive Directors in accordance with the code provision C.2.7 of the CG Code during the Reporting Period.

Independence of the independent non-executive Directors

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

The Company has received from each of the independent non-executive Directors a written confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Board considers all independent non-executive Directors to be independent. The Board believes that there is a strong independent element in the Board to safeguard the interest of Shareholders.

All Directors, including independent non-executive Directors, are clearly identified in all corporate communications of the Company. A list of Directors is available on the websites of the Company and the Stock Exchange and will be updated, where necessary.

Mechanism to Ensure Independent Views of Directors

To ensure that the Board can obtain independent views and opinions, our Company has established various formal and informal channels whereby independent non-executive directors can express their opinions in an open and candid manner, and in a confidential manner, should circumstances require.

Independent non-executive Directors provide constructive suggestions to the Board based on objective judgment through formal and informal channels to improve the efficiency and decision-making of the Board. According to the rules of proceedings of the Board, the views of independent non-executive Directors shall be recorded separately for resolutions which require independent non-executive Directors to express their special views. If the views of independent non-executive Directors are inconsistent, their views shall be recorded respectively. For resolutions which are required to be disclosed, the views of independent non-executive Directors shall be disclosed separately.

Induction and Development

In compliance with the code provision C.1.4 of the CG Code, all Directors shall participate in continuous professional development to develop and refresh their knowledge and skills to ensure that they keep abreast of the current requirements of the Listing Rules and other applicable laws and regulations. All new Directors will receive an induction package covering the regulatory obligations of a director of a listed company. The Company shall provide updates to the Directors and senior management on the material changes to the Listing Rules and other applicable regulatory requirements. Circulars and guidance notes may be issued to Directors and senior management of the Company where appropriate, to ensure awareness of best corporate governance practices as well as the Listing Rules.

All Directors have participated in appropriate continuous professional development programs for the year 2022 to develop and refresh their knowledge and skills and received regular briefings and updates on the Group's business, operations, risk management and corporate governance matters. All Directors are requested to provide the Company with their respective training records pursuant to code provision C.1.4 of the CG Code.

(D) Chairman and Chief Executive

Pursuant to code provision C.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual.

In considering that (a) the day-to-day responsibilities of the chief executive officer have been assumed by Ms. Zhao Shu, who is also the chairlady of the Company; and (b) Ms. Zhao Shu is the chairlady of the Group and has extensive experience in the Group's business operations and management in general, there is no separation of the roles of the chairlady and the chief executive officer of the Company. Given the current stage of the development of the Group, the Board is of the view that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group's business strategies which are in the best interests of the Company.

CORPORATE GOVERNANCE REPORT

Under the leadership of Ms. Zhao Shu, the Board works efficiently and performs its responsibilities with all key and appropriate issues discussed in a timely manner. In addition, as all major decisions are made in consultation with members of the Board and relevant Board committees, and there are three independent non-executive Directors on the Board offering independent perspective. The Board is of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board shall nevertheless review the structure and composition of the Board from time to time in light of prevailing circumstances, as to maintain a high standard of corporate governance practices of the Company.

(E) Appointment and Re-Election of Directors

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

All executive Directors have entered into service contracts with the Company for a term of three years until terminated in accordance with the terms of the service contracts. Under the service contracts, either party may terminate such contract at any time by giving the other not less than three months' notice in writing.

Following the amendments to the CG Code which took effect on 1 January 2022, non-executive Directors are no longer required to be appointed for a specific term.

In accordance with article 84.1 of the articles of association of the Company, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Ms. Zhao Shu and Mr. Ong Chor Wei shall retire by rotation at the forthcoming annual general meeting.

(F) Board Committees

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

- a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- b) to review and monitor the training and continuous professional development of Directors and senior management;
- c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;
- d) to develop, review and monitor the code of conduct applicable to Directors, senior management and employees of the Company; and
- e) to review the Company's compliance with the CG Code and its disclosure in this annual report.

In compliance with the CG Code, the Company has established three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference. These committees perform their distinct roles in accordance with their respective terms of reference which are available on the websites of the Company and the Stock Exchange. All Board committees should report to the Board on their decisions or recommendation made.

Audit Committee

The Company established an Audit Committee on 19 October 2015 with written terms of reference in compliance with Rule 3.21 of the Listing Rules. The latest terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange. As at the date hereof, the Audit Committee consists of three independent non-executive Directors, namely Ms. Chan Yeuk Wa (being the chairlady of the Audit Committee, who has appropriate professional qualification under Rules 3.10(2) of the Listing Rules), Mr. Li Min and Mr. Ong Chor Wei.

The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process system, internal control and risk management systems of the Group, to oversee the audit process, to develop and review the policies of the Group and to perform other duties and responsibilities as assigned by the Board. In particular, the Audit Committee is empowered under its terms of reference to review any arrangement which may raise concerns about possible improprieties in financial reporting, internal control or other matters.

The Audit Committee held three meetings during the Reporting Period to review, among others, the financial results and reports, financial reporting and compliance procedures, internal control and risk management systems, appointment, remuneration, and scope of work of external auditors.

According to code provision D.3.3(e)(i) of the CG Code and the terms of reference of the Audit Committee, the Audit Committee must meet, at least twice a year, with the Company's auditors. The Audit Committee has met three times with the external auditors during the Reporting Period.

The Company's annual results for the year ended 31 December 2022 have been reviewed by the Audit Committee.

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

Remuneration Committee

The Company established a Remuneration Committee on 19 October 2015 with written terms of reference in compliance with Rule 3.25 of the Listing Rules. The latest terms of reference of the remuneration committee are available on the websites of the Company and the Stock Exchange. The Remuneration Committee consists of three members, being Mr. Li Min, Ms. Zhao Shu and Mr. Ong Chor Wei, two of whom are independent non-executive Directors. The Remuneration Committee is chaired by Mr. Li Min.

The primary duties of the Remuneration Committee include (but without limitation): (i) making recommendations to the Board regarding the policy and structure for the remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (ii) making recommendations to the Board on the remuneration packages of the Directors and senior management; (iii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives; and (iv) reviewing the Share Option Scheme of the Company under Chapter 17 of the Listing Rules.

The Remuneration Committee held one meeting during the Reporting Period, with all members thereof present, to review and make recommendations to the Board on the existing remuneration packages of all Directors and senior management. The attendance records of each member of the Remuneration Committee are set out in the section "Attendance Record of the Directors" above.

CORPORATE GOVERNANCE REPORT

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

The remuneration bands	Number of Individuals	
	2022	2021
Nil to HK\$1,000,000	1	1
HK\$1,000,001 – HK\$1,500,000	1	1

Information on the emoluments of the Directors and the five highest paid individuals are set out in notes 13 and 14 to the consolidated financial statements.

Nomination Committee

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

The primary functions of the Nomination Committee include (without limitation): (i) reviewing the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board at least annually; (ii) reviewing the board diversity policy (the “**Board Diversity Policy**”); (iii) making recommendations to the Board on the appointment of members of the Board; and (iv) assessing the independence of independent non-executive Directors.

The Nomination Committee shall review the Board Diversity Policy and the measurable objectives at least annually, and as appropriate, to ensure the continued effectiveness of the corporate governance of the Board.

The following are the measurable objectives of the Company:

1. at least one member of the Board must be a female Director;
2. at least one-third of the Directors must be independent non-executive Directors; and
3. at least one Director must possess accounting or professional qualifications.

During the Reporting Period, all the above measurable objectives are achieved.

The Nomination Committee held one meeting during the Reporting Period, with all members thereof present, to assess the independence of independent non-executive Directors, and review the proposed re-appointment of Directors at the annual general meeting of the Company. The Board also discussed the above measurable objectives, including but not limited to skills, knowledge, professional experience and cultural and educational background, and agreed that these measurable objectives were achieved for the diversity of the Board which contributed to the corporate strategy and the business development of the Company.

The attendance records of each member of the Nomination Committee are set out in the section “Attendance Record of the Directors” above.

(G) Accountability and Audit

Directors' and Auditor's acknowledgement

The Board acknowledges its responsibilities for the preparation of the financial statements of the Group for each financial year, which should give a true and fair view of the state of affairs of the Company and the Group and of the results and cash flow for that year in compliance with relevant laws and applicable accounting standards.

In preparing the financial statements for the year ended 31 December 2022, the Directors have adopted appropriate and consistent accounting policies and made prudent and reasonable judgments and estimations. The financial statements for the Reporting Period have been prepared on a going-concern basis.

The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements of the Group prepared by the Board and to report their opinion to the Shareholders. A statement by the auditor about their reporting responsibilities is set out in the Independent Auditor's Report.

Auditor's Remuneration

For the year ended 31 December 2022, the fees paid/payable to CL Partners CPA Limited and SHINEWING CPA (HK) Limited (resigned on 18 November 2022) for the audit of the consolidated financial statements of the Group and other non-audit services is set out below: –

Type of services	Amount (HK\$)
Audit services	700,000
Non-audit services	–

Risk Management and Internal Control

The Board is responsible for the risk management and internal control system of the Group and for reviewing its effectiveness on an annual basis.

The Group's internal control system is designed to safeguard assets against misappropriation and unauthorised disposition and to manage operational risks. These systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. Internal control and risk management systems are reviewed annually to ensure its continuous effectiveness. The Group has in place a risk management framework which has the following five components: risk identification, risk assessment, risk treatment, risk reporting and risk monitoring.

The Company has outsourced the internal control auditing function as it is more cost-effective. During the Reporting Period, the Company engaged an external internal control consultant to conduct review on the effectiveness of the Group's internal control system and report the findings to the Audit Committee and the Board. A review of the effectiveness of the Group's system of internal control covering all key controls, including financial, operational and compliance and risk management controls, is conducted by rotation and performed annually. The examination consisted of enquiry, discussion and validation through observation and inspection. The result of the review has been reported to the Audit Committee and the Board and areas of improvement, if any, have been identified and appropriate measures have been put in place to manage the risks. Based on the reports from the Group's external internal control consultant, the Audit Committee and the Board consider the Group's risk management and internal control system is adequate and effective and the Group has complied with the provisions on risk management and internal controls as set out in the CG Code.

CORPORATE GOVERNANCE REPORT

The Board has reviewed the effectiveness of the risk management and internal control measures of the Group for the year ended 31 December 2022 to ensure that a sound system is maintained and operated by the management in compliance with the agreed procedures and standards.

Whistle Blowing Policy

To achieve and maintain the highest standards of openness, probity and accountability, the Company has adopted a whistle blowing policy on 19 October 2015. This policy aims to govern and deal with fairly and properly concerns raised by the Company's employees about any suspected misconduct or malpractice regarding financial reporting, internal control or other matters within the Company. The Audit Committee review such policy annually and ensure that arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

No incident of fraud or misconduct that have material effect on the Group's financial statements or overall operations for the year ended 31 December 2022 has been discovered.

Anti-Corruption Policy

The Company has also established policies and systems that promote and support anti-corruption laws and regulations. We require our employees to follow our employee manual and code of business conduct and ethics, which contains internal rules and guidelines regarding best commercial practice, work ethics, prevention mechanisms for fraud, negligence and corruption. We also carry out regular on-the-job compliance training to our senior management and employees to maintain a healthy corporate culture and enhance their compliance perception and responsibility. Our staff can anonymously report any suspected corrupt incident to the Company.

The anti-corruption policy is reviewed and updated periodically to align with the applicable laws and regulations.

(H) Board Diversity

The Board Diversity Policy was adopted by the Company on 19 October 2015, its purpose is to set out the basic principles to be followed to ensure that the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. Selection of Board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience.

The Nomination Committee will review the Board Diversity Policy and the measurable objectives at least annually, and as appropriate, make recommendations to the Board to ensure the continued effectiveness of the corporate governance of the Company.

(I) Gender Diversity

The Board currently has two female Director and as such has achieved gender diversity in respect of the Board. We will continue to strive to enhance female representation and achieve an appropriate balance of gender diversity with reference to the shareholders' expectation and international and local recommended best practices. We will also ensure that there is gender diversity when recruiting staff at mid to senior level and we are committed to provide career development opportunities for female staff so that we will have a pipeline of female senior management and potential successors to our Board in near future.

The Company plans to offer all-rounded trainings to female employees whom we consider to have the suitable experience, skills and knowledge of our operation and business, including but not limited to, business operation, management, accounting and finance, legal and compliance and research and development.

(J) Joint Company Secretaries

Mr. Liu Lianchao has been appointed as the joint company secretary since 8 May 2015. Mr. Liu is a full time staff of the Group and is responsible for ensuring and advising the Board on, compliance of all policies and procedures in connection with the applicable rules and regulations.

The Company has also engaged Ms. Yu Anne (“**Ms. Yu**”), an assistant manager of SWCS Corporate Services Group (Hong Kong) Limited, to act as a joint company secretary of the Company following the resignation of Mr. Wong Yu Kit on 29 August 2022. Ms. Yu is responsible for assisting Mr. Liu in performing his duties as the joint company secretary of the Company. Mr. Liu Lianchao is the primary point of contact of the Company for Ms. Yu.

For the year ended 31 December 2022, each of Mr. Liu and Ms. Yu has received not less than 15 hours of relevant professional training to update their knowledge and skills in compliance with Rule 3.29 of the Listing Rules.

The biographical details of Mr. Liu is set out under the section headed “Directors and Senior Management” of this annual report.

(K) Shareholders’ Right

Procedures for Shareholders to convene an extraordinary general meeting

- Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the “**Eligible Shareholder(s)**”) shall at all times have the right, by written requisition to the Board to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the extraordinary general meeting.
- Eligible Shareholders who wish to convene an extraordinary general meeting for the purpose of making proposals or moving a resolution at the extraordinary general meeting must deposit a written requisition (the “**Requisition**”) signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong at 40th Floor, Dah Sing Financial Centre, No. 248 Queen’s Road East, Wanchai, Hong Kong, for the attention of the Board.
- The Requisition must state clearly the name(s) of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) for convening an extraordinary general meeting, the agenda proposed to be included and the details of the business(es) proposed to be transacted in the extraordinary general meeting, signed by the Eligible Shareholder(s) concerned.
- The Company will check the Requisition and the identity and the shareholding of each Eligible Shareholder will be verified with the Company’s branch share registrar in Hong Kong. If the Requisition is found to be proper and in order, the company secretary will ask the Board to convene an extraordinary general meeting within 2 months and/or include the proposal or the resolution proposed by the Eligible Shareholder(s) at the extraordinary general meeting after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an extraordinary general meeting and/or include the proposal or the resolution proposed by the Eligible Shareholder(s) at the extraordinary general meeting.
- If within 21 days of the deposit of the Requisition the Board has not advised the Eligible Shareholder(s) of any outcome to the contrary and fails to proceed to convene such extraordinary general meeting, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the Articles of Association, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

CORPORATE GOVERNANCE REPORT

Procedures for putting forward proposals at general meetings

There are no provisions allowing the Shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Act. However, Shareholders who wish to propose resolutions may follow Article 58 of the Articles of Association for including a resolution at an extraordinary general meeting. The requirements and procedures are set out section headed “Procedures for Shareholders to convene an extraordinary general meeting” in this report.

Pursuant to Article 85 of the Articles of Association, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Hong Kong Branch Share Registrar and Transfer Office provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgement of such notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting. If a Shareholder wishes to propose a person (the “**Candidate**”) for election as a director of the Company at a general meeting, he/she shall deposit a written notice at the Company’s principal place of business in Hong Kong at 40th Floor, Dah Sing Financial Centre, No. 248 Queen’s Road East, Wanchai, Hong Kong or its Hong Kong Branch Share Registrar and Transfer Office at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong. The written notice must include the personal information of the Candidate as required by Rule 13.51(2) of the Listing Rules.

The procedures for Shareholders to propose a person for election as director is published on the Company’s website.

(L) Change in Constitutional Documents

The existing Articles of Association was adopted by the Board on 14 October 2015 and became effective on the Listing Date. A copy of the Articles of Association is available on the website of the Company and the Stock Exchange. During the year ended 31 December 2022, there was no significant change in constitutional documents of the Company.

Reference is made to the announcement of the Company dated 29 March 2023. The Board proposed to amend the existing Articles of Association for the purposes of, among others, (i) allowing general meetings to be held as an electronic meeting (also referred to as virtual general meeting) or a hybrid meeting; (ii) to bring the Articles of Association in line with amendments made to Appendix 3 of the Listing Rules and applicable laws and procedures of the Cayman Islands; and (iii) making certain minor housekeeping amendments to the Articles of Association for the purpose of clarifying existing practice and making consequential amendments in line with the amendments to the Articles of Association (collectively, the “**Amendments**”). Details of the proposed Amendments are set out in the Company’s circular dated 27 April 2023.

(M) Shareholder and Investor Relations

The Company is committed to providing the Shareholders and other stakeholders (including potential investors) with balanced and understandable information about the Group. The Company uses various communication methods to ensure its Shareholders are kept well informed of key business imperatives. These include general meetings, annual reports, interim reports, various notices, announcements and circulars. To ensure all Shareholders timely access to important corporate information, the Company utilises its corporate website to disseminate to the Shareholders information such as announcements, circulars and annual and interim reports. Any information or documents of the Company posted on the Stock Exchange’s website are also published on the Company’s website (www.china-denox.com) under the section headed “Investor Relations”. Other corporate information about the Company’s business developments, goals and strategies, corporate governance and risk management are also available on the Company’s website.

The Board continues to maintain regular dialogue with institutional investors and analysts to keep them informed the Group’s strategy, operations, management and plans.

CORPORATE GOVERNANCE REPORT

The annual general meeting and other general meetings of the Company provide a useful forum for Shareholders to exchange views with the Board. The Company provides Shareholders with relevant information on the resolution(s) proposed at a general meeting in a timely manner in accordance with the Listing Rules. The information provided shall be reasonably necessary to enable Shareholders to make an informed decision on the proposed resolution(s). Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at the meetings for and on their behalf if they are unable to attend the meetings. The chairlady of the Board and other Directors, the chairman/chairlady of board committees or their delegates, and the external auditors are available to answer Shareholders' questions at the annual general meeting. The chairman of the independent board committee or his/her delegate is also available to answer questions at any general meeting and to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

Shareholders may put forward their written enquiries to the Board. In this regard, the Shareholders may send those enquiries or requests as mentioned to the following:

Address: Room 1506-1, 12th Floor, Block 2, No. 128 Western South Fourth Ring Road, Fengtai District, Beijing 100070, PRC,
Fax: +86 10 88580859
Telephone: +86 10 88829058

DIRECTORS' REPORT

Principal Activities

The Company is an investment holding company with its principal subsidiaries engaged in design, development, manufacture and sales of DeNOx catalysts in the PRC. During the Reporting Period, there were no significant changes in the nature of the Group's principal activities.

The Group's management analysis report for 2022 and outlook on the work for 2023

I. Work overview of the Group for 2022

Despite the continued downturn in the global economy in 2022, and also under the political context of the Russia-Ukraine war, the global geopolitical and economic development encountered greater uncertainty. China's overall economy also experienced great difficulties in 2022 due to the impact of the pandemic and other economic situations at home and abroad, and delivered a year-on-year GDP growth of 3% in 2022, falling short of the set target. In 2022, there still existed fierce competition for DeNOx catalysts in the industrial field, but at the same time, new demand trends have emerged in some industries. The vehicle catalyst field as a whole was affected more seriously by the pandemic, and the vehicle catalyst market also experienced a sharp decline.

(I) *Traditional plate-type and honeycomb DeNOx catalysts*

1. Current market situation

(1) Electric power field

The DeNOx catalyst market in the thermal power field has completely entered the mature stage under a normal pattern, which is mainly the existing catalyst replacement market. Most of the orders for catalysts in the thermal power field come from regular projects without too stringent technical barriers, and the competition is becoming increasingly fierce. Thermal power catalyst projects support the fundamental development of the Group, and can dilute the Group's operating costs, despite the overall low gross profit. Therefore, the Group is also actively participating in the competition.

(2) Other industrial sectors

The market in other industrial sectors has generally experienced relatively steady development, and with the clarification of China's pollutant control indicators for all industries and over the passage of time, some industries such as cement and metallurgy will gradually enter the normal market stage. Other relatively small industrial sectors, such as alumina and glass, are characterized by small contract amount of an individual project, dispersion and numerosity, and therefore there is space for market expansion.

2. The Group's key work on plate-type and honeycomb DeNOx catalyst products

(1) Marketing and after-sale services

2022 was an extremely difficult year due to the impact of the pandemic, but the Group still made steady progress in marketing. As at 31 December 2022, the Group has completed catalyst technical solutions for 690 projects, submitted 168 official bids with customers such as power generation companies and local power plants, entered into a total of 85 supply contracts, and received payments for a total of 30 projects.

The outstanding achievements in the Group's market development in 2022 mainly include:

- Achieved a breakthrough performance with State Power Investment Corporation Limited ("SPIC") by signing contracts for two projects of Qinghe Power Plant and Yanshan Lake Power Plant with SPIC, thereby the business scope of the Group covered all the five major power groups.
- Following the breakthrough performance made in cement industry in 2021, the Group successfully expanded the application of DeNOx catalysts in cement industry by successively signing catalyst supply contracts for two projects.
- The Group successfully signed a DeNOx catalyst contract for a RTO (Regenerative Thermal Oxidizer) in Anshan, Liaoning, thereby achieving a breakthrough performance in RTO industry.
- The Group successfully entered into a cracking furnace DeNOx catalyst project in Baofeng, Ningxia, thereby achieving a breakthrough performance in petrochemical cracking industry.
- The Group successfully entered into a gas turbine DeNOx catalyst project, marking a start of the large-scale application in the gas turbine industry.

(2) Product manufacturing

In 2022, the total production volume of the Group increased steadily. Through constantly adopting various methods such as formula optimization, process adjustment, quality control, and improvement of personnel efficiency, the Group mitigated the pressure of increases in prices of some raw materials, thereby assuring the gross profit of plate-type catalysts and improving the gross profit of honeycomb catalysts.

DIRECTORS' REPORT

(II) Catalysts for diesel-powered vehicles and natural gas-powered vehicles

1. The Group's vehicle catalyst business was greatly affected by the overall market decline, and the newly developed customers for natural gas catalysts in the second half of 2021 were basically in a state of semi-suspension, which also resulted in the stagnation of the Group's natural gas catalyst orders throughout the year, and the Group only realised sales to certain small OEM customers and aftermarket customers in 2022.
2. In 2022, under the circumstance where the sales of vehicle catalysts of the Group were hindered, the Group strengthened the control of expenses and expenditures and carried out targeted product research and development for 3 strategic projects and 9 customer projects in the field of vehicle catalysts. Meanwhile, the Group also prepared in advance for the recovery of original customer orders, continued to carry out research and development, and strived to reduce the manufacturing cost of products.

II. Key work arrangements of the Group for 2023

(I) Plate-type and honeycomb DeNOx catalysts

1. In 2023, the Group will further strengthen its marketing efforts to enhance the brand awareness of Denox Catalyst through various channels and tools such as corporate Wechat account, company website, industry website, Baidu search, Google's platform, industry fairs and exhibitions, promotional videos, brochures, etc.
2. In 2023, the Group will continue to strengthen market expansion by further reinforcing regional marketing capabilities in the domestic market, and summarizing previous experience in the international market to establish an excellent sales team familiar with the rules and customer needs in international market, so as to pursue good achievements in both domestic and foreign markets.
3. The Group will monitor the market demand for new types of catalysts in the industrial field, and intensify the development of cutting-edge technologies in relevant industries. The Group will integrate internal and external technical resources to develop and market relevant products as soon as possible to achieve a better gross profit.

(II) Vehicle catalyst related products

1. Research and development

In 2023, the focus of the Group's research and development in vehicle catalysts will include:

- (1) Continue the development of catalyst products for China VI diesel-powered vehicles;
- (2) Continue the optimization and cost reduction of catalyst products for China VI natural gas-powered vehicles;
- (3) Carefully carry out the development of catalysts for proprietary projects and vehicle aftermarket;

2. Market development

In 2022, the pandemic dramatically impacted the market for all products along the commercial vehicle industry chain, which is expected to gradually recover in 2023. Under such circumstance, the Group will make efforts to restore the orders from customers in existing markets, and continue to vigorously develop new OEM customers and aftermarket.

3. Cost control

In light of the gradual recovery of the vehicle industry market in 2023, the Group will concentrate funds, manpower and other resources to ensure market exploitation and research and development of key projects, and further control various costs and expenses, striving to achieve a balance between broadening sources of income and reducing expenditure.

(III) Other key work of the Group

In 2023, the Group will further strengthen its daily management applying modern management tools and methods, including:

1. In terms of daily office management, improve work efficiency through Ding Talk system;
2. In terms of purchase, sales, inventory and financial management, ensure the accuracy, real-time sharing and real-time analysis of data through enterprise resource planning system;
3. In terms of production management, ensure production safety and overall production process control through distributed control system.

The above modern management tools and scientific remuneration assessment system will enable the management of the Group to perform management functions more efficiently, and thus lay a good foundation for the Group's further business improvement.

DIRECTORS' REPORT

FINANCIAL REVIEW

Revenue from contracts with customers

The following table sets forth revenue generated from sales of plate-type DeNOx catalysts, honey-comb DeNOx catalysts and DeNOx catalysts for vehicles in absolute amount and as percentages of total revenue for the years indicated:

	2022		2021	
	RMB'000	%	RMB'000	%
Plate-type DeNOx catalysts	51,945	82.7	34,373	48.1
Honey-comb DeNOx catalysts	9,551	15.2	18,310	25.6
DeNOx catalysts for vehicles	1,295	2.1	18,777	26.3
	62,791	100.0	71,460	100.0

The Group recorded a total revenue of approximately RMB62.8 million in 2022, representing a decrease of 12.1% as compared to approximately RMB71.5 million in 2021.

Revenue generated from sales of plate-type DeNOx catalysts increased to approximately RMB51.9 million, representing an increase of 50.9% as compared to approximately RMB34.4 million of the same period in 2021, which was primarily attributable to fluctuations in market demand. The average selling price of plate-type DeNOx catalysts per m³ increased by approximately 12.3% from RMB11,362 per m³ in 2021 to RMB12,758 per m³ in 2022, while the sales volume of plate-type DeNOx catalysts increased by approximately 22.4% from 3,791 m³ in 2021 to 4,642 m³ in 2022. The plate-type DeNOx catalysts market was mainly derived from power plants, steel plants, cement plants, etc.

Revenue generated from sales of honey-comb DeNOx catalysts decreased by 47.5% from approximately RMB18.3 million for the same period in 2021 to approximately RMB9.6 million in 2022, mainly due to fluctuations in market demand. The average selling price of honey-comb DeNOx catalysts per m³ decreased by approximately 5.2% from RMB14,239 per m³ in 2021 to RMB13,493 per m³ in 2022, and the sales volume of honey-comb catalysts decreased by approximately 38.8% from 1,299 m³ in 2021 to 795 m³ in 2022. The honey-comb DeNOx catalysts market was mainly derived from power plants, steel plants, cement plants, etc. The number of contracts signed for honey-comb DeNOx catalysts in 2022 increased significantly as compared with 2021, but due to the impact of various factors such as the pandemic, the obstruction of product delivery logistics and the lockdown of customers' construction sites, the revenue recognized for honey-comb DeNOx catalysts in 2022 decreased as compared with 2021.

In 2022, the Group recorded a revenue from sales of DeNOx catalysts for vehicles of approximately RMB1.3 million. The significant decrease in the revenue from DeNOx catalysts for vehicles as compared with 2021 was mainly attributable to the dramatical drop in the entire commercial vehicle industry chain due to the impact of the pandemic, and the sharp decline in the production volume of customers developed by the Group, resulting in the Group being almost unable to provide catalysts to existing customers. Under such circumstances, the Group continued to promote the research and development and trial production of China VI catalysts and related products while making every effort to control research and development expenses.

Gross profit

In 2022, the Group recorded a gross profit of approximately RMB13.4 million due to the increase in the production volume of honey-comb DeNOx catalysts, which in turn further resulted in the decrease in production costs. In 2021, the Group recorded a gross profit of approximately RMB12.2 million as a result of continued vicious market competition.

Selling and marketing expenses

Selling and marketing expenses primarily consist of transportation cost, consulting service expenses and employee benefit expenses, etc. The Group's sales and marketing expenses increased in 2022 as compared to 2021, mainly due to the increased product marketing efforts, representing 18.6% and 25.2% of the Group's total revenue from contracts with customers in 2021 and 2022, respectively.

Administrative expenses

Administrative expenses mainly consist of employee benefit expenses, depreciation and amortisation. The Group's administrative expenses decreased by 13.4% from approximately RMB20.2 million in 2021 to approximately RMB17.5 million in 2022 which was primarily attributable to the decrease in various intermediaries' fees.

Finance income/costs

Finance income includes interest income on bank balances and cash, restricted cash and bank deposits with original maturity over three months. Finance costs includes interest expenses on lease liabilities.

Loss attributable to the owners of the Company

As a result of the foregoing, the loss attributable to the owners of the Company increased by 91.1% from approximately RMB12.3 million in 2021 to approximately RMB23.5 million in 2022.

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	
	2022	2021
Current Ratio (Note 1)	2.1 times	2.4 times
Quick Ratio (Note 2)	0.8 times	1.3 times
Return on equity (Note 3)	N/A	N/A
Return on total assets (Note 4)	N/A	N/A

DIRECTORS' REPORT

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 of the Group 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 income attributable to owners of the Company for the year by the arithmetic mean of the opening and closing balance of total equity attributable to owners of the Company.
- (4) Return on total assets is calculated by dividing income attributable to owners of the Company for the year by the arithmetic mean of the opening and closing balance of total assets of the Group.

Current ratio and quick ratio

The Group's current ratio decreased from 2.4 times as at 31 December 2021 to 2.1 times as at 31 December 2022 and quick ratio decreased from 1.3 time as at 31 December 2021 to 0.8 times as at 31 December 2022. Such decrease was mainly due to the increase in down payment from customers of approximately RMB82.3 million as at 31 December 2021 to approximately RMB97.3 million as at 31 December 2022 because more sales contracts were awarded in the second half of 2022.

Return on equity and return on total assets

The Group did not record a return on equity and return on total assets in 2021 and 2022, as it has recorded a loss attributable to the owners of the Company for the years ended 31 December 2021 and 2022.

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 2022, the Group had net current assets of approximately RMB139.2 million (2021: approximately RMB151.7 million) of which cash and cash equivalents were approximately RMB24.0 million (2021: approximately RMB71.4 million) and were denominated in RMB, US\$, HK\$ and Euro€ as at 31 December 2022.

On 12 November 2015, the Company successfully listed its shares on the main board of The Stock Exchange of Hong Kong Limited (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.

Gearing Ratio

Our gearing ratio which is calculated by total borrowings divided by total assets was both nil as of 31 December 2021 and 31 December 2022.

Use of net proceeds from the Listing

As at 31 December 2022, net proceeds of the Group not utilised of approximately RMB26.1 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, taking into account the reallocations as set out in the announcements of the Company dated 28 December 2020 and 28 December 2022 respectively.

Purposes	Original allocation of net proceeds as stated in the Prospectus RMB'million	Re-allocation of net proceeds on 28 December 2020 (Note 1) RMB'million	Unutilized net proceeds as at 31 December 2021 RMB'million	Utilized net proceed during the year ended 31 December 2022 RMB'million	Unutilized net proceeds as at 31 December 2022 RMB'million	Reallocation in use of proceeds on 28 December 2022 (Note 1) RMB'million	New allocation for unutilized amount of net Proceeds RMB'million	Expected timeline for fully utilization of the remaining proceeds (Note 2)
Development of DeNOx catalysts for diesel-powered vehicles	78.6	78.6	3.5	75.1	3.5	(3.5)	–	N/A
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	–	21.9	–	–	–	N/A
Research and development	17.1	17.1	1.5	17.1	–	16.1	16.1	Fourth quarter of 2025
Expansion of the Group's sales network and establishment of the Group's regional sales offices in China as well as Europe	6.9	6.9	1.3	5.9	1	(1)	–	N/A
Replacement of the Group's No. 1 production line	5.1	3.5	–	3.5	–	–	–	N/A
Working capital and general corporate purposes	17.1	43	23.2	21.4	21.6	(11.6)	10	Fourth quarter of 2025
Total	171.0	171.0	29.5	144.9	26.1	–	26.1	

Note 1: The utilization of the net proceeds and the use of proceeds for unutilized amount of net proceeds from the Initial Public Offering was updated. For details, please refer the announcements of the Company dated 28 December 2020 and 28 December 2022.

Note 2: The expected timeline for fully utilization of the remaining proceeds was based on the best estimation of the future market conditions made by the Group. It would be subject to change based on the current and future development of market conditions.

Borrowings

The Group had no outstanding bank loans and other borrowings as at 31 December 2021 and 2022.

DIRECTORS' REPORT

Pledge of Assets

The Group had no pledged assets as at 31 December 2021 and 2022.

Capital expenditure and commitment

The Group incurred capital expenditure to expand its operations, maintain its equipment and increase its operational efficiency. For the year ended 31 December 2022, the Group had invested approximately RMB2.4 million for the purchase of property, plant and equipment (2021: approximately RMB6.1 million). These capital expenditures were financed by internal resources of the Group.

The Group did not have any capital commitments (2021: Nil) outstanding at 31 December 2022 not provided in the financial statements.

Contingent liabilities

The Group did not have any material contingent liabilities, guarantees and litigation as at 31 December 2021 and 2022.

Significant investments held, material acquisitions and disposals of subsidiaries, associates and joint ventures, and future plans for material investments or capital assets

Save as disclosed, there were no significant investments held, no material acquisitions of the Company or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

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

Employees and Remuneration

As at 31 December 2022, the Group had 182 employees (2021: 171). 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.

Important events affecting the Group after the Reporting Period

No important events affecting the Group has taken place since 31 December 2022 and up to the date of this annual report.

Principal Risks and Uncertainties

The Group's business, financial condition, results of operations and prospects may be affected by a number of risks and uncertainties.

The following section lists out the principal risks and uncertainties identified by the Group. It is a non-exhaustive list and there may be other risks and uncertainties further to the principal risk areas outlined below which are not presently known to the Group, or that the Group currently deems to be immaterial but could turn out to be material in the future.

Risks pertaining to the market price of plate-type DeNOx catalysts

The average selling price of plate-type DeNOx catalysts per m³ has experienced a drop from RMB25,080 per m³ in 2014 to RMB12,758 per m³ in 2022 due to market vicious competition. To compete effectively and maintain the Group's market share, the Group has reduced its selling prices. The Group's business and revenue growth is dependent on favourable market conditions in the PRC and therefore any potential decline in selling prices in the PRC could have a material adverse effect on its business, results of operations and financial condition.

Risks pertaining to the reliance on the major customers

The customer base of the Group is highly concentrated. Most of its customers are major coal-fired power plants, DeNOx EPC service providers and boiler manufacturers. For the year ended 31 December 2022, sales to the largest customer and five largest customers of the Group, which are the large state-owned power generation groups in China in aggregate accounted for approximately 15.3% and 39.1% of the Group's total revenue, respectively. Failure to maintain relationships with its major customers, adverse change in their business, investment strategies and/or reduction in the growth rate of their investment in DeNOx equipment may pose an adverse significant impact on the Group's business, financial conditions or results of operations.

Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions originally denominated and settled in RMB, of which foreign exchange risk is considered insignificant. The Group is exposed to foreign exchange risk primarily with respect to certain of its bank deposits which were denominated in HK\$, US\$ and Euro€. The Group did not carry out any hedging activities against foreign currency risk during the Period. Any substantial fluctuation in exchange rate of foreign currencies against Renminbi may have a financial impact to the Group.

Environmental Protection

The business operations of the Group are subject to various environmental, health and safety laws and regulations, which require it to undergo environmental impact assessments and review processes and implement environmental, health and safety programs and procedures to control risks associated with the design, construction and operation of the production facilities of the Group. Further, the Group has established an environmental protection and responsibility system, including adoption of effective measures to prevent and control exhaust gas, sewage, waste residues, dust or other waste materials, to discharge waste properly and to pay certain discharge fees in accordance with the PRC Environmental Protection Law and related regulations.

DIRECTORS' REPORT

Compliance with Laws and Regulations

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. The Audit Committee is delegated by the Board to monitor the Group's policies and practices on compliance with legal and regulatory requirements and such policies are regularly reviewed. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

The Board also paid attention to the Group's policies and practices on compliance with legal and regulatory requirements. The Group would seek professional legal advice from its legal advisers to ensure transactions and business to be performed by the Group are in compliance with the applicable laws and regulations.

The Group's operations are mainly carried out by the Company's subsidiaries in the mainland China while the Company itself is listed on the Stock Exchange. As far as the Company is aware, the Group has complied in material aspects with the relevant laws and regulations which have a significant impact on the business and operations of the Group during the year ended 31 December 2022.

Key Relationships with the Group's Employees, Customers and Suppliers

Workplace Quality

The Group is an equal opportunity employer and does not discriminate on the basis of personal characteristics. With an aim to enhancing the quality of the Board's performance by diversity, the board diversity policy was adopted in October 2015. Details of such board diversity policy are set out in the corporate governance report. Further, the Group has employee handbooks outlining terms and conditions of employment, expectations for employees' conduct and behaviour, employees' rights and benefits. The Group establishes and implements policies that promote a harmonious and respectful workplace.

The Company believes that the Directors, senior management and employees are instrumental to the success of the Group and that their industry knowledge and understanding of the market will enable the Group to maintain the competitiveness in the market. As such, the share option scheme was adopted by the Company on 14 October 2015 for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations. The Group provides on-the-job training and development opportunities to enhance its employees' career progression. Through different trainings, staff's professional knowledge in corporate operations, occupational and management skills are enhanced. The Group also organised charitable and staff-friendly activities for employees, such as annual dinner, to promote staff relationship. The Group provides on providing a safe, effective and congenial working environment. Adequate arrangements, trainings and guidelines are implemented to ensure the working environment is healthy and safe. The Group provided health and safety communications for employees to present the relevant information and raise awareness of occupational health and safety issues.

The Group values the health and well-being of its staff. In order to provide employees with health coverage, its employees are entitled to medical insurance benefits.

Relationships with the Group's other stakeholders

The Group maintains good relationships with existing and potential customers (including the major customers) as understanding of the market trends would enable the Group to monitor and respond to change in a timely manner, which are crucial to the development and success of the Group.

Results and Appropriations

The results of the Group for the year ended 31 December 2022 are set out in the accompanying financial statements on page 106.

Final Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: 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, 16 June 2023 (the **"Annual General Meeting"**), the register of members of the Company will be closed from Tuesday, 13 June 2023 to Friday, 16 June 2023, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the Annual General Meeting, all transfers documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on Monday, 12 June 2023.

Financial Summary

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years is set out on page 179.

Property, Plant and Equipment

Details of the movements in property, plant and equipment during the year ended 31 December 2022 are set out in note 17 to the consolidated financial statements.

Share Capital

Details of the share capital of the Group and the Company are set out in the section headed "Consolidated Statement of Changes in Equity" of this annual report and note 31 to the consolidated financial statements.

Major Customers and Suppliers

For the year ended 31 December 2022, the aggregate sales attributable to the largest customer and the five largest customers of the Group accounted for approximately 15.3% and 39.1% of the Group's aggregate revenue respectively, while the aggregate purchases attributable to the largest supplier and the five largest suppliers of the Group accounted for approximately 22% and 51.6% of the Group's aggregate purchases respectively.

None of the Directors, their close associates or any Shareholder (whom to the knowledge of the Directors owns more than 5% of the total number of the issued Shares) had any interests in the Group's five largest customers or suppliers.

DIRECTORS' REPORT

Dividend Policy

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

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

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

Share Option Scheme

On 14 October 2015, the Company adopted a share option scheme (the "**Share Option Scheme**") whereby the Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares to (a) full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; (b) any directors (including independent non-executive Directors) of the Company or any of its subsidiaries; and (c) any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries (the "**Eligible Participants**") as described in the Share Option Scheme in order to serve as incentives or rewards for their contribution or potential contribution to the Company and/or any of its subsidiaries. An option may be accepted by an Eligible Participant not later than 30 days after the date on which such option is offered in writing to such Eligible Participant. Upon acceptance of the option, the grantee shall pay HK\$1 (or an equivalent amount in RMB) to the Company by way of consideration for the grant. Details of the Share Option Scheme are set out below:

(a) Maximum number of Shares available for issue

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 49,403,700 Shares, representing 10% of the total number of Shares as at the date of this report, respectively, excluding for this purpose Shares which may have been issued upon the exercise of the options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may: (i) renew this limit at any time to 10% of the Shares in issue as of the date of the approval by the Shareholders in general meeting; and/or (ii) grant options beyond the 10% limit to Eligible Participants specifically identified by the Board.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of the Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditor of the Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of the Company in accordance with the terms of the Share Option Scheme whether by way of consolidation, capitalisation issue, rights issue, sub-division or reduction of the share capital of the Company but in no event shall exceed the limit prescribed in this paragraph.

(b) Maximum number of options to each Eligible Participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to: (i) the issue of a circular by the Company which shall comply with Rules 17.03(4) and 17.06 of the Listing Rules containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his/her close associates (or his/her associates if such Eligible Participant is a connected person) (as defined in the Listing Rules) abstaining from voting.

(c) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of: (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

DIRECTORS' REPORT

(d) Granting options to connected persons

Any grant of options to a Director, chief executive or substantial Shareholder of the Company or any of their respective associates is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). If the Board proposes to grant options to a substantial Shareholder or any independent non-executive Director or their respective associates which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Listing Rules of the Shares in issue; and (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of the Shares at the date of each grant, such further grant of options will be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting by way of a poll at which all connected persons of the Company shall abstain from voting in favor of the resolution concerning the grant of such options at the general meeting, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

(e) Time of exercise of Option and duration of the Share Option Scheme

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from 14 October 2015. The remaining life of the Share Option Scheme is around 2 years and 7 months.

(f) Details of any options granted, exercised, canceled or lapsed under the Share Option Scheme

During the Reporting Period and up to the date hereof, no share options share has been granted, exercise, canceled or lapsed under the Share Option Scheme. As of 31 December 2021 and 2022, the Company has no outstanding share option under the Share Option Scheme.

Directors

The Directors during the Reporting Period and up to the date of this annual report were:

Executive Directors

Ms. ZHAO Shu (*Chairlady*)

Mr. KONG Hongjun (resigned on 18 March 2022)

Mr. LI Ke

Non-executive Directors

Mr. LI Xingwu

Mr. TEO Yi-Dar (resigned on 25 February 2022)

Independent non-executive Directors

Ms. CHAN Yeuk Wa

Mr. LI Min

Mr. ONG Chor Wei

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

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

Changes to Information of Director

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in the information of Directors and chief executives of the Company subsequent to the date of the 2021 annual report of the Company and up to the date of this report are set out below:

Please refer to the section headed "DIRECTORS AND SENIOR MANAGEMENT" of this annual report for the updated details.

Confirmation of Independence

The Company has received, from each of the independent non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors independent.

Directors' Service Contracts

All Directors have entered into service contracts or letter of appointment with the Company for an initial term of three years until terminated in accordance with the terms of the service contracts or letter of appointment. Under the service contracts or letter of appointment, either party may terminate such contract at any time by giving the other not less than three months' notice in writing.

DIRECTORS' REPORT

None of the Directors (including any Director who may be proposed for re-election at the forthcoming Annual General Meeting) has entered into any service agreement with the Company which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Retirement Benefit Plans

The Group operates a mandatory provident fund scheme (the “**MPF Scheme**”) in Hong Kong. The Group also participates in an employee social insurance plan as required by the regulations in the PRC, under which the Group is required to contribute a specific percentage of the salaries of its employees to the retirement scheme, and the level of contributions are not reduced by contributions forfeited by those who leave the plans prior to vesting fully in the contributions. Details of the retirement benefit plans of the Group are set out in notes 3 and 34 to the consolidated financial statements.

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

As at 31 December 2022, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the SFO, which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and chief executive of the Company were taken or deemed to have under such provisions of the SFO, or which are recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Directors	Capacity	Number of Shares held (Note 1)	Approximate percentage of shareholding (Note 2)
Ms. Zhao Shu (“ Ms. Zhao ”)	Beneficial owner	24,612,477 (L)	4.98%
	Interest in controlled corporation (Note 3)	153,031,609 (L)	30.98%
Mr. Li Xingwu (“ Mr. Li ”)	Interest in controlled corporation (Note 4)	51,075,015 (L)	10.34%
Mr. Li Ke	Interest in controlled corporation (Note 5)	2,962,474 (L)	0.60%

Notes:

- The letter “L” denotes the person's long position in the Shares.
- The percentages are calculated based on 494,037,000 Shares in issue as at 31 December 2022.
- These 153,031,609 Shares are held by Advant Performance Limited which is wholly owned by Ms. Zhao. Ms. Zhao is deemed to be interested in these Shares by virtue of the SFO.
- These 51,075,015 Shares are held by EEC Technology Limited which is wholly owned by Mr. Li. Mr. Li is deemed to be interested in these Shares by virtue of the SFO.
- These 2,962,474 Shares are held by Fine Treasure Asia Holdings Limited (“**Fine Treasure**”) which is wholly owned by Mr. Li Ke. Mr. Li Ke is deemed to be interested in these Shares by virtue of the SFO.

Save as disclosed above, as at 31 December 2022, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or were recorded in the register required to be kept pursuant to section 352 of the SFO, or is otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests in Securities

As at 31 December 2022, so far as the Directors were aware of, the following persons' (other than the Directors and chief executive of the Company) interests or short position in the Shares and underlying shares of the Company, being interests of 5% or more, as recorded in the register required to be kept pursuant to section 336 of the SFO were as follows:

Name of Shareholder	Capacity	Number of Shares held (Note 1)	Approximate percentage of shareholding (Note 2)
Advant Performance Limited	Beneficial owner	153,031,609 (L)	30.98%
EEC Technology Limited	Beneficial owner	51,075,015 (L)	10.34%

Notes:

1. The letter "L" denotes the person's long position in the Shares.
2. The percentages are calculated based on the 494,037,000 Shares in issue as at 31 December 2021.

Save as disclosed above, as at 31 December 2022, the Directors were not aware of any other person (other than the Directors or chief executive of the Company) having an interest or short position in the Shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

Equity Linked Agreements

Save as disclosed in the section headed "Share Option Scheme", no equity linked agreements were entered into during or subsisted at the end of the year ended 31 December 2022.

Environmental Policies and Performance

The Board has overall responsibility for the Group's environmental, social and governance, (the "ESG") strategy and reporting, and is responsible for the Group's ESG risk management and internal control systems to ensure that the ESG strategies and reporting requirements are met. The details of the ESG performance of the Group as set out in the ESG section of this annual report.

DIRECTORS' REPORT

Directors' Right to Acquire Shares or Debentures

Save for the Share Option Scheme as disclosed in this annual report, at no time during the year ended 31 December 2022 was the Company, its subsidiaries, holding companies or fellow subsidiaries a party to any arrangements to enable Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

Directors' Interests in Transactions, Arrangements and Contracts

No transactions, arrangements or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director or his/her connected entity had a material interest, whether directly or indirectly, subsisted at any time during the Reporting Period.

Controlling Shareholders' Interests in Contracts

No contracts of significance between the controlling shareholder of the Company or any of its subsidiaries and the Group had been made during the Reporting Period.

Permitted Indemnity Provision

Under the Articles of Association, every Director or other officers of the Company acting in relation to any of the affairs of the Company shall be entitled to be indemnified against all actions, costs, charges, losses, damages and expenses which he/she may incur or sustain in or about the execution of his/her duties in his/her office. The Company has arranged appropriate insurance cover in respect of legal action against its Directors and officers.

Competing Business

A deed of non-competition dated 25 October 2015 (the "**Deed of Non-Competition**") was entered into between the Company and the controlling Shareholders, namely Ms. Zhao Shu and Advant Performance Limited, who have undertaken to the Company that she/it would not, and would procure her/its close associates (other than members of the Group) not to directly or indirectly be involved in or undertake any business (other than the Group's business) that directly or indirectly, competes, or may compete, with the Group's business or undertaking, or hold shares or interest in any companies or business that compete directly or indirectly with the business engaged by the Group from time to time, unless otherwise permitted according to the Deed of Non-Competition. The Company has received an annual written confirmation from each of the controlling Shareholders in respect of the compliance by them and their close associates with the Deed of Non-Competition.

Each of Ms. Zhao Shu and Advant Performance Limited, the controlling shareholders (within the meaning of the Listing Rules) of the Company, has confirmed to the Company that each of them and its close associates has complied with the non-compete undertaking given by her/it to the Company under the Deed of Non-competition. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the year ended 31 December 2022.

Other than the Group's business, none of the Directors or their respective associates have any interests in any business that competes or is likely to compete with the Group's business during the year ended 31 December 2022.

Related Party Transactions

Details of the related party transactions entered into by the Group during the year ended 31 December 2022 are set out in Note 36 to the consolidated financial statements, and none of these related party transactions constituted a connected transaction or continuing connected transaction pursuant to Chapter 14A of the Listing Rules.

Distributable Reserves

The Company has no distributable reserve as at 31 December 2022 (2021: Nil).

Purchase, Sale or Redemption of Listed Securities

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

Compliance with the Model Code

The Company has adopted the the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") in Appendix 10 of the the Rules Governing the listing of Securities in the Stock Exchange (the "**Listing Rules**") as its own code of conduct regarding directors' securities transactions. Having made specific enquiries to all the Directors of the Company, each of the Directors has confirmed that he/she has complied with the required standards set out in the Model Code during the Reporting Period and up to the date of this report.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this report, the Company has maintained the prescribed public float as required by the Listing Rules.

Donations

During the Reporting Period, our Group made no charitable and other donations.

Review by the Audit Committee

The audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive Directors, namely, Ms. Chan Yeuk Wa, Mr. Li Min and Mr. Ong Chor Wei. Mr. Ong Chor Wei is an independent non-executive Director with appropriate professional qualification under Rules 3.10(2) and 3.21 of the Listing Rules. Ms. Chan Yeuk Wa is the chairlady of the Audit Committee.

The Audit Committee has reviewed the audited financial statements of the Company for the year ended 31 December 2022 in conjunction with the Company's auditor and management and has also discussed auditing, risk management, internal control and financial reporting matters including accounting practices and principles adopted by the Group.

DIRECTORS' REPORT

Change of Auditor

CL Partners CPA Limited ("**CL Partners**") was appointed as the auditor of the Company following the resignation of SHINEWING (HK) CPA Limited on 18 November 2022 and will hold office until the conclusion of the next annual general meeting of the Company. For further details, please refer to the announcement of the Company dated 21 November 2022.

On behalf of the Board

Zhao Shu

Chairlady

Hong Kong, 29 March 2023

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Executive Directors

Ms. Zhao Shu (趙姝), aged 57, was appointed as a Director on 7 November 2014 and was re-designated as an executive Director on 19 October 2015. She is primarily responsible for the overall management of the Group. Ms. Zhao is the chairlady of the Board, the chief executive officer and authorised representative of the Company, the chairlady of the Nomination Committee and a member of the Remuneration Committee. Ms. Zhao is also the general manager of Beijing Denox and Gu'an Denox Environmental Equipment Manufacturing Co., Ltd. ("**Gu'an Denox**"). Ms. Zhao has over 24 years of experience in the environmental protection industry. Prior to joining the Group, Ms. Zhao held various positions in the 5th Design and Research Institute of China Ordnance Industry (中國兵器工業第五設計研究院), now known as China Wuzhou Engineering Corporation Ltd. (中國五洲工程設計有限公司), a company providing integrated services for engineering construction, from August 1988 to February 1998 where she last served as an engineer and was primarily responsible for coordinating with different professionals to complete the whole design of power projects. From February 1998 to December 2004, Ms. Zhao held various positions in China Huadian Engineering Co., Ltd. (中國華電工程(集團)有限公司), a prime contractor for project construction and service applied in the industry of electronic power, petrification, harbor, metallurgy, mining, civilian and new energy engineering where she last served as executive deputy general manager of its desulphurization business department and was primarily responsible for the implementation of the prime contracts and procurement contracts. From February 2005 to February 2006, Ms. Zhao served as the general manager assistant of Guohua Ebara Environmental Engineering Co., Ltd. (國華荏原環境工程有限責任公司), a company engaging in environmental engineering projects where she was primarily responsible for handling commercial and legal matters. From March 2006 to May 2011, Ms. Zhao held various positions in China Datang Technologies & Engineering Co., Ltd. (中國大唐集團科技工程有限公司), a prime contractor for the projects related to environmental protection for the power industry, including denitrification in power plants where she served as the general manager of its environmental affairs department until late 2010 and was primarily responsible for the management of the desulphurization and denitrification business. Ms. Zhao received her bachelor of engineering, majoring in engineering for thermal power conversion, from Shanghai Institute of Mechanism (上海機械學院), now known as the University of Shanghai for Science and Technology (上海理工大學) in July 1988. Ms. Zhao obtained the qualification as a senior project manager (高級項目管理師) granted by the Occupational Skills Appraisal Center from the Ministry of Labor and Social Security (勞動和社會保障部職業技能鑒定中心) in November 2006. Ms. Zhao is interested in 24,612,477 Shares. By virtue of the SFO, Ms. Zhao was deemed to be interested in 153,031,609 Shares held by Advant Performance Limited, a company wholly owned by Ms. Zhao.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Li Ke (李可), aged 55, was appointed as the Director on 9 February 2015 and was re-designated as an executive Director on 19 October 2015. Mr. Li is also the deputy general manager of Beijing Denox, Gu'an Denox and the Company. He is primarily responsible for the production management, equipment management, research and development and quality control of the Group. Prior to joining the Group, he was the assistant engineer of Scivic Engineering Corporation (機械工業第四設計研究院), a company engaged in the engineering management and supervision, from July 1991 to January 1994 where he was primarily responsible for the design of power stations. From February 1994 to January 2010, Mr. Li held various positions in Kurabo Denim (Zhuhai) Textile Co., Ltd. (倉紡(珠海)紡織有限公司), a company engaged in manufacturing of textile products, where he last served as the head of its engineering works department and was primarily responsible for the set-up and maintenance of the equipment and enhancement of technical alterations. Mr. Li received his bachelor of engineering from Southeast University (東南大學) in July 1991, majoring in thermal power engineering (電廠熱能動力工程) of power plants. Mr. Li was awarded the China Machinery Industry Science and Technology Award (Third Class) in October 2012. By virtue of the SFO, Mr. Li was deemed to be interested in 2,962,474 Shares held by Fine Treasure Asia Holdings Limited.

Non-executive Director

Mr. Li Xingwu (李興武), aged 56, was appointed as the Director on 7 November 2014 and was re-designated as a non-executive Director on 19 October 2015. Prior to joining the Group, Mr. Li held various positions in China National Electric Equipment Corporation (中國電工設備總公司), now known as China National Electric Engineering Co., Ltd. (中國電力工程有限公司), a company engaged in EPC contracting, complete equipment supply, engineering consultation, engineering design, project management and supervision, installation and commissioning, technical service, power plant maintenance and operation from July 1988 to January 2000 where he last served as project manager and was primarily responsible for providing technical support and advice to major projects and helping to promote technological innovation. From January 2000 to July 2009, Mr. Li served as project manager of General Machinery Development Co., Ltd. (通達機械有限公司), a trading company engaged in the sale of various types of general machinery, electrical equipment and instrument products, where he was primarily responsible for implementation and management of the transportation and water supplies projects. Since August 2009, Mr. Li founded Yu The Great Environmental Engineering (Beijing) Co., Ltd. (中禹環境工程(北京)有限公司), a contractor for construction projects where he serves as the chairman and is primarily responsible for strategic planning.

Mr. Li received his bachelor of engineering, majoring in engineering for thermal conversion, from Shanghai Institute of Mechanism (上海機械學院), now known as University of Shanghai for Science and Technology (上海理工大學) in July 1988. Mr. Li obtained the qualification as a senior engineer (高級工程師) in respect of construction of the thermal conversion granted by the Ministry of Mechanical Industry (機械工業部) in October 1998. By virtue of the SFO, Mr. Li was deemed to be interested in 51,075,015 Shares held by EEC Technology Limited, a company wholly owned by Mr. Li.

DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Ms. Chan Yeuk Wa (陳躍華), aged 52, was appointed as an independent non-executive Director on 30 June 2020. Ms. Chan is the chairperson of the Audit Committee. Ms. Chan has extensive experience in investment banking and commercial banking industry. From 1995 to 2006, she worked in Bank of China (Hong Kong) Limited and was responsible for marketing promotion and IPO Receiving Bank Service and Dividend Payment Services, and among others, mergers & acquisitions, privatization, shares repurchase and placing. From 2006 to 2009, Ms. Chan was the team head of IPO Service in the Commercial Business Management Department in Industrial and Commercial Bank of China (Asia) Limited, where she oversaw IPO and listing-related business and developed various banking products. From 2012 to 2019, Ms. Chan was a director and the chief executive officer at Partners Financial Holdings Limited, where she was responsible for various mergers & acquisitions transactions and establishment of private equity funds. Ms. Chan obtained a Master of Business Administration degree from the University of South Australia in 2004.

Mr. Li Min (李民), Ph.D. aged 54, was appointed as an independent non-executive Director on 1 November 2017. Mr. Li is the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee. Mr. Li has been a researcher at the Department of Energy and Power Engineering at the School of Vehicle and Traffic Engineering in Henan University of Science and Technology where he is currently an associate professor and is primarily responsible for teaching and researching on internal combustion engine vibration and noise control, internal combustion engine structure finite element simulation (CAE) and diesel engine tail gas treatment. From July 1991 to February 1996, Mr. Li Min was an assistant engineer Luoyang Yisuo Company Technology Center (洛陽一拖公司技術中心) where he was primarily responsible for engine testing and pump design work.

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

DIRECTORS AND SENIOR MANAGEMENT

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

Mr. Ong Chor Wei (王祖偉), aged 53, was appointed as an independent non-executive Director on 18 October 2015. Mr. Ong is a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Mr. Ong has over 30 years of experience in finance and accounting. He holds a Bachelor of Laws degree from The London School of Economics and Political Science, The University of London. Mr. Ong also holds a distance learning degree in Masters in Business Administration which was jointly awarded by The University of Wales and The University of Manchester. Mr. Ong is an associate member of The Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Ong is currently an executive director of Net Pacific Financial Holdings Limited and a non-executive director of Joyas International Holdings Limited, both of which are listed on the Singapore Exchange. He is also a non-executive director of GBA Holdings Limited (stock code: 261). He is also an independent non-executive director of Nameson Holdings Limited (stock code: 1982), Man Wah Holdings Limited (stock code: 1999) and Smart Globe Holdings Limited (stock code: 1481), all of which are listed on the Stock Exchange.

Mr. Ong was an independent non-executive director of O-Net Technologies (Group) Limited (stock code: 877), a company previously listed on the Stock Exchange and withdrawal of its listing status on 19 October 2022. He was also a non-executive director of Prosperous Printing Company (stock code: 8385) from 2016 to 2020, which is listed on GEM of the Stock Exchange. From 2017 to 2019, Mr. Ong was a non-executive director of Vico International Holdings Limited (stock code: 1621), a company listed on the Stock Exchange. He was also an executive director on a part-time basis of Zibao Metals Recycling Holdings Plc (a company trading on AIM, a market operated by the London Stock Exchange Plc) from 2014 to 2019.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Liu Lianchao (劉連超), aged 48, was appointed as one of the joint company secretaries and the authorised representative of the Company on 8 May 2015. Mr. Liu is also the deputy general manager of Beijing Denox, Gu'an Denox and the Company. Mr. Liu is primarily responsible for the management of human resources and company secretarial matters. Prior to joining the Group, Mr. Liu served as a technician of Daimler Chrysler Railway System Signal (Shenyang) Co., Ltd. (瀋陽戴姆勒克萊斯勒鐵路系統信號有限公司), a company principally engaged in the design of railway signaling system from June 1999 to March 2001, where he was primarily responsible for technical works.

From April 2004 to April 2005, Mr. Liu served as a manager of the human resources department of Zhejiang Putong Fuwu Shichang Co., Ltd. (浙江普通服務市場有限公司), a company providing the storage and distribution services, where he was responsible for the set-up of the distribution center and management of human resources. From February 2006 to April 2012, Mr. Liu served as an officer of the department of planning and development of China Datang Technologies & Engineering Co., Ltd. (中國大唐集團科技工程有限公司) where he was primarily responsible for planning and development. Mr. Liu received his bachelor of engineering, majoring in fluid power transmission and control, from Beijing University of Aeronautics and Astronautics (北京航空航天大學), now known as Beihang University, in July 1998. Mr. Liu received his master of business administration from Tongji University (同濟大學) in November 2004. Mr. Liu received his doctorate's degree of management, majoring in corporate management, from Renmin University of China (中國人民大學) in January 2011. Mr. Liu obtained the qualification as economist granted by the Personnel Bureau in November 2006.

Mr. Chen Qizhao (陳其照), aged 30, was appointed as the chief financial officer of the Company on 1 June 2020. Mr. Chen graduated from the University of Southern California in the United States in May 2015 majoring in Business Administration. During his time in university, he has successively interned in the investment banking department of Huachuang Securities Co., Ltd. in Beijing, SEAVI Advent in Singapore, and the investment and financing department of CITIC Bank International in Shanghai, and has accumulated working experiences in project due diligence and China investment analysis, corporate initial public offering, and convertible bond and trust business. Mr. Chen has served as a financial manager in the financial department of the Company since he graduated from university, and his main duties are to make use of financial data to optimise the Company's operation management, reduce the Company's operational risks, and improve the Company's profitability. Mr. Chen is the son of Ms. Zhao Shu, the Chairlady and an executive Director of the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. About the Environmental, Social and Governance Report

This is the sixth Environmental, Social and Governance (“**ESG**”) Report (the “**ESG Report**”) of Denox Environmental & Technology Holdings Limited (the “**Company**”). The ESG Report illustrates the sustainability strategies and performance of the Company and its subsidiaries (collectively, “**we**” or the “**Group**”) regarding ESG aspects. The ESG Report should be read together with the Corporate Governance Report to have a holistic picture of the ESG performance of the Group. The ESG Report has been reviewed and approved by the Board of Directors.

1.1. Reporting Boundary

The reporting scope of the ESG Report covers the Company and its subsidiaries, including Beijing Denox Environmental & Technology Co., Ltd (“**Beijing Denox**”) and Gu’an Denox Environmental Equipment Manufacturing Co., Ltd (“**Gu’an Denox**”). The ESG Report includes the office operation and the research and development, manufacturing, and sales of DeNOx catalysts. The reporting period of the ESG Report is from 1 January 2022 to 31 December 2022 (the “**Reporting Period**”), which is consistent with the Annual Report 2022.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1.2. Reporting Guideline

The ESG Report is prepared in accordance with Appendix 27 Environmental, Social and Governance Reporting Guide (the “**ESG Guide**”) to the Listing Rules issued by the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in 2022. The ESG Report follows the mandatory disclosure requirements and “comply or explain” provisions of the ESG Guide of the Stock Exchange and the Group has followed the four reporting principles consisting of materiality, quantitative, balance and consistency in preparing the ESG Report.

Materiality

- The ESG Report focuses on responding to the material issues that concern our stakeholders. Therefore, we have identified the material issues through materiality assessment, including conducting stakeholder engagement through questionnaires and determining material issues by the Board of Directors. The detailed materiality assessment process and results are described in Chapter 2.4.2 “Materiality Assessment”.

Quantitative

- To evaluate our environmental and social performance, we provide the key performance indicators (“**KPIs**”) during the Reporting Period, and disclose information on the standards, methodologies, assumptions and/or calculation tools and source of conversion factors used, for the reporting KPIs.

Balance

- The ESG report should provide an unbiased picture of our performance. The ESG Report should avoid selections, omissions, or presentation formats that may inappropriately influence a decision or judgment of the report reader.

Consistency

- We adopt consistent calculation methods used in previous reporting periods, providing meaningful comparisons of our environmental and social performance.

1.3. Reporting Language

The ESG Report is published in Traditional Chinese and English versions. If there is any ambiguity between the two versions, the Traditional Chinese version shall prevail.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

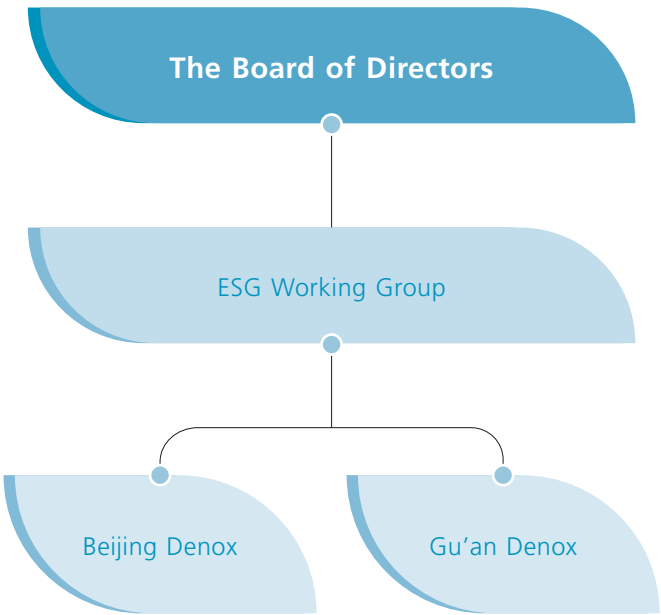
2. Governance in Sustainable Development

The Board of Directors of the Company has incorporated sustainable development governance matters into our important agenda. During the Reporting Period, we have deeply integrated ESG issues into our corporate governance framework, supporting the Group to progress toward sustainable development. At the same time, to further ensure transparency and accountability of all of our operational activities, the Board of Directors of the Company adheres to principles of corporate governance, benchmarks law and commercial standards, and maintains a continuous attention on areas including internal monitoring, fair disclosure, and responsibility to all shareholders.

During the Reporting Period, in order to prioritize stakeholder interests, the Group conducted surveys and studies on stakeholders, assessed and weighed material issues, and responded to various aspects of these stakeholders’ focused concerns in ESG Report. We determine the Company’s critical ESG risks through ESG risk assessment and manage these risks effectively and comprehensively. The Board of Directors will regularly review and oversee the status and progress of ESG Targets.

2.1. ESG Governance Structure

A compendious and effective ESG governance structure can help the Group better respond to and implement relevant ESG governance strategies and measures. We have built a top-down ESG governance structure to meet the needs. The Group’s ESG governance structure is as follows:



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Board of Directors serves as the highest decision-making body for ESG issues within the Group and is responsible for overseeing ESG issues. The Board of Directors is responsible for setting the overall ESG management targets, management strategies, and management policies, as well as supervising and approving management policies, management strategies, and reports of ESG. To fully play the role of the Group's regulatory mechanism for ESG issues and to assist the Board of Directors in guiding and implementing governance functions of ESG matters, an ESG Working Group authorized by the Board of Directors has been established. The ESG Working Group is chaired by the Secretary of the Board of Directors of the Group and consists of functional department heads of the Group. And responsibilities of the ESG Working Group include:

- To develop and review the ESG management policies and strategy in a timely manner
- To identify, assess and manage ESG risks and opportunities related to the Group
- To set ESG targets and to review progress and performance on ESG Targets
- To identify, assess and manage the Group's ESG issues
- To prepare ESG reports

The ESG Working Group regularly reports to the Board of Directors on important ESG issues and work situations to ensure that the Board of Directors is informed of ESG work situations in a timely manner, and discusses and decides on important ESG matters. The ESG Working Group is also responsible for facilitating and coordinating the implementation and execution of ESG work of the functional departments of the Group, and has achieved the continuous integration of sustainable development concepts into daily operations.

2.2. ESG Risk Assessment and Management ESG

The Board of Directors of the Company is responsible for the overall management of risk and internal control systems within the Group and also reviews the effectiveness of the Company's ongoing operational benchmarks. In addition, the Board of Directors of the Company recognizes industrial ESG risks and incorporates ESG risk management into its existing risk management system and internal control systems. Through effective operation of its risk management and internal control processes, the Board of Directors of the Company identifies, assesses, prioritizes, and manages significant risks and derivative risks of ESG issues during the process of achieving its business objectives.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, the Group conducted an ESG risk assessment by reviewing the ESG risk results of 2021. Based on analysis of the results, we identified the prioritization of ESG risks for the Company and effectively recognized important ESG risks. Among these risks, the Probity and Preventive Mechanism Risk and Employee Health and Safety are the ESG risks of highest importance to the Group.

The Group has identified the following ESG risks that are critically important to its operations and business during the Reporting Period and reviewed relevant management measures to ensure that such risks are effectively controlled:

Risk	Risk level	Risk Impact	Management Measures
Probity and Preventive Mechanism Risk	High	The inadequate establishment of systems, insufficient probity measures, and lax supervision and constraints can result in misconduct, abuse of power, and corrupt behaviour, which can harm corporate interests.	<ul style="list-style-type: none"> The Group has now developed the <i>Anti-Corruption and Anti-Bribery Control Procedures</i> to promote awareness of ethical conduct among employees and stakeholders and provide relevant probity training. The training materials are sent via email and online courses to ensure that employees understand the relevant regulations. In addition, the Group requires employees to adhere to fair and legal business ethics and sign the <i>Anti-Bribery/Corruption Commitment</i> with key personnel. For high-risk procurement activities, the Group has also developed the <i>Code of Conduct for Procurement Personnel of the Company</i>, which strictly regulates the professional conduct of procurement personnel and prohibits corrupt behavior. All suppliers, service providers, and contractors who have business dealings with the Group are required to sign the <i>Supplier Anti-Bribery/Corruption Commitment</i>.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Risk	Risk level	Risk Impact	Management Measures
			<ul style="list-style-type: none"> Regarding anti-corruption and bribery, the Group has established a reporting box and hotline to encourage employees and partners to report corrupt behavior and protect the rights of whistleblowers. The Group's <i>Anti-Corruption and Anti-Bribery Control Procedures</i> explain the methods of reporting improper behavior, investigation procedures, and corresponding handling methods. If the reported behavior is found to be illegal, it will be handed over to the judicial authorities for processing. The Group has developed the <i>Corporate Integrity and Self-discipline Management System</i> to promote lawful operation, create a clean and efficient work atmosphere, and strengthen corporate integrity building.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Risk	Risk level	Risk Impact	Management Measures
Employee Health and Safety	High	If a company does not have sound and rigorous safety management policies or emergency plans, it may increase the frequency and severity of factory safety accidents. Safety accidents can damage the company's reputation, and the Company may need to pay huge compensation.	<ul style="list-style-type: none"> The Group adheres to the principle of "safety first" and regards ensuring the safety of employees as the most important prerequisite and is committed to providing employees with a safe working and living environment. The Group strictly complies with laws and regulations related to the prevention of occupational hazards, such as the <i>Occupational Disease Prevention and Control Law of the People's Republic of China</i> and the <i>Measures for the Diagnosis and Identification of Occupational Diseases</i>, which have a significant impact on the Group's avoidance of occupational hazards. During the Reporting Period, the Group did not receive any reports of violations of the above laws and regulations. In addition, the Group has strictly formulated and implemented the <i>Occupational Health Management System</i>, which identifies occupational hazards and takes corresponding preventive measures to protect the health of employees and actively improve the safety of the Group's work environment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.3. ESG Management System, Targets and Performance ESG

The Group has always been committed to building a comprehensive and robust management system for quality, environment, and occupational health and safety, with the aim of continuously strengthening the foundation for our sustainable development. The management system of quality, environment, occupational health, and safety established by the Group is in accordance with the GB/T 19001-2016/ISO 9001: 2015 *Quality Management System Requirements*, the GB/T 24001-2016/ISO 14001: 2015 *Environmental Management System Requirements with Guidance for Use* and GB/T45001-2020/ISO 45001: 2018 *Occupational Health and Safety Management System Requirements with Guidance for Use*. The Group regularly reviews and updates the systems to ensure that it meets the latest national and regulatory standards. Beijing Denox and Gu'an Denox have been audited by third-party institution and have obtained relative certifications in quality management system, environmental management system and occupational health and safety management system.

To promote the realization of sustainable development strategy, the Group has established annual directional and quantitative targets for quality, environment, and occupational health and safety. We have assigned responsibilities and set deadlines for achieving these targets among relevant functional departments to ensure on-time completion, and we regularly review the progress of our targets set. The Board of Directors of the Company takes responsibility for monitoring and reviewing the progress and performance of the environmental directional targets set by the Group. During the Reporting Period, the ESG Working Group has overseen and monitored the specific actions and measures taken to achieve the environmental directional targets, ensuring continued progress towards achieving the targets.

Directional Environmental Targets	Metrics	Action Plan	Actions Taken during the Reporting Period	Progress towards Targets
Energy-saving targets	1. Improve energy use efficiency	Assign the equipment management department to formulate maintenance plans, regularly overhaul energy-consuming equipment, and regularly repair and upgrade electronic equipment in the factory to optimize energy efficiency.	1. Regular maintenance of each piece of equipment. 2. Regularly test high-power equipment to ensure that the equipment is within the normal use range. 3. Set parameters reasonably according to the operation of the equipment to prevent the waste of resources caused by the high-power operation of the equipment.	Ongoing

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Directional Environmental Targets	Metrics	Action Plan	Actions Taken during the Reporting Period	Progress towards Targets
	2. Increase the penetration rate of low-energy devices	Replace and eliminate energy-consuming equipment, establish equipment replacement schedules, etc.	<ol style="list-style-type: none"> 1. Develop a comparison table of energy consumption output for high-power and high-energy-consuming equipment. 2. Make a replacement schedule according to the aging of the equipment. 	Ongoing
	3. Promote energy-saving information	Increase employees' attention to energy-saving product information, such as paying attention to relevant energy-saving information by participating in energy-saving product environmental protection expos.	<ol style="list-style-type: none"> 1. Regular training on energy conservation and emission reduction. 2. Pay attention to policies related to energy conservation and emission reduction. 	Ongoing
	4. Save electricity	Formulate sound energy-saving management work plans and measures, and also establish a leading group for electricity conservation.	<ol style="list-style-type: none"> 1. Develop energy-saving solutions (such as: lighting equipment on and off time) to prevent waste. 2. Set up an energy-saving inspection team to conduct regular inspections to prevent energy waste. 	Ongoing
Water conservation targets	1. Save water	Develop water-saving measures. For example, water conservation signs are posted in places such as restrooms.	<ol style="list-style-type: none"> 1. Post water-saving signs. 2. Post water-saving propaganda slogans. 	Ongoing

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Directional Environmental Targets	Metrics	Action Plan	Actions Taken during the Reporting Period	Progress towards Targets
	2. Reduce waste of water	Regularly overhaul the water equipment in the factory area to ensure that there is no water leakage.	<ol style="list-style-type: none"> 1. Regularly check the factory piping system. 2. Timely repair of running, running and dripping found during the inspection. 	Ongoing
Waste generation	1. Promote food waste recycling	<ol style="list-style-type: none"> 1. Action Promotion Inside the canteen post slogans such as refuse waste, and advocate "empty plate". 2. Encourage employees to use private tableware, and the canteen does not provide any disposable tableware. 3. Encourage employees to take less food frequently and avoid food waste. 	<ol style="list-style-type: none"> 1. The canteen has posted promotional slogans and publicity pictures. 2. Employees use private tableware, and the canteen does not provide disposable tableware for employees. 3. Report the number of diners every day and prepare ingredients according to the number of personnel. 4. There is no excessive waste generated by the dining staff. 	Milestones have been completed
	2. Improve the utilization rate of waste resources	Implement the posting of garbage sorting posters in canteens, publicity, and training on garbage classification knowledge.	<ol style="list-style-type: none"> 1. The canteen classifies garbage according to kitchen waste, other garbage and recyclable garbage, and employees can consciously sort and treat garbage. 	Milestones have been completed

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Directional Environmental Targets	Metrics	Action Plan	Actions Taken during the Reporting Period	Progress towards Targets
	3. Reduce non-hazardous waste	<ol style="list-style-type: none"> 1. Reduce the use of disposable items and encourage employees to use front and back printing methods for necessary paper. 2. Implement paperless office percentage, encourage the use of DingDing process application and other methods. 3. Encourage on-demand purchase, the department submits office supplies needs according to the number of personnel, monthly, and administrative personnel purchases according to the required quantity submitted. 4. Special items such as batteries are recycled and handled by the human resources department. 	<ol style="list-style-type: none"> 1. There is a special secondary paper storage place in the office area, and the secondary use of paper is encouraged to be prioritized. 2. Personnel process, financial process, procurement process, etc. are initiated and approved by DingDing. 3. Every Wednesday, each department receives office supplies as needed, and controls the department's consumables in a trade-in method. 4. Special items, such as batteries, toner cartridges, etc. are handled by the human resources department 	Milestones have been completed

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Directional Environmental Targets	Metrics	Action Plan	Actions Taken during the Reporting Period	Progress towards Targets
	4. Reduce hazardous waste	Factory LED lamp installation data (such as the number of LED lamps and the proportion of traditional alternative lamps).	<ol style="list-style-type: none"> 340 sets of ordinary energy-saving lamps in the factory. Plan to replace 300 sets of new LED lights (percentage of 88%). 	Ongoing
Greenhouse gas emissions	1. Reduce greenhouse gas emissions from automobiles	<ol style="list-style-type: none"> Statistics on the overall fuel consumption of official cars or the number of times official cars are used. Formulate the Company's bus use standards (system). Encourage employees to travel and give preference to public transportation. 	<ol style="list-style-type: none"> The Company's official car follows the principle of "public use of public buses, first approval and then use". The Company bus is used when public transportation is inconvenient, and employees are encouraged to use public transportation to travel. 	Ongoing

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Directional Environmental Targets	Metrics	Action Plan	Actions Taken during the Reporting Period	Progress towards Targets
	2. Reduce greenhouse gas emissions in the production process	The use of energy in construction	<ol style="list-style-type: none"> 1. Reduce electricity consumption, reduce the power consumption of all LED lighting in the Company. 2. According to the production situation, a transformer is stopped to reduce the energy consumption of the transformer's empty operation. It can reduce electricity consumption by 89,000 kWh per year. 3. In the production of honeycomb catalysts, indirect combustion in the aging chamber is changed to direct combustion, which reduces the use of natural gas. The annual aging room can reduce the amount of natural gas consumption by about 10%. 	Ongoing

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Directional Environmental Targets	Metrics	Action Plan	Actions Taken during the Reporting Period	Progress towards Targets
	3. Plantation of factory area	1. Maintain the greening rate of the factory area and the number of trees planted. 2. Regular watering and pruning of green plants in the factory area. 3. Replace dead green plants in the factory area in time. 4. Daily maintenance and replacement of green plants in the office area.	1. The factory area will be transplanted in May 2022 with 80 Chinese rose flowers. 2. Trim the lawn in the factory every two months. 3. In September 2022, 8 new pots of green plants will be added to the office area. 4. Water and maintain the green plants in the office area every week.	Ongoing

The Group sets targets related to quality, environment and occupational health and safety every year to continuously promote its sustainability. To ensure that the targets are achieved on schedule, we have established a division of targets for relevant functional departments and regularly review the achievement of targets. The Group completed all targets set in 2022. Below is a list of targets set for 2023:

Aspects	The Group's targets set for 2023
Environment	100% compliance to standards, laws and regulation related to environmental protection
	0 Environmental pollution incident
Employee	0 Safety incident rate
	0 Occupational disease incidence rate
	0 Fire incident rate
Product Quality	Procurement compliance rate $\geq 99\%$
	Delivered product qualification rate 100%
	Customer satisfaction rate $\geq 90\%$
	Contract fulfilment rate 100%

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.4. Stakeholder Engagement

2.4.1. Communicate with stakeholders

The sustainable development of the Group is closely intertwined with our stakeholders, whose opinions and expectations are the driving force behind the Group's sustainable development. Therefore, we maintain close communication with our stakeholders through various means such as our official website, email, shareholder meetings, annual reports, interim reports, announcements, correspondence, and meetings to gain a thorough understanding of their expectations, needs, sustainable development concerns, and opinions and feedback. The information serves as an important basis for the Group to improve sustainable development work and as a critical reference for determining the key contents to be disclosed in the ESG Report. During the Reporting Period, the focus and expectations of our stakeholders, as well as the communication channels we used to engage with them, are detailed in the table below.

Stakeholders	Needs and Expectations	Responses
Relevant Government Departments	Comply with environmental and safety-related laws and regulations	Enhance the screening and identification of safety hazards and work with relevant departments proactively to conduct safety inspections. Implement environmental protection measures accordingly
Shareholders and Investors	Business developments. Maintain competitiveness in the market	Formulate an operation plan which conforms to the strategy of the Group. Focus on the research and development, production, and sales of industrial DeNOx catalysts and vehicles DeNOx catalysts
Customers	Products comply with relevant laws and regulations, ensure products quality, and provide after-sales service. Products comply with national environmental requirements	Keep abreast of the latest environmental protection policies and market demand, enrich the variety of products, and commit to research and development and technical transformation of DeNOx catalysts. Strengthen product quality control and improve product quality
Employees	Reasonable working hours. A clean and tidy workplace	Establish a reasonable work schedule. Arrange regular cleaning for office and production plants

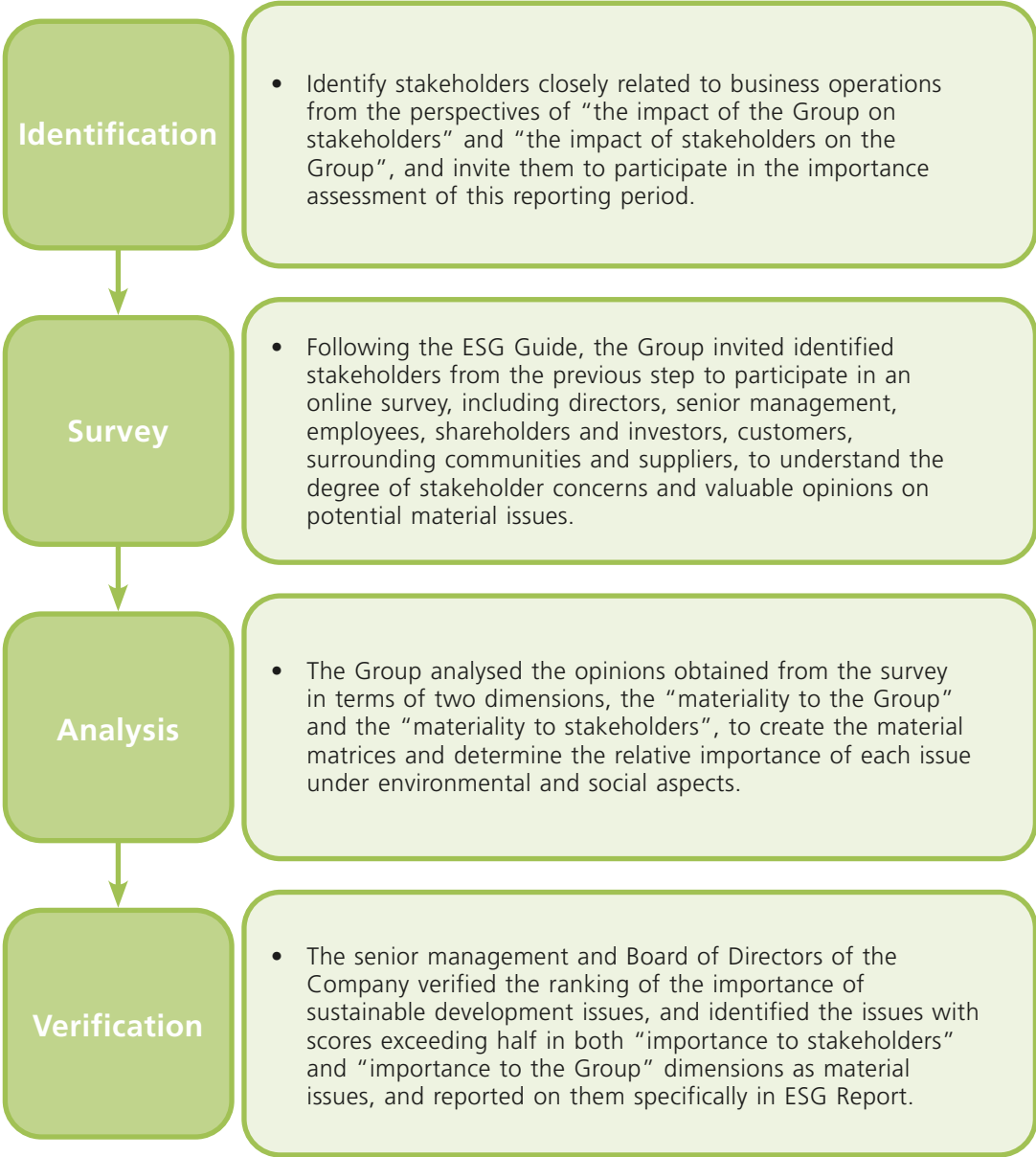
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stakeholders	Needs and Expectations	Responses
Suppliers	Fair and transparent procurement. Win-win cooperation	Conduct annual supplier assessment, formulate a qualified supplier list, and ensure that the products provided by suppliers meet the quality, environmental and safety requirements
Neighborhood Communities	Protect the community environment	Strengthen the emission reduction technology of DeNOx catalyst to assist the emission reduction of the key pollution industries. Implement environmental protection measures and enhance environmental management

2.4.2. Materiality Assessment

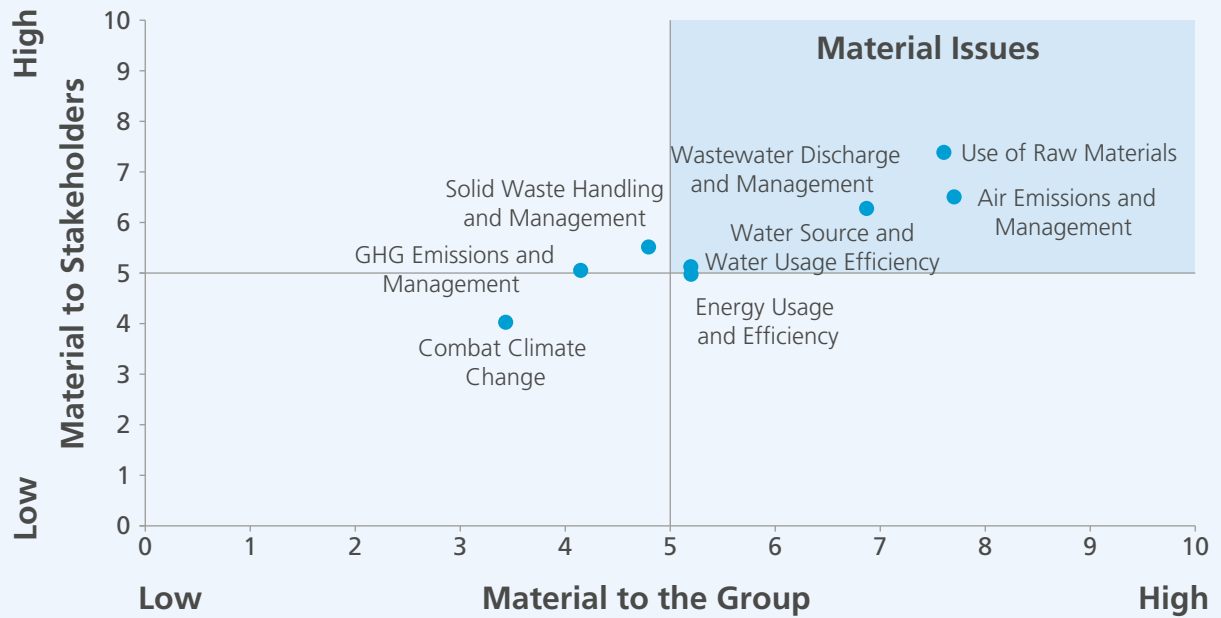
To effectively understand which ESG issues are most important for the Group, we conducted a questionnaire survey during the Reporting Period, inviting various stakeholders to participate in materiality assessment of sustainable development issues. The aim of materiality assessment was to integrate opinions of various stakeholders on different sustainable development issues and conduct a “dual-dimensional” evaluation from both “importance to stakeholders” and “importance to the Group”, further clarifying the material issues and next steps for the work of sustainable development

The Group’s process of the materiality assessment includes the following four steps:

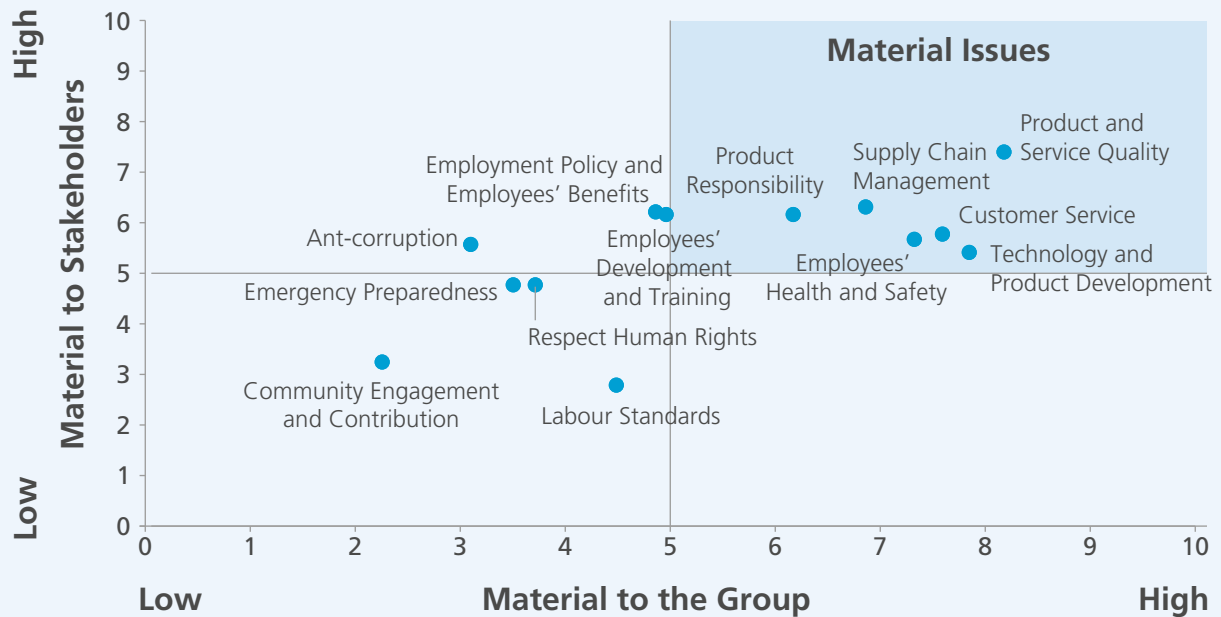


ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Materiality Matrix for Environmental Issues



Materiality Matrix for Social Issues



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Following the above steps and after the analysis of the materiality matrices in environmental and social aspects, the Group identified 5 environmental-related and 6 social-related issues with higher materiality which are shown below. The management approach and performance of the Group on such issues are elaborated as the focus of the subsequent sections.

Issues with Higher Materiality	
Environmental Aspects	Social Aspects
<ul style="list-style-type: none">• Raw material usage• Air Emissions and Management• Wastewater Discharge and Management• Water Source and Water Usage Efficiency• Energy Usage and Efficiency	<ul style="list-style-type: none">• Product and Service Quality• Technology and Product Development• Customer Service• Supply Chain Management• Employees' Health and Safety• Product Responsibility

3. Green Operation

The Group's main business focuses on environmental protection technology and gives priority to environmental protection in accordance with the concept of green operation. The relevant laws, regulations, and national standards that have a significant impact on the business operations of the Company include but are not limited to the *Water Law of the People's Republic of China*, the *Energy Conservation Law of the People's Republic of China*, the *Law of the People's Republic of China on Environmental Impact Assessment*, the *Renewable Energy Law of the People's Republic of China*, the *Atmospheric Pollution Prevention and Control Law of the People's Republic of China*, the *Soil Pollution Prevention and Control Law of the People's Republic of China*, the *Directory of National Hazardous Wastes (Version 2021)*, and the *Implementation Rules for the Implementation of the Action Plan for the Prevention and Control of Air Pollution in the Beijing-Tianjin-Hebei Region and Surrounding Regions*.

The Group undertakes and implements the responsibility to regularly update and compile a list of environmental legal and regulatory requirements by the relevant departments. We have formulated the *Control Procedure of Obtaining and Identifying Laws, Regulations and Other Requirements* and released information to relevant departments to ensure that the Group complies with relevant laws and regulations during its operation. During the Reporting Period, the Group strictly complied with the requirements of the above laws and regulations and did not violate relevant regulations of areas including air and greenhouse gas ("GHG") emissions, discharges into water and land, generation and disposal of waste, and noise pollution.

3.1. Environmental Management

To reduce the impact of daily operations on the surrounding environment, the Group has developed a series of scientific and reasonable environmental management measures. We have set out the *List of Key Environmental Factors and Environmental Factors Identification and Evaluation Form* for each department including human resources and administration department, safety production department, facilities management department, finance department, quality control department and purchasing center to identify important environmental factors in all aspects of the Group's operations from purchasing, sales, product technology development, production and after-sales services, and to assess the impact of these factors on the environment in order to adopt targeted follow-up measures. The Group strives to effectively control the factors that may have an adverse impact on the environment during operations, while reducing impacts on the environment and consumption of natural resources, to proactively assume our environmental responsibilities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3.1.1. Air Pollutants and GHG Emissions

The atmospheric pollutants generated by the Group include particulate matter produced in the blending process, industrial plate drying process, and diesel engine drying and burning process, as well as particulate matter, sulfur dioxide, and nitrogen oxides produced in the industrial honeycomb aging and burning process. The Group uses waste gas pollution control facilities, emission reduction devices, organized emissions, and develops related policies and targets to reduce atmospheric pollutant emissions.

The Group implements the *Atmospheric Pollution Prevention and Control Law of the People's Republic of China*, the *Regulations of Hebei Province on the Prevention and Control of Air Pollution*, the *Technical Guidelines for the Formulation of Emergency Emission Reduction Measures for Key Industries in Heavy Pollution Weather (Revision 2020)* by the Ministry of Ecology and Environment, the *Technical Guidelines for Emergency Emission Reduction for Eight Industries in Heavy Pollution Weather in Hebei Province*, the *Guiding Opinions on Differentiated Management of Heavy Pollution Weather in Non-Key Industries in Langfang* and other laws, regulations and regulatory documents. The Group developed the *Operational Plan for Emergency Response in Heavy Pollution Weather* in conjunction with the actual situation to establish a scientific, reasonable, effective, and active emergency response mechanism for heavy pollution weather and to establish an air pollution emergency protection system with active defense, orderly command, rapid response, coordination and linkage and favorable prevention. During periods of heavy pollution, the Group takes corresponding emergency response and emission reduction measures. We also establish an emergency response team for heavy pollution weather to reduce pollutant emissions according to different response levels. In special circumstances, we implement emergency production restrictions and shutdown measures according to the instructions of higher-level governments.

At the same time, we have set targets to reduce emissions and actively adopt strategies to reduce emissions at source and to reduce atmospheric pollutants and GHG emissions during the operation process. The production equipment of Gu'an Denox utilizes natural gas as fuel. When purchasing machinery and equipment, we consider replacing traditional fuel machinery with electric machinery to reduce direct emissions. During the Reporting Period, the Group has continuously strengthened the management of energy use to save unnecessary resource consumption and reduce GHG emissions. For example, we encourage employees to take public transportation to and from work, reduce the use of the Company's vehicles, and strive to reduce emissions from reduction of car fuel consumption. We also actively encourage employees to participate in tree-planting activities and set targets for planting more trees to improve the environment. In addition, we try to hold internal and external meetings by phone or online conference to reduce carbon footprints generated by traveling.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Based on our business characteristics, peer enterprise practices, and industry development trends, we have developed multiple emission reduction targets. We actively adopt and continuously optimize emission reduction measures, committed to reducing the environmental impact of production operations. During the Reporting Period, we have set action plans around three targets and strengthened data recording and analysis to monitor the progress of the action plan implementation. The targets include reducing GHG emissions from vehicles, reducing GHG emissions during production processes, and increasing green coverage in the factory area. The actions we have taken include, but are not limited to, developing a system for the use of company vehicles to standardize the management of official vehicles and encourage employees to use public transportation; upgrading to a comprehensive LED lighting system to reduce power consumption; and continuously promoting the greening of the factory area, increasing green coverage in the office area, and so on. All three targets have been steadily advanced and are continuing. For example, in the production process of honeycomb catalyst in Gu'an Denox, we changed the indirect combustion in the aging room to direct combustion, saving about 10% of natural gas consumption in the aging room each year. In addition, we water and maintain the green plants in the factory area and office area every week to maintain a good greening rate.

Gu'an Denox honeycomb product production showroom



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3.1.2. Wastewater Discharge

The Group's major sources of wastewater are industrial wastewater from production parks and domestic wastewater from offices. Among them, domestic sewage generated from daily office work is discharged from the sewage system of the building where it is located to the municipal pipeline for unified treatment.

Gu'an Denox has established a comprehensive sewage treatment facility in the production park to treat the sewage discharged during the production process, ensuring that the treated sewage meets the *Integrated Wastewater Discharge Standard (GB 8978-1996)* and the sewage treatment and collection standard of Gu'an Lvyuan District. The wastewater discharged from production is discharged to the sewage treatment plant through urban pipelines after pre-treatment by the sewage treatment facilities in the park. The Group regularly engages third-party institutions to test the quality of sewage discharged from production to ensure that it meets the discharge standards.

During the Reporting Period, the Group discharged 1,991 tonnes of sewage.

3.1.3. Waste Handling

The Group is committed to strengthening the management of waste. All of our waste disposals are abides by relevant national standards, such as the *Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes (GB 18599-2020)* and the *Standard for Pollution Control on Hazardous Waste Storage (GB 18597-2001)*. The Group has formulated the Waste Management Procedures and the Denox Hazardous Waste Management System to regulate the procedures for collection, storage and handling of all types of wastes.

The Group's major hazardous wastes include waste hydraulic oil generated from production process, waste sludge generated from sewage treatment, waste batteries, waste ink cartridges, and waste electronic products generated from daily operations. The Group handed over the above hazardous wastes to qualified third-party processing units for centralized treatment to ensure that they are safely disposed of, with a safe disposal rate of 100%.

During daily operations and production processes, the Group has set up dedicated areas for the collection and storage of waste, with clear labeling and records in place. A designated person is responsible for inspecting and managing the waste to prevent the possibility of hazardous waste mixing with non-hazardous waste. Non-hazardous waste generated by the Group mainly consists of dust and debris generated during production processes, as well as kitchen and household waste generated during daily operations. Non-hazardous waste produced by the Group is centrally stored after being classified and ultimately disposed of by local property management companies.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has set a target to reduce waste production and actively seeks measures to recycle and reuse waste generated in daily production and operations, to minimize resource wastage. Through slogans such as “Promote CD-ROM” and “Be Thrifty”, the Group promotes the Clean Plate campaigns to discourage food waste in our cafeteria, refuse the use of disposable tableware, and encourage employees to bring their own utensils. We also provide education and training on waste classification to encourage employees to sort their waste properly. In addition, to reduce non-hazardous waste, we encourage paperless office practices and encourage employees to print on both sides of paper when necessary, purchase office supplies on an as-needed basis, and recycle special items such as batteries through our human resources department.

Case Study: Waste Classification at Beijing Denox



The Group is committed to improving the utilization of waste resources. In Beijing Denox, we have set up clear labeled and eye-catching waste bins for classification, including bins for hazardous waste, recyclable materials, and other waste. At the same time, we have carried out publicity and training on waste classification. After the training, publicity, and emphasis by the group, employees can consciously classify and handle waste.

Case Study: Exhibition of paper storage area at Beijing Denox



The Group is committed to reducing harmless waste. To reduce the waste of paper in Beijing Denox, we have set up a dedicated area for second-hand paper, encouraging employees to only use paper when necessary and to reuse it whenever possible. Employees are encouraged to deposit used paper in this area where paper can be reused when needed, such as for double-sided printing or other effective ways of reuse.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3.1.4. Noise Control

The Group's noise is mainly generated by the operation of production facilities in Gu'an Denox. The Group has formulated the *Control Procedure of Noise* to strengthen the control and management of noise, so as to minimize noise pollution. We have also adopted the following measures to reduce the generation and transmission of noise from production facilities.

The Group conducts regular inspections on noise prevention measures and regularly monitors the noise generated within the factory to ensure compliance with legal regulations during daily operations and production processes.

Noise Management

- Measure noise level when installing new equipment, and adopt adequate noise reduction measures of equipment that does not meet the standard
- Develop equipment operation procedures to prevent noise generated from improper operation
- Regularly repair and maintain the equipment to ensure that the equipment operates normally, thus reducing operating noise

3.1.5. Climate Change

During the Reporting Period, the Group constructed an ESG risk inventory by reviewing material issues in 2022, as well as ESG risks and major trends of concern to our peers. We identified and evaluated ESG risks, including those related to climate change, through a comprehensive visual analysis of potential challenges faced by the Group in significant climate-related matters. With regard to climate change, we identified physical risks and transitional risks. To address climate change, Gu'an Denox has developed the *Rainy Season Flood Control Emergency Plan* based on relevant laws and regulations, including the *Emergency Response Law of the People's Republic of China*, the *National Overall Emergency Response Plan for Public Emergencies*, the *Hebei Province Natural Disaster Relief Measures*, the *Hebei Province People's Government Overall Emergency Response Plan for Public Emergencies*, and the *Hebei Province Natural Disaster Relief Emergency Plan*, etc., taking into account the actual situation. This plan ensures that the company can quickly and effectively carry out relief operations during the flood season and respond to any emergency situation, to maximize the prevention or mitigation of losses caused by flood disasters, ensure the safety of company personnel and property, maintain the effective operation of the company's production order, and meet customer requirements.

Impact of climate change on the Group

Physical risks:

Extreme weather caused by climate change can endanger the operation of the factory. If an enterprise fails to adequately respond to climate issues, it may cause negative impact on its production, revenue, operations, reputation, and other aspects.

Transition risks:



More disclosure requirements related to climate change and more stringent environmental compliance are imposed by the government/regulatory authorities or industrial/listed companies. To meet the compliance requirements, the operating costs may increase.

3.2. Resources Consumption

3.2.1. Energy and Water Consumption

The Group mainly consumes electricity and natural gas as major energy, and has no difficulty in sourcing water. The main sources of water used include production water and domestic water that is mainly supplied by municipal water plants. In addition, the Group has formulated the *Energy Conservation and Consumption Reduction Management Procedures* to reduce resource consumption and regulate the Group's energy and water conservation measures by regularly recording the consumption of electricity, gas, and water.

During the Reporting Period, the energy and water conservation measures implemented by the Group include:

 Energy Conservation	 Water Conservation
<ul style="list-style-type: none">• We have developed energy-saving plans, such as setting the on/off time for lighting equipment, to prevent waste.• We conduct regular maintenance of equipment and set parameters reasonably to prevent wastage due to high-power operation.• We have developed energy-output comparison charts for high-power, high-consumption equipment, as well as schedules for replacing aging equipment.• By replacing a transformer, we were able to reduce electricity consumption by 89,000 kWh.• We use LED lighting to lower electricity power consumption.	<ul style="list-style-type: none">• Posting water-saving signs and slogans• Regularly inspecting the factory's pipeline system• Promptly repairing any leaks, drips, or other issues found during inspections.

Due to the implementation and enforcement of the above measures in place, the Group did not have any abnormal use of energy and water resources during the Reporting Period. In addition, Gu'an Denox has achieved a 5% monthly reduction in natural gas consumption, a 3% reduction in water use per unit of product, and a 5% reduction in energy consumption per unit of product. The Group will continue to explore new ways of energy and water conservation, set targets to improve energy efficiency and reduce water usage as much as possible, promote the implementation of relevant measures, continue to improve our environmental data management system, and timely statistic and report our achievements to the public.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3.2.2. Raw Materials and Other Resources Consumption

Adhering to the principle of “make the most of everything and reduce waste”, the Group has always been committed to reducing the use of raw materials and packaging materials in the production process. During the Reporting Period, we took the following measures at Gu'an Denox to reduce packaging material usage: we used steel straps to secure packaging, stabilizing the transportation process, and later changed the placement method to no longer use steel straps for fixing. Through transport packaging improvement, we eventually eliminated the use of steel straps for honeycomb product packaging, saving RMB18,000 in packaging costs in 2022 compared to 2021, as well as reducing waste disposal costs for our customers.

3.3. Environmental Data

The main products manufactured by the Group include plate-type catalysts, honeycomb catalysts and vehicle catalysts. As the production volume of each product varies from year to year, the relevant data is no longer counted, resulting in a large change in some environmental data. The followings are the emissions and use of resources in the past three Reporting Periods:

3.3.1. Emissions Data

		Data ^{1, 2}		
Emissions	Unit	2022	2021	2020
Air emissions ³				
Sulphur dioxide	Tonnes	0.019	0.017	0.177
Nitrogen oxides	Tonnes	0.115	0.122	0.584
Carbon monoxide	Tonnes	0.139	0.143	0.126
Total particulate matter ⁴	Tonnes	0.014	0.015	0.006

- 1 The scope of environmental data in 2021 and 2022 includes the office in Beijing, and the production plants in Gu'an. The scope of environmental data in 2020 includes the office in Beijing, and the production plants in Gu'an and Wuxi.
- 2 The intensity of environmental data of the Group is calculated based on the amount of catalysts produced in m3. The amount of catalysts produced in 2022 was 10,976.146 m3. The calculation of environmental data intensity included plate-type, honeycomb, and vehicle catalysts.
- 3 The scope of air emissions includes those emitted from the fuel use of stationary sources, vehicles and machineries. In 2020, Gu'an Denox made technical improvements to the diesel exhaust removal system project, reducing atmospheric pollutant emissions. As a result, the emission data for 2020 and 2021 were recalculated. The calculation method for fixed source emissions refers to Gu'an Denox February 2020 Environmental Impact Report for Construction Projects. The calculation method for household pollution sources in 2020 refers to the *Manual of the Second National Pollution Source Census of Urban Life Sources and Pollution Emission Factors (Trial)* issued by the Ministry of Ecology and Environment of the People's Republic of China in April 2019. The calculation method for household pollution sources in 2021 and 2022 refers to the *Emission Source Statistics Survey Emission Accounting Method* issued by the Ministry of Ecology and Environment of the People's Republic of China in 2021. The calculation method and related emission factors for vehicle emissions are based on the *Road Vehicles Air Pollutant Emission Inventory Preparation Technical Guide (Trial)* issued by the Ministry of Ecology and Environment of the People's Republic of China. The calculation method and related emission factors for atmospheric pollutant emissions from mechanical sources in the Group refer to the *Non- Road Mobile Source Air Pollutant Emission Inventory Preparation Technical Guide (Trial)* issued by the Ministry of Ecology and Environment of the People's Republic of China.
- 4 The scope of total particulate matter includes the fuel consumption of vehicles and machineries, and dust emissions from the production process. The smoke and dust from stationary sources and cooking will be added from 2021. For the emissions from stationary source emissions. Calculation method for stationary source emissions; The emission factor for cooking emissions using urban life source gas facilities; Please refer to footnote 3 for calculation methods for automotive and machinery emissions. The emissions from the production process are estimated based on the 99% dust removal efficiency of the bag filters and the amount of dust collected.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

		Data ^{1, 2}		
Emissions	Unit	2022	2021	2020
GHG emissions				
Total GHG emissions	Tonnes CO ₂ equivalent	4,156.536	3,733.712	4,990.701
Intensity of total GHG emissions	Tonnes CO ₂ equivalent per m ³ production volume	0.379	0.443	0.654
Scope 1: direct emissions ⁵	Tonnes CO ₂ equivalent	938.541	837.183	678.277
Intensity of scope 1: direct emissions	Tonnes CO ₂ equivalent per m ³ production volume	0.086	0.099	0.089
Scope 2: indirect emissions ⁶	Tonnes CO ₂ per m ³ production volume	3,205.794	2,882.692	4,294.204
Intensity of scope 2: indirect emissions	Tonnes CO ₂ per m ³ production volume/	0.292	0.342	0.562
Scope 3: other indirect emissions ⁷	Tonnes CO ₂ per m ³ production volume	12.201	13.837	18.128
Intensity of scope 3: other indirect emissions	Tonnes CO ₂ equivalent per m ³ production volume	0.001	0.002	0.002

- 5 The scope of scope 1 GHG emissions includes the fuel use of stationary sources, vehicles and machineries, the use of refrigerants and as well as the reduction from planted trees. The GHG emissions from stationary sources were calculated by referencing the calculation methods and coefficients in the *Calculation Method and Reporting Guidance on Greenhouse Gas Emissions for Other Industrial Enterprises (Trial)* issued by the National Development and Reform Commission of the People's Republic of China. The GHG emissions from vehicles were calculated by referencing the calculation methods and coefficients in the *Calculation Method and Reporting Guidance on Greenhouse Gas Emissions for On-road Transportation Enterprises (Trial)* issued by the National Development and Reform Commission of the People's Republic of China. The GHG emissions from machineries were calculated by referencing the calculation methods and coefficients in the *Calculation Method and Reporting Guidance on Greenhouse Gas Emissions for Other Industrial Enterprises (Trial)* issued by the National Development and Reform Commission of the People's Republic of China and the *Greenhouse Gas Inventory Guidance - Direct Emissions from Mobile Combustion Sources* issued by the United States Environmental Protection Agency. The Group started to disclose the GHG emissions from the use of refrigerants in 2020, which were calculated by referencing the calculation methods and coefficients in the *Fifth Assessment Report* issued by the IPCC. The Group has two trees in total. The GHG emissions reduction from planted trees was calculated by referencing the calculation methods and coefficients in the *Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes)* in Hong Kong published by the Electrical and Mechanical Services Department and Environmental Protection Department of Hong Kong.
- 6 The scope of scope 2 GHG emissions includes the purchased electricity. The method and relevant emission factors for calculating greenhouse gas emissions from electricity use in 2022 are based on the average national emission factor of 0.5703t CO₂/MWh specified in the *Notice on the Management of Greenhouse Gas Emission Reporting in the Power Generation Industry for 2023-2025* published by the Ministry of Ecology and Environment. The method and relevant emission factors for calculating greenhouse gas emissions from electricity use in 2021 are based on the revised edition of the *Guidelines for Accounting Methods and Reporting of Corporate Greenhouse Gas Emissions for Power Generation Facilities (2021 Revised Edition) (Draft for Comment)* published by the Ministry of Ecology and Environment. The GHG emissions from purchased electricity were calculated by referencing the calculation methods and coefficients in the *2011-2012 Regional Power Grid Average CO₂ Emission Factors in China* published by the National Development and Reform Commission of the People's Republic of China in 2020. As the emission factor coefficient in the reference source for 2021 was lowered, the calculated value decreased compared to that of 2020.
- 7 The scope of scope 3 GHG emissions includes business air travel by employees and were calculated by referencing the calculation methods and coefficients in the carbon emissions calculator developed by the International Civil Aviation Organization, a United Nations agency.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

		Data ^{1, 2}		
Emissions	Unit	2022	2021	2020
Non-hazardous wastes produced				
Total non-hazardous wastes	Tonnes	14.623	15.280	47.590
Intensity of non-hazardous wastes	Tonnes per m ³ production volume	0.001	0.002	0.006
– Domestic wastes and waste products	Tonnes	9.14	7.936	41.943
– Food wastes ⁸	Tonnes	2.2	4.416	4.695
– Production wastes ⁹	Tonnes	1.08	0	0
– Paper	Tonnes	0.103	0.168	0.202
– Dust	Tonnes	2.100	1.800	0.750
Hazardous wastes produced				
Total hazardous wastes (except ink cartridges and batteries)	Tonnes	3.150	3.110	0.319
Intensity of hazardous waste (except ink cartridges and batteries)	Tonnes per m ³ production volume	2.872 x 10 ⁻⁴	3.686 x 10 ⁻⁴	4.173 x 10 ⁻⁵
– Waste hydraulic oil	Tonnes	0.450	0.710	0.310
– Waste paint containers	Tonnes	0	0	0
– Waste sludge ¹⁰	Tonnes	2.700	2.400	/
Ink cartridges	No. of ink cartridges	1	2	2

8 The amount of kitchen waste generated has decreased in 2022 due to the recycling and reuse of kitchen waste.

9 The increase in production waste in 2022 is attributed to a change in packaging method, where steel strips are no longer used, resulting in the production of non-recyclable waste steel strips.

10 Due to the increase in honeycomb catalyst production in 2022, the production of waste sludge was increased.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3.3.2. Resources Consumption Data

		Consumption		
Resources Consumption	Unit	2021	2020	2019
Energy consumption ¹¹				
Total energy consumption	MWh	9,491.956	8,360.469	6,468.263
Total energy consumption	MWh per m ³ production	0.865	0.991	0.847
Indirect energy consumption				
Electricity consumption ¹²	MWh	5,621.242	4,933.974	3,766.056
Intensity of electricity consumption	MWh per m ³ production volume	0.513	0.585	0.493
Direct energy consumption				
Natural gas consumption ¹³	10 thousand m ³	41.753	36.851	28.099
Intensity of natural gas consumption	10 thousand m ³ per m ³ production volume	4 x 10 ⁻³	4 x 10 ⁻³	4 x 10 ⁻³
Gasoline consumption	Litre	15,919	14,328	19,504
Intensity of gasoline consumption	Litre per m ³ production volume	1.451	1.690	2.554
Liquefied petroleum gas consumption	Kg	0	0	1,321
Intensity of liquefied petroleum gas consumption	Kg per m ³ production volume	0	0	0.173
Diesel consumption	Litre	2,240.000	2,827.500	1,651.260
Intensity of diesel consumption	Litre per m ³ production volume	0.204	0.335	0.216
Water Consumption				
Water consumption from municipal supply	Tonnes	20,008.00	17,191.00	15,232.075
Intensity of water consumption from municipal supply	Tonnes per m ³ production volume	1.824	2.038	1.995

11 The following direct energy consumption were converted to MWh in units, which were calculated by referencing the calculation methods and coefficients in the *Calculation Method and Reporting Guidance on Greenhouse Gas Emissions for Other Industrial Enterprises (Trial)* issued by the National Development and Reform Commission of the People's Republic of China, the *Gasoline for Motor Vehicles* (GB 17930-2016) and the *Automobile Diesel Fuels* (GB19147-2016) issued by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China and the Standardisation Administration of the People's Republic of China.

12 Due to the increase in honeycomb catalyst production in 2022, its production process consumes a lot of electricity, resulting in higher electricity consumption.

13 Due to the increased production of honeycomb catalysts in 2022, their production process consumes a large amount of natural gas, resulting in an increase in the use of natural gas.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

		Consumption		
Resources Consumption	Unit	2021	2020	2019
Packaging materials consumption ¹⁴				
Wood	Tonnes	56.936	25.980	73.000
Plastic	Tonnes	2.847	1.560	2.540
Paper	Tonnes	0.285	0.220	0.380
Metal	Tonnes	711.70	351.600	424.000
Total packaging materials	Tonnes	771.767	379.361	500.395
Intensity of packaging materials	Tonnes per m ³ production volume	0.070	0.045	0.066

4. People-oriented

The Group always adheres to the belief that employees are the most important and precious part of the enterprise and insists on the principle of joint progress and development of employees and the company in the business process. The Group always provides a comfortable and excellent working environment to ensure the physical and mental health of employees. In addition, the Group encourages employees to improve their professional knowledge and skills and provides rich employee training. The Group cares about and meets the daily needs of employees, enhances their sense of responsibility and belonging, and builds an efficient, excellent, and loyal team.

4.1. Employees' Rights and Interests

The Group strictly complies with the laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, other benefits and welfare and the prevention of child or forced labor that have a significant impact on the Group, including but not limited to the *Labor Law of the People's Republic of China*, the *Labor Contract Law of the People's Republic of China*, the *Social Insurance Law of the People's Republic of China Revised*, the *Law of the People's Republic of China on the Protection of Minors*, the *Regulation on Paid Annual Leave for Employees*, and the *Prohibition of Using Child Labour*. The Group also provides legal and reasonable remuneration and benefits to its employees. During the Reporting Period, the Group did not violate any laws and regulations related to employment and labor standards that have a significant impact on the Group. The Group has also formulated policies and management systems related to employment and labor standards to protect the rights and interests of employees.

¹⁴ Due to the increased production of honeycomb catalysts, packaging material usage was increased in 2022.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Recruitment and Dismissal	The Group has formulated the <i>Employee Recruitment System</i> , and the <i>Management Approach for Employee Selection</i> to regulate the terms of recruitment of employees and formulate corresponding procedures to ensure the fairness, justice, and openness of the recruitment process. Upon employee's employment, an employment contract will be signed with the employee in accordance with the law, covering matters such as employee's remuneration, benefits, health and safety, confidentiality obligations and grounds for termination. The Group has also formulated regulations on resignation and dismissal of employees to regulate the notice period of resignation and dismissal and salary compensation, to fully protect the rights and interests of employees and the Company.
Compensation and Promotion	To improve the work efficiency of employees, the Group has formulated the <i>Management Approach for Remuneration System</i> and the <i>Explanation of the optimization of the company's remuneration system</i> to finalize the rules relating to remuneration and promotion, reflecting the principle of fair and equitable remuneration distribution. The remuneration package of the employees includes salary, pension, bonus, medical insurance scheme and social insurance, etc. In addition, the Group will also adjust the remuneration and promotion opportunities according to the work efficiency, experience, and professional qualifications of employees.
Working Hours and Holidays	The Group has formulated the <i>Work Attendance Regulation</i> to ensure that employees are entitled to paid holidays and other statutory public holidays in accordance with the law. In accordance with the <i>Regulations of Hebei Province on Population and Family Planning</i> , marriage leave, maternity leave, paternity leave and funeral leave are provided to eligible employees. At the same time, the Group's production plants adopt a shift system, which clearly stipulates that employees work eight hours a day to avoid excessive working hours.
Fair Opportunity and Diversity	The Group advocates an equal, diverse, and inclusive employment policy. In terms of recruitment, remuneration, promotion and training, employees' personal ability and work performance are first considered. It is expressly forbidden to discriminate against employees based on race, nationality, age, gender, and other factors.
Prohibit Child Labor	The Group strictly abides by the Provisions on the <i>Prohibition of Using Child Labor</i> and rejects the employment of persons under the age of 16. In this regard, The Group requires all employees to provide valid identification documents to prove that they meet the statutory age requirements before taking up their posts. If any employment of minors is found, the Group will immediately terminate the employment relationship with them. During the Reporting Period, there were no cases of use of child labor found within the Group.

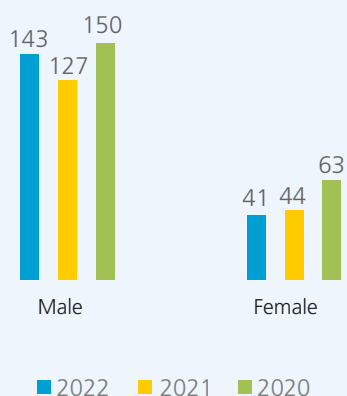
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Prohibit Forced Labor

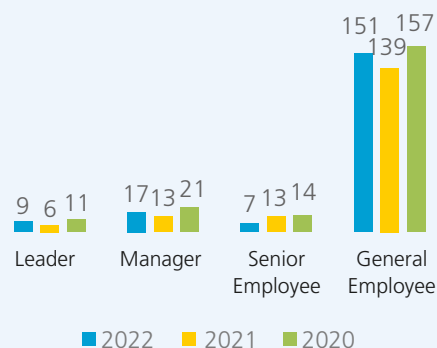
The Group strictly prohibits any form of forced labor and eliminates the use of debt labor and prison labor. The Group does not engage in any cooperation or transactions with units or organizations that use prison labor. During recruitment, the Group introduces the basic information, relevant policies, and management regulations of the company to job applicants, especially working hours and welfare benefits, to ensure that the applicants apply voluntarily. The Group signs labor contracts with applicants in accordance with the *Labor Contract Law of the People's Republic of China*, and employees have the right to resign or terminate labor contracts at any time. During the Reporting Period, the Group did not engage in any forced labor practices.

As of the end of the Reporting Period, the Group had 184 employees. All of them were full-time employees¹⁵.

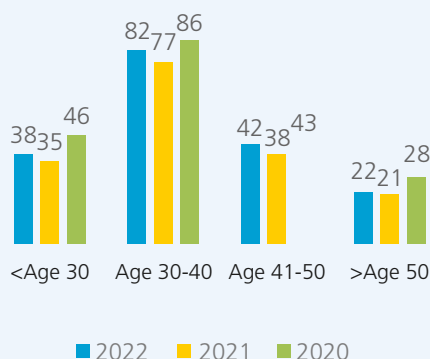
No. of employees by gender



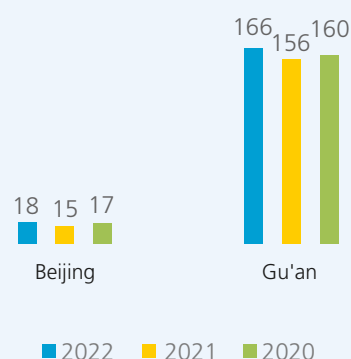
No. of employees by employment category



No. of employees by age group



No. of employees by geographical region



¹⁵ The number of employees does not include the number of non-executive directors and independent non-executive directors in the Board of Directors.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Employee Turnover Rate ¹⁶			
	2022	2021	2020
Employee Turnover Rate	15%	28%	10%
By gender			
Male	15%	29%	11%
Female	15%	25%	9%
By age group			
<30	18%	63%	10%
30-40	16%	21%	11%
41-50	10%	18%	14%
>50	14%	14%	0%
By geographical region			
Beijing	6%	20%	6%
Gu'an	16%	29%	10%

4.2. Caring for Employees

The Group is committed to establishing a mutually dependent employment relationship, establishing a good communication model with employees, and listening to employees' voices and demands in a timely manner. The Group has established the *Employee Representative Election Procedure* to enable all employees to select department-based employee representatives through voting, which serves as a medium to collect employees' opinions and suggestions and promote the communication between the Company and employees. At the same time, staff representatives meet regularly to discuss the Group's performance in relation to employee employment, including but not limited to remuneration and benefits, working hours, and the existence of discrimination, and to feedback to management the conclusions and comments from these meetings. In response to employees' opinions and suggestions, the Group has established the *Management Procedures of Employee's Opinions, Suggestions, Complaints and Feedback* to standardize the procedures for handling employees' opinions to ensure that the management can respond and handle relevant opinions in a timely manner.

Through effective communication and care channels above, the Group has gained a better understanding of our employees' needs and has taken corresponding measures and invested relevant resources to meet their needs. We provide employee benefits during holidays and organize employee activities such as making traditional rice dumplings during the Dragon Boat Festival, gatherings, and lottery events during the Mid-Autumn Festival, and distributing exquisite gifts to enhance mutual trust among employees and a sense of belonging among employees towards the Company.

¹⁶ The employee turnover rate was calculated updated as by dividing the number of employees who left and belonged to the specific category by the number of employees as of the end of the Reporting Period in 2021 and 2022; The employee turnover rate was calculated by dividing the number of employees who left and belonged to the specific category by the total number of employees belonging to the specific category in 2020 (the sum of the number of employees as of the end of the Reporting Period and the number of employees who left during the Reporting Period).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Furthermore, the Group actively organizes diverse employee travel and sports activities. For instance, we have equipped the third-floor activity room in Gu'an Denox with fitness equipment to help employees reduce work pressure, satisfy recreational and sporting needs, and improve work efficiency.

Beijing Denox Mid-Autumn Lucky Draw and Gift Distribution



Gu'an Denox Dragon Boat Festival Party



4.3. Health and Safety

Upholding the principle of "safety comes first", the Group regards the protection of employees' health and personal safety as the most important prerequisite and is committed to providing employees with a safe working and living environment. The Group strictly complies with the laws and regulations that relating to protecting employees from occupational hazards and that have a significant impact on the Group, including but not limited to the *Law of the People's Republic of China on the Prevention and Control of Occupational Diseases*, the *Administrative Measures for Diagnosis and Identification of Occupational Diseases* and the *Provisions on the Administration of Occupational Health*. During the Reporting Period, the Group did not receive any report of violation of the above-mentioned laws and regulations. In addition, the Group has strictly formulated and implemented the Occupational Health Management Policy for operation and production, identified occupational disease hazards and implemented corresponding preventive measures to ensure the health of employees, and strived to protect and enhance the safety of the working environment of the Group's employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4.3.1. Safe Production

The Group places great emphasis on ensuring the safety during our production processes and exercises strict control over them by establishing a sound safety management system. We strictly comply with relevant laws and regulations, such as the *Work Safety Law of the People's Republic of China* that are essential to ensuring a safe working environment and have significant impacts on the Group. During the Reporting Period, the Company did not violate any of the laws and regulations. Additionally, we have established a safety production leadership group to timely convey and implement directives from the superior safety production department, publicize laws and regulations related to safety production, establish and improve rules and regulations on safety production, supervise and manage safety products in the Company, and implement the *Safety Production Liability System* to ensure that employees at all levels are responsible for ensuring safety of the work within their duty and eliminate all kinds of safety production responsibility accidents, and fully manage the Group's safety production work.

The Group also developed the *Unacceptable Risk List*, the *Hazard Identification and Evaluation Form* and the *Hazard Identification and Risk Analysis Statistics Form* to identify potential risks of different operational activities and take corresponding measures to ensure employee safety.

The Group equip all our work sites with machines and equipment that ensure the safe operation of our work, including ensuring adequate ventilation and preventing harmful gas leaks. In our production workshop, Gu'an Denox have equipped safety protection shields, anti-slip hooks on overhead cranes, and ground wire protection measures on overhead cranes to ensure maximum safety during the production process. Additionally, we have improved the safety facilities in our workplace, such as safety warning signs, alarm systems, flushing facilities, emergency evacuation routes, and enhanced supervision of our tools and equipment. Beijing Denox has carried out a fire inspection and electrical fire inspection on its renovation to ensure a safe working environment for the staff.

Equipment safety shield cover and overhead crane grounding wire protection measure



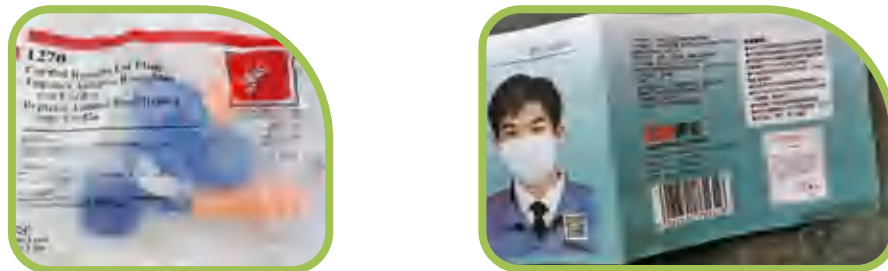
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Team Production Safety Month Training



According to the nature of employees' work, we will distribute corresponding labor protection equipment and strictly require employees to wear labor protection supplies correctly during work. At the same time, we regularly inspect the effectiveness and quality of the protective equipment and collect employees' opinions on related protective equipment.

Protective equipment (Earplugs and Masks)



The Group has always been committed to improving employee safety awareness to ensure their safety. We promote safety knowledge through various methods, including organizing safety training, and quizzes, and watching warning videos, helping them learn and master relevant safety knowledge. At the same time, we pay attention to the health of our employees and organize health checkups to prevent occupational diseases. The Company regularly inspects employee dormitories, factory safety, and environmental hygiene, timely rectifying potential hazards to maximize the protection of employees from occupational injuries.

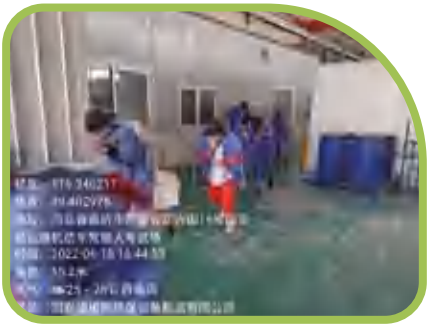
Employee personal safety is guaranteed in the Company's comprehensive safety management. There were no work-related deaths in the past three consecutive reporting periods. During the Reporting Period, there were zero people involved in work-related injuries, and no workdays were lost due to injuries.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4.3.2. Emergency Preparation and Response

The Group has formulated the *Emergency Action Plan*, the *Hidden Danger Investigation and Rectification Form* and the *Fire Drill Plan* to identify and effectively control the potential safety risks in the operation process. The Group has formulated corresponding emergency response plans, organized staff to familiarize themselves with various emergency response plans and conducted regular emergency drills of different types and themes such as fire drills and mechanical injury drills including forklifts and cranes to address potential risks in the use of equipment and storage of production materials in the production plants. The *Fire Emergency Plan* and the *Electric Shock Emergency Plan* formulated according to the potential risks in the office operation process strictly stipulate the relevant accident handling procedures and evacuation procedures and do a good job in comprehensive safety prevention.

Case Study: Fire Drill in Gu'an Denox



In June 2022, Gu'an Denox organized a fire drill for its staff. The staff learned about fire prevention and how to respond in the event of a fire, enhanced their awareness of self and mutual rescue in case of a fire, increased their safety awareness and provided a safer working environment.

Case Study: Gu'an Denox Emergency Drill for Machinery Injury Prevention



In November 2022, Gu'an Denox organized a mechanical injury (forklift) drill for its staff to learn what to do in the event of a forklift collision, including first aid treatment at the scene, evacuation of personnel and subsequent reporting of the incident. Through this exercise, staff were able to acquire knowledge and response methods related to mechanical injuries.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4.3.3. Epidemic Prevention and Control

During the COVID-19 pandemic, the Group has implemented emergency plans and established a special task force responsible for making decisions on pandemic prevention and control measures. We have developed various policies and regulations to ensure the safety of our employees, including encouraging employees to work from home, conducting daily temperature checks, monitoring the wearing of masks, and implementing one-person-per-table dining to prevent cross-infection. In addition, we have strengthened the disinfection of our offices and cafeteria daily and enhanced the security management of our operational sites.

4.4. Talent Development

The Group always adheres to the principle of closely linking employees' personal development with business needs and strives to build an excellent work team. To enhance employees' business skills and tap their potential, the Company's human resources department attaches great importance to employee training and has formulated an annual training plan schedule. Depending on different trained targets different contents of the *2022 Annual Training Plan* have been formulated and employee training has been recorded, facilitating employees to master knowledge, skills, and regulations related to their positions and industries.

The Group has developed a new employee training system and a company training management system. It actively conducts further employee training and assessment to ensure that newly employed employees master the skills required for their positions and perform corresponding duties. The Group has a mentor system for one-on-one guidance for new employees, aiming to help new employees quickly master work skills, adapt to the work environment, and integrate into the company's cultural atmosphere.

In addition, in order to achieve the common development of employees and the Company, the Group has formulated the *External Training System of the Company* to encourage employees to participate in external training according to their personal needs and improve their personal work skills by providing incentives. In line with the career development needs of employees, the Group provides courses to improve personal work skills, which is conducive to the development of the Group's talents.



Records of the Group's Employees Training

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

	Percentage of Employees Trained ¹⁷	Average Training Hours Completed per Employee ¹⁸
By gender		
Male	78.21%	19.81
Female	21.79%	18.51
By employee category		
Leader	2.23%	5.22
Management	9.50%	16.29
Senior Employee	3.91%	19.57
General Employee	84.36%	20.74

5. Quality Comes First

The Group is committed to providing customers with high-quality products and services, and always strives for higher product and service quality to achieve broader social recognition and a better corporate image. We follow and abide by relevant laws and regulations related to product responsibility, such as the *Work Safety Law of the People's Republic of China*, the *Product Quality Law of the People's Republic of China*, the *Advertising Law of the People's Republic of China*, the *Trademark Law of the People's Republic of China* and the *Regulation for the Implementation of the Trademark Law of the People's Republic of China*. During the Reporting Period, we did not violate any laws and regulations related to product responsibility that have a significant impact on the Group.

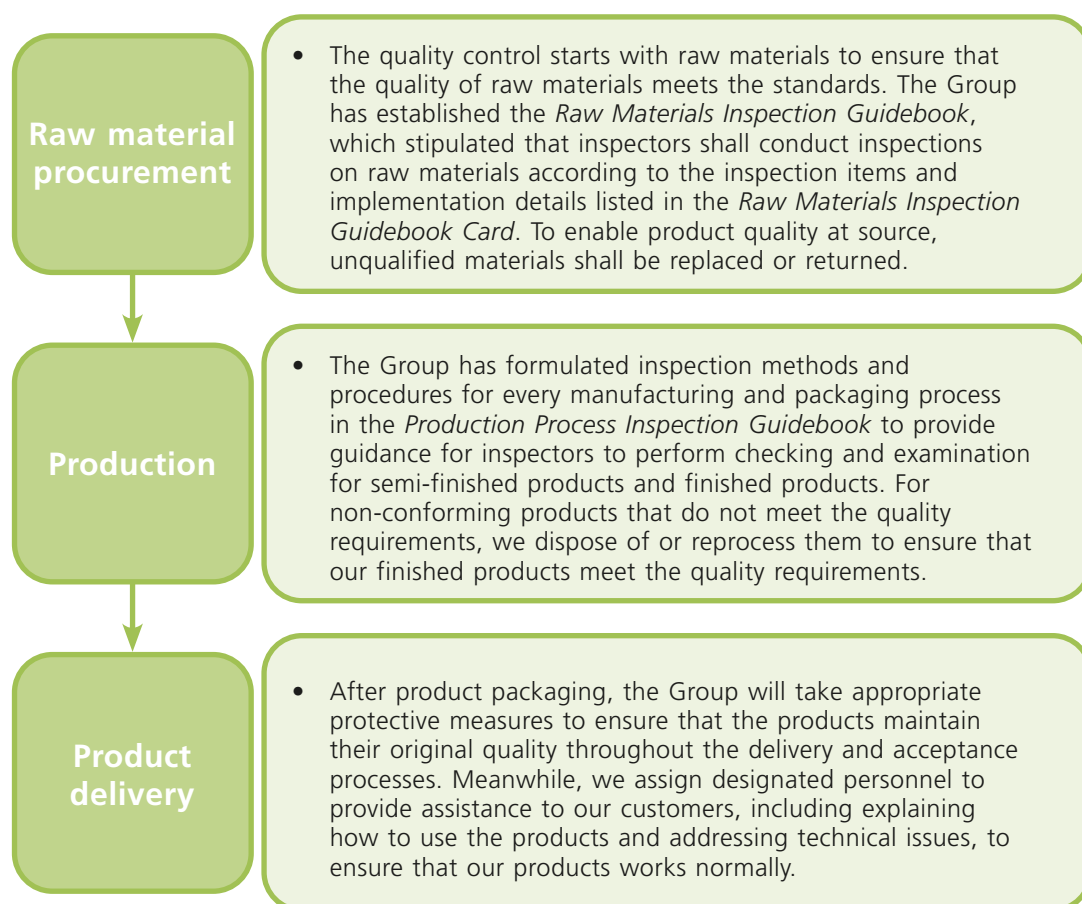
¹⁷ The percentage of employees trained was calculated by dividing the number of trained employees belonging to the specific category by the total number of trained employees.

¹⁸ The average training hours received per employee was calculated by dividing total training hours received by employees belonging to the specific category by number of trained employees belonging to the specific category.

5.1. Product Quality

The Group adheres to the principle that product performance, quality, and safety are of utmost importance, and we have set the target of achieving a 100% passing rate for product quality. In addition, we have developed various quality assurance and testing procedures at every stage of the production process to provide our customers with the highest quality and safest products and services.

We have established a scientific and reasonable system and standards, and set up a finished product inspection standard to control the appearance and rationality index of our products. We conduct periodic inspections to monitor whether our products meet the process requirements or inspection standards, and have established the *Non-Conforming Product Isolation System and Handling Plan* to ensure batch product quality.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

For products that have been delivered or are found to be unqualified after use, the Group will timely negotiate with customers to solve the problem and take serious treatment according to major quality issues. We will analyze the reasons for the non-conformity of products and take corresponding measures to rectify and prevent it. The products will be delivered to customers after passing the Group’s quality inspection. During the Reporting Period, the Group did not recall any products.

Gu’an Denox obtained quality management system, environmental management system and occupational health and safety management system certification.



The Group actively updates and improves its quality management system. During the Reporting Period, Gu’an Denox obtained the certifications of quality management system GB/T19001-2016 idt ISO9001:2015, environmental management system GB/T24001-2016 idt ISO14001:2015 and occupational health and safety management system GB/T45001-2020 idt ISO4500:2018. This proves that the Group maintains excellent quality in the development of technology, sales, and after-sales services of denitrification catalysts, giving confidence to our customers.



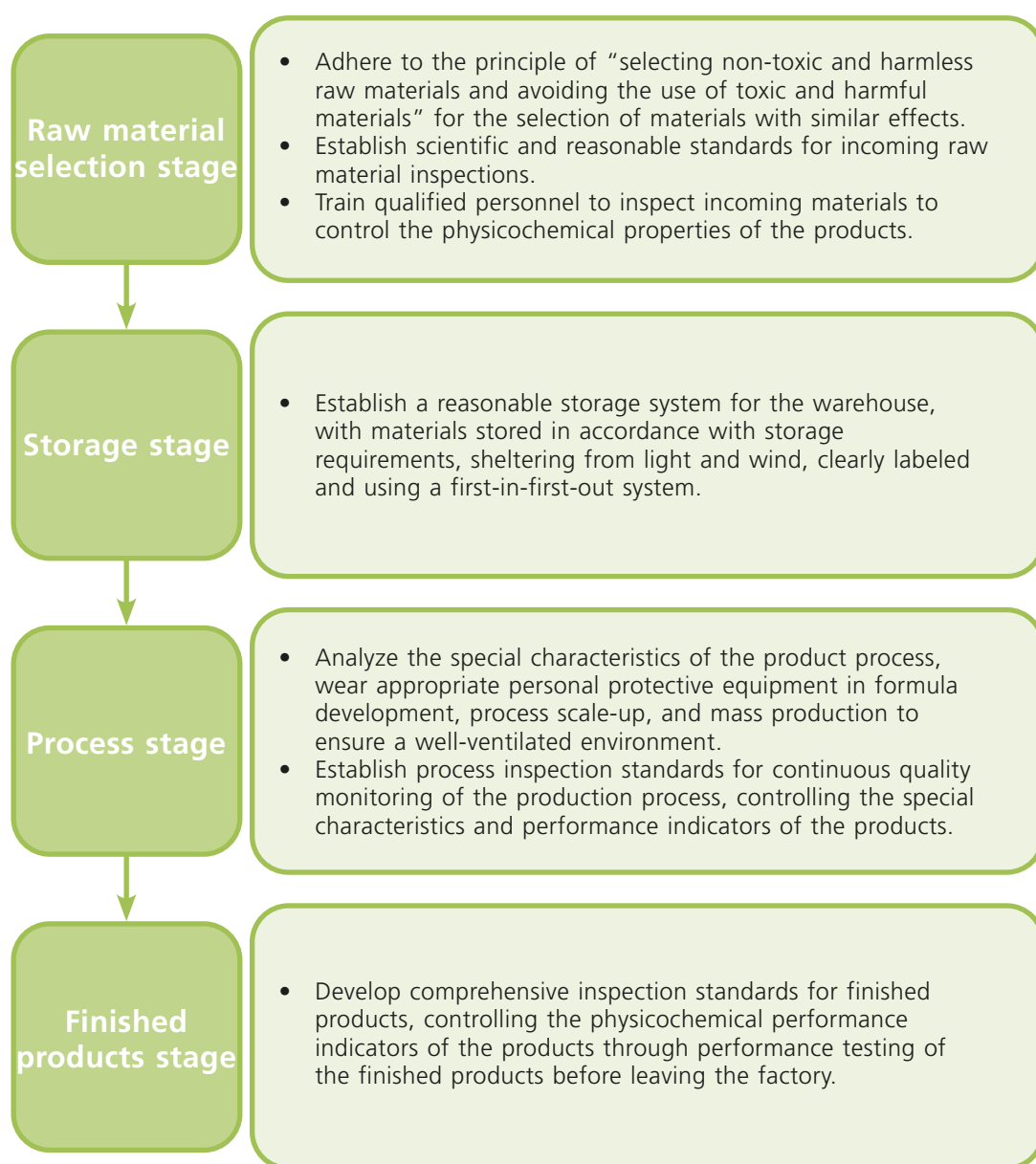
Production Safety Awards and Production Safety Permits obtained by Gu’an Denox

5.2. Product Responsibility

5.2.1. Product Health and Safety

The Group is committed to providing our customers with healthy and safe products. We strictly adhere to national standards in the production of our products and have established operational manuals and quality standards for each stage of the production process, from raw materials to finished products. We monitor product safety throughout the entire process. We follow strict operating procedures during the testing, development, scale-up, and mass production processes to ensure that our products are risk-free and pose no harm.

Product health considerations



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5.2.2. Product Labelling

The Group has formulated the *Management Manual* to strengthen the standardized management of product trademarks. The manual requires that product labels clearly indicate the product name, product standard number, and product quality inspection certificate. We regularly review and inspect product labels to prevent products from being misused during delivery and to ensure that product labels are accurate and effective. If a product issue is discovered, we will trace the origin, responsible person, and destination of each product based on their unique label to determine the cause of the problem.

5.2.3. Product Research and Development

The Group adheres to an innovative corporate culture and continuously pursues research and development of new products and improvement of existing production technologies, striving to provide customers with the highest quality products and services. We have established the *Control Procedure for Design and Development* to strictly monitor the product technology research and development and improvement processes. To ensure that our products meet relevant standards, we have established a series of procedures for reviewing and verifying the research and development of products.

As a leading catalyst developer, the Company actively applies for patents for relevant technological achievements to protect our legitimate rights and interests. As of the end of this Reporting Period, the Company has obtained 20 patent certificates, including multiple software registration rights, utility model patents, and invention patents. During this Reporting Period, Beijing Denox has obtained 1 patent and Gu'an Denox has obtained 3 certificates for utility model patents. At the same time, we strictly abide by the *Patent Law of the People's Republic of China* and the *Copyright Law of the People's Republic of China*. Gu'an Denox has obtained the certification of the Intellectual Property Management System, in order to resolutely protect intellectual property rights and prevent infringement. To avoid related disputes and protect the rights of intellectual property owners, we clearly indicate the ownership of intellectual property on the product packaging during the product development process.

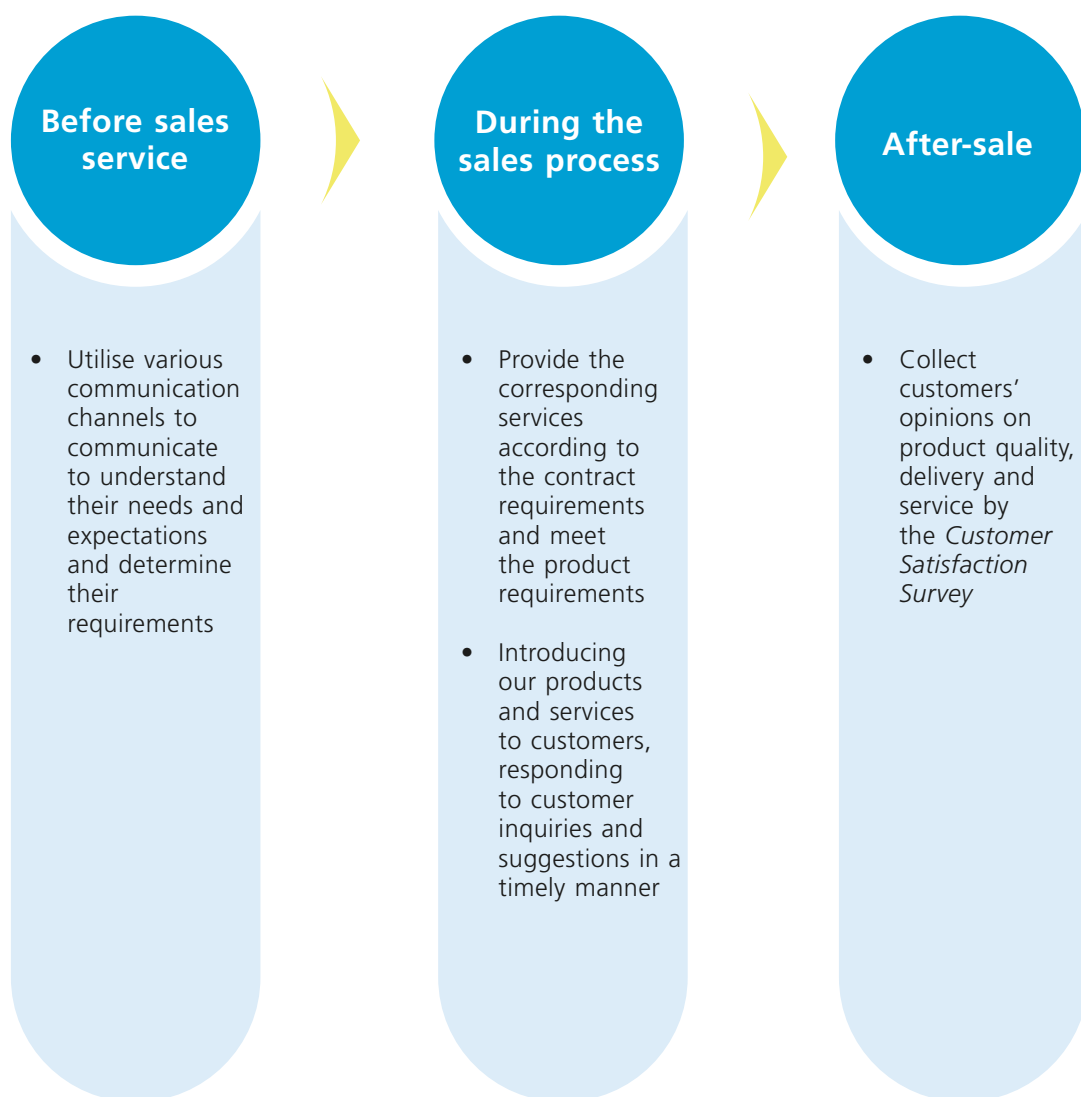


The utility model patents obtained by Gu'an Denox in 2022

5.3. High-quality Service

5.3.1. Customer Service

The Group is committed to improving the quality of its services and products, so as to establish a long-term and stable partnership with our clients. We always prioritize customer feedback and opinions, maintaining positive and effective communication throughout the sales process. We have established the *Control Procedure of Customer Satisfaction* and the *Control Procedure of Customer-related Process* to specify the standard and process of communication with clients throughout the entire service process, to timely learn about customer requirements and opinions regarding products and services, and to enhance customer satisfaction.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has established a clear service complaint handling process to comprehensively address customer feedback and complaints during the service process. Upon receiving a customer complaint, we promptly record the details and report them to management for detailed investigation to identify the root cause. We actively communicate with the customer to discuss and provide feasible solutions to achieve the target of proper resolution of customer complaints.

We strive to continuously improve our service levels and quality by gathering customer feedback and complaints and taking corresponding optimization measures in service content and quality. During the Reporting Period, we did not receive any complaints regarding our products or services.

5.3.2. Customers' Privacy Protection

The Group is committed to protecting customer privacy, keeping customer information properly, and ensuring that customer information is not leaked. The Group has established *the Company Confidentiality Management System (Trial)*, which stipulates the types of confidentiality management that each department is responsible for. Due to the large amount of customer information obtained and stored by the marketing department, the Group has taken specialized information encryption measures. Initially, customer information forms are submitted by sales managers to regional directors, then collected by the marketing department's staff and finally submitted to business unit leaders. Other personnel do not have permission to access this information. Project documents for signed contracts are stored uniformly. Additionally, the Group has signed confidentiality agreements with employees to ensure that they abide by the relevant customer privacy and confidentiality regulations, thus improving confidentiality management.

During the Reporting Period, the Group has not received any information regarding the leakage of customers' privacy.

5.3.3. Avoid False Publicity

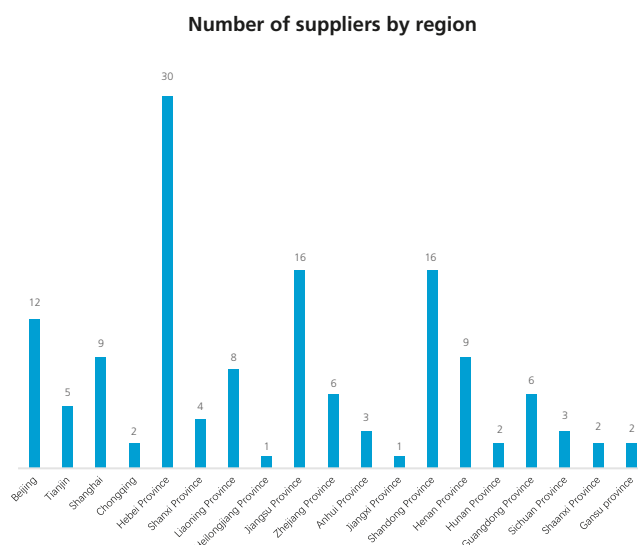
The Group adheres to the trading principle of honesty and fairness and prohibits illegal acts of fraudulent marketing. The content of promotional materials and website of the Group is strictly prepared and written in accordance with the requirements of the *Advertising Law of the People's Republic of China* and is subject to multi-level review to ensure the accuracy of the content. The Group's promotional materials must pass the review before external use to ensure that the products or technologies provided in the promotional materials do not involve infringement and that the promotional content or description complies with the requirements of the Advertising Law. In addition, the Group strictly regulates that any information released through official channels must be reviewed and approved by management before publication to avoid damage to customer rights and interests caused by information errors. For situations where customers request internal information, the proposed reply content must be approved by the relevant department's superior before being responded to, ensuring that the information provided to customers is true and effective.

6. Responsible Operation

6.1. Supplier Management

The Group insists on developing a close partnership with suppliers, hoping to create a mutually beneficial and win-win development plan with suppliers. Therefore, the Group attaches great importance to the impact of suppliers on the environment and society, and strongly advocates the concept of sustainable development in the industry chain.

We have formulated the *Procurement System for the Procurement Department*, the *Code of Conduct for Procurement Personnel of the Company* and the *procurement and supplier management system* to strengthen the management of suppliers. The process of supplier selection and evaluation is clearly defined to ensure that the products and services provided by the selected suppliers meet the internal quality, environmental and social requirements. After conducting market research internally, the Company identified a list of potential suppliers. We then formed a supplier selection team comprising of different departments, who evaluated each potential supplier through on-site inspections and other means, scoring them on various criteria. Suppliers were ultimately selected based on their total score. New qualified suppliers were added to the Group's Qualified Supplier Directory and the top-performing suppliers were hired. To ensure all suppliers meet the required standards, we conducted an annual review of the existing suppliers on the Qualified Supplier Directory to verify their qualifications. During the Reporting Period, we have adhered to the Company's requirements throughout this process and audited 23 suppliers, while cooperating with a total of 137 suppliers.



The Group incorporates the environmental and social performance of suppliers into the selection criteria of suppliers, strictly controls the impact of suppliers on the environment and society and selects suppliers with good performance for cooperation. For example, whether the supplier has been subject to environmental penalties, whether it has obtained an emission permit and whether the environmental protection equipment is in good working order. If the supplier's environmental and social performance is found to be poor during the supplier's periodic review, we will ask the supplier to rectify the situation in a timely manner, and if the rectification is completed, the supplier will be downgraded and continue to be used. If the supplier does not rectify the situation, we will terminate the relationship with the supplier.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Case Study: Considering Suppliers' Environmental and Safety Performance	
In addition to the usual qualification verification of potential suppliers, Gu'an Denox also verifies whether the environmental and safety performance of potential chemical raw materials suppliers meets the Group's standards, including:	
Environmental Indicators for Assessment	Safety Protection Requirement
<ul style="list-style-type: none">• Synchronization rate of pollution control facilities and production equipment• Air emissions and wastewater discharge compliance rate and solid waste handling rate• Major environmental pollution incident• Environmental nuisance caused to residents• Substantial violation of environmental-related laws and regulations	<ul style="list-style-type: none">• Workability of fire safety provisions• Safety management system for special equipment and corresponding records• Safety management system for electricity consumption and corresponding records• Management system for natural gas and corresponding records• Safety management system for dangerous goods and corresponding records

The Group adheres to the concept of “green procurement” and incorporates environmental protection factors into the procurement process to minimize the impact of corporate operations on the environment. Gu'an Denox has now established regulations that when purchasing office equipment and electrical products, products with a Chinese energy efficiency label of level 4 or above must be selected. At the same time, the lighting fixtures in the production workshop and office areas have also been replaced with low-energy LED light bulbs to reduce energy consumption for office and production and save electricity. Beijing Denox has also made relevant regulations, stipulating that only vehicles with emission standards of National Standard 5 or above shall be used for product transportation to reduce emissions during transportation of products. In addition, the cleaning products used in the factory and office areas must be low-volatile organic compound products. Starting from the details of daily operations, we are controlling the negative impact on the environment.

6.2. Anti-corruption

We are committed to building a culture of integrity and probity and adopt a “zero tolerance” approach to combating corruption. We continuously improve our corporate governance system to establish and maintain a good corporate image and social reputation for the Group. The Group strictly abides by the *Criminal Law of the People’s Republic of China*, the *Regulations of the People’s Republic of China for Suppression of Corruption*, the *Anti-Unfair Competition Law of the People’s Republic of China* and the *Anti-money Laundering Law of the People’s Republic of China* and other laws and regulations that have a significant impact on the Group relating to bribery, extortion, fraud, and money laundering.

The Group has developed and implemented the *Anti-Corruption and Anti-Bribery Control Procedures* and the *Corporate Integrity and Self-discipline Management System* to combat corruption from within and promote lawful business operations. We also attach great importance to providing anti-corruption training to directors, employees, and business partners. We ensure that new employees receive anti-corruption education during their induction training to help them establish a bottom-line thinking of integrity. To ensure the effectiveness of learning, we provide relevant training materials through email and offer online training courses to ensure that our employees have a correct understanding of anti-corruption knowledge and establish a good awareness of probity in their work, in compliance with relevant regulations of the Group.

In addition, we strictly require our employees to abide by the principles of business ethics, fairness, and legality, and require key personnel to sign the *Anti-Corruption and Anti-Bribery Control Procedures and the Corporate Integrity and Self-discipline Management System*. We have formulated the Code of Conduct for Procurement Personnel of the Company to regulate high-risk procurement processes and prohibit corrupt behavior. For goods and service suppliers who have business dealings with the Group, we also sign the *Undertaking Combating Bribery/Corruption for Supplier* and the *Supplier Integrity Cooperation Agreement* to establish transparent and clean business relationships. During the Reporting Period, there were no cases of corruption litigation.



To further combat corruption, the Group has established smooth reporting channels, including report boxes and telephone reporting lines, to encourage employees and partners to report corrupt acts of bribery, extortion, fraud, and money laundering, and to strictly protect the rights of whistleblowers. The Group’s *Anti-Corruption and Anti-Bribery Control Procedures* set out in detail the methods of reporting misconduct, the investigation procedures, and the corresponding handling of such reports. If a report is substantiated by the Group, it will be dealt with strictly in accordance with our internal management system and, if it constitutes an offense, it will be referred to the judicial authorities.

Anti-corruption Training of Gu’an Denox

6.3. Caring the Community

The Group understands that sustainable business development and community development are inseparable. As part of our commitment to social responsibility and giving back to the community, we are proactive in understanding and responding to community expectations and needs for our business operations. The Group’s *Control Procedure of Environmental Factors’ Identification and Assessment* specifies the important environmental factors and their environmental impacts for different types of emissions and consumption, with each department evaluating specific environmental factors and their environmental impacts according to its own circumstances, and ultimately identifying important environmental factors and adopting focused control methods. During the Reporting Period, we continued to conduct environmental monitoring in the surrounding areas of the production parks, and managed the noise and air pollutants generated during the production process to ensure that our operations do not cause interference to the surrounding communities. Our complaint and feedback mechanism are also improving. If we receive opinions and feedback from the residents of the surrounding communities, we will investigate and evaluate them, solve relevant problems and give timely responses.

During the COVID-19 period, we regularly carry out disinfection work in the community, and encourage employees to serve as volunteers to support the community’s epidemic prevention work and actively undertake our corporate social responsibility. During the Reporting Period, we donated RMB1,245 for community activities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

7. Reporting Index

Environmental, Social and Governance Reporting Guide Content Index

Mandatory Disclosure Requirements	Description	Relevant Section in the Report
Governance Structure	<p>A statement from the board containing the following elements:</p> <ul style="list-style-type: none"> (i) a disclosure of the board's oversight of ESG issues. (ii) the board's ESG management approach and strategy, including the process used to evaluate, prioritize, and manage material ESG-related issues (including risks to the issuer's businesses); and (iii) how the board reviews progress made against ESG-related goals and targets with an explanation of how they relate to the issuer's businesses. 	Corporate Governance
Reporting Principles	A description of, or an explanation on, the application of the following Reporting Principles in the preparation of the ESG Report	About This Report
Reporting Boundary	A narrative explaining the reporting boundaries of the ESG Report and describing the process used to identify which entities or operations are included in the ESG Report. If there is a change in the scope, the issuer should explain the difference and reason for the change.	About This Report

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

General Disclosures and KPI	Description	Relevant Sections in the ESG Report
Environmental		
Aspect A1: Emissions		
General Disclosure	<p>(a) Policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste</p>	3 Green Operation
KPI A1.1	The types of emissions and respective emissions data.	3.3 Environmental Data
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tons) and, where appropriate, intensity (e.g., per unit of production volume, per facility).	3.3 Environmental Data
KPI A1.3	Total hazardous waste produced (in tons) and, where appropriate, intensity (e.g., per unit of production volume, per facility).	3.3 Environmental Data
KPI A1.4	Total non-hazardous waste produced (in tons) and, where appropriate, intensity (e.g., per unit of production volume, per facility).	3.3 Environmental Data
KPI A1.5	Description of emissions target(s) set, and steps taken to achieve them.	3.1 Environmental Management
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set, and steps taken to achieve them.	3.1 Environmental Management

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

General Disclosures and KPI	Description	Relevant Sections in the ESG Report
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water, and other raw materials.	3.2 Resources Consumption
KPI A2.1	Direct and/or indirect energy consumption by type (e.g., electricity, gas, or oil) in total (kWh in '000s) and intensity (e.g., per unit of production volume, per facility).	3.3 Environmental Data
KPI A2.2	Description of energy use efficiency target(s) set, and steps taken to achieve them.	3.3 Environmental Data
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	3.2 Resources Consumption
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set, and steps taken to achieve them.	3.2 Resources Consumption
KPI A2.5	Total packaging material used for finished products (in tons) and, if applicable, with reference to per unit produced.	3.3 Environmental Data
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources	3.1 Environmental Management
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	3.1 Environmental Management
Aspect A4: Climate Change		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	3.1 Environmental Management
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	3.1 Environmental Management

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

General Disclosures and KPI	Description	Relevant Sections in the ESG Report
Social		
Aspect B1: Employment		
General Disclosure	<p>(a) Policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to compensation and dismissal, recruitment, and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.</p>	4. People-oriented
KPI B1.1	Total workforce by gender, employment type (for example, full- or part- time), age group and geographical region.	4.1 Employees' Rights and Interests
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	4.1 Employees' Rights and Interests
Aspect B2: Health and Safety		
General Disclosure	<p>(a) Policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to providing a safe working environment and protecting employees from occupational hazards.</p>	4.3 Health and Safety
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	4.3 Health and Safety
KPI B2.2	Lost days due to work injury.	4.3 Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	4.3 Health and Safety

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

General Disclosures and KPI	Description	Relevant Sections in the ESG Report
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	4.4 Talent Development
KPI B3.1	The percentage of employees trained by gender and employee category (e.g., senior management, middle management).	4.4 Talent Development
KPI B3.2	The average training hours completed per employee by gender and employee category.	4.4 Talent Development
Aspect B4: Labor Standards		
General Disclosure	(a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor	4 People-oriented
KPI B4.1	Description of measures to review employment practices to avoid child and forced labor.	4.1 Employees' Rights and Interests
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	4.1 Employees' Rights and Interests
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	6.1 Supplier Management
KPI B5.1	Number of suppliers by geographical region.	6.1 Supplier Management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	6.1 Supplier Management
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	6.1 Supplier Management
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	6.1 Supplier Management

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

General Disclosures and KPI	Description	Relevant Sections in the ESG Report
Aspect B6: Product Responsibility		
General Disclosure	<p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to health and safety, advertising, labelling, and privacy matters relating to products and services provided and methods of redress.</p>	5 Quality Comes First
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	5.1 Product Quality
KPI B6.2	Number of products and service-related complaints received and how they are dealt with.	5.3 High Quality Service
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	5.2 Product Responsibility
KPI B6.4	Description of quality assurance process and recall procedures.	5.1 Product Quality
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	5.3 High Quality Service

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

General Disclosures and KPI	Description	Relevant Sections in the ESG Report
Aspect B7: Anti-Corruption		
General Disclosure	<p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to bribery, extortion, fraud, and money laundering.</p>	6.2 Anti-corruption
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases.	6.2 Anti-corruption
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	6.2 Anti-corruption
KPI B7.3	Description of anti-corruption training provided to directors and staff.	
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	6.3 Caring the Community
KPI B8.1	Focus areas of contribution (e.g., education, environmental concerns, labor needs, health, culture, sport).	6.3 Caring the Community
KPI B8.2	Resources contributed (e.g., money or time) to the focus area.	6.3 Caring the Community

INDEPENDENT AUDITOR'S REPORT



TO THE SHAREHOLDERS OF 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)

Opinion

We have audited the consolidated financial statements of Denox Environmental & Technology Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 106 to 178, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (the “**IASB**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “**Code**”) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters *(Continued)*

Impairment of property, plant and equipment and right-of-use assets

Refer to notes 17 and 18 to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>As at 31 December 2022, the net carrying amounts of the Group's property, plant and equipment and right-of-use assets were RMB43,004,000 and RMB10,042,000, no impairment loss was made for the year ended 31 December 2022.</p> <p>During the year ended 31 December 2022, the Group suffered operating losses indicating that the carrying values of the Group's property, plant and equipment and right-of-use assets as detailed in notes 17 and 18 may be impaired. The Group performed an assessment on impairment of the assets at cash generating unit (the "CGU") level. As the estimated recoverable amount of the CGU is higher than the carrying amount, no impairment loss was identified.</p> <p>Management applied significant judgement in determining the value in use of the relevant CGUs, of which the key assumptions adopted in the calculation of value in use include: i) sales growth rates and gross profit margin rates within the forecast period; and ii) discount rate. We focused on this area because of the significance of balances of property, plant and equipment and right-of-use assets and management judgement and assumptions applied in the impairment assessment.</p>	<p>Our procedures in relation to the assessment of impairment of property, plant and equipment and right-of-use assets included:</p> <ul style="list-style-type: none">• assessing the reasonableness of management's determination of CGU based on our knowledge of the business including the use of the assets and internal reporting process;• evaluating the historical accuracy of the cash flow forecasts by comparing the historical financial forecast against actual performance;• evaluating the reasonableness of the key assumptions made by the management in determining the value in use of the CGUs, including budget sales and gross margin, growth rates and suitable discount rates; and• assessing the appropriateness of valuation methodology adopted by the management having considered the Group's circumstances and relevant accounting standards.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters *(Continued)*

Valuation of inventories

Refer to note 21 to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>As at 31 December 2022, the net carrying amount of the Group's inventories was RMB160,950,000, net of accumulated impairment loss of RMB6,326,000.</p> <p>Obsolete and slow-moving inventories were identified by management based on ageing analysis and conditions and marketability of inventories. Allowance was applied to inventories based on assessment of net realisable value by management by considering the latest selling prices and current market conditions.</p> <p>We have identified valuation of inventories as a key audit matter due to the use of significant judgement and estimates by management in identifying obsolete and slow-moving inventories and determining the net realisable value.</p>	<p>Our procedures in relation to the valuation of inventories included:</p> <ul style="list-style-type: none">• Assessing management estimations and judgement on the assessment of net realisable value of inventories and identification of obsolete and slow-moving items based on their subsequent usage and selling prices subsequent to the end of the reporting period and current market conditions; and• Assessing the net realisable value and utilisation of inventories subsequent to the end of the reporting period and discussing with the management in respect of the adequacy of the allowance made by the management based on subsequent usage and sales, ageing analysis and current market conditions.

INDEPENDENT AUDITOR'S REPORT

Other matters

The consolidated financial statements of the Group for the year ended 31 December 2021 were audited by another auditor who expressed an unqualified opinion on those consolidated financial statements on 30 March 2022.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

CL Partners CPA Limited

Certified Public Accountants

Lee Wai Chi

Practising Certificate Number: P07830

Hong Kong

29 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	NOTES	2022 RMB'000	2021 RMB'000
Revenue	7	62,791	71,460
Cost of sales		(49,401)	(59,237)
Gross profit		13,390	12,223
Selling and marketing expenses		(15,817)	(13,316)
Administrative expenses		(17,460)	(20,213)
Research and development expenses		(5,745)	(6,891)
Impairment loss reversed (recognised) in respect of trade receivables, net	22	429	(486)
Other gains, net	9	1,590	713
Share of result of an associate		17	91
Gain on disposal of a subsidiary	35	–	8,618
Finance income	10	321	87
Finance costs	10	(256)	(279)
Loss before tax		(23,531)	(19,453)
Income tax expenses	11	–	–
Loss for the year	12	(23,531)	(19,453)
Other comprehensive income (expense)			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements from functional currency to presentation currency		4,685	(1,630)
Other comprehensive income (expense) for the year		4,685	(1,630)
Total comprehensive expense for the year		(18,846)	(21,083)
Loss for the year attributable to:			
– Owners of the Company		(23,531)	(12,296)
– Non-controlling interests		–	(7,157)
		(23,531)	(19,453)
Total comprehensive expense for the year attributable to:			
– Owners of the Company		(18,846)	(13,926)
– Non-controlling interests		–	(7,157)
		(18,846)	(21,083)
Loss per share attributable to owners of the Company	16		
Basic and diluted (RMB per share)		(0.05)	(0.02)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	NOTES	2022 RMB'000	2021 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	43,004	46,751
Right-of-use assets	18	10,042	14,455
Intangible assets	19	–	–
Interest in an associate	20	108	91
Long-term prepayments	24	351	1,135
		53,505	62,432
Current assets			
Inventories	21	160,950	122,035
Trade receivables	22	15,502	34,957
Financial assets at fair value through other comprehensive income	23	4,398	15,091
Prepayments, deposits and other receivables	24	7,402	14,287
Restricted cash	25	2,600	5,626
Bank deposits with original maturity over three months	25	46,025	–
Bank balances and cash	25	24,017	71,359
		260,894	263,355
Total assets		314,399	325,787
LIABILITIES			
Non-current liabilities			
Lease liabilities	18	1,675	3,966
Deferred income	30	2,361	2,669
		4,036	6,635
Current liabilities			
Trade payables	26	11,217	13,052
Accruals and other payables	27	7,886	10,279
Contract liabilities	28	97,307	82,323
Deferred income	30	308	308
Lease liabilities	18	1,267	1,966
Tax payables		3,703	3,703
		121,688	111,631
Total liabilities		125,724	118,266
Net assets		188,675	207,521

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	NOTES	2022 RMB'000	2021 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	31	31,423	31,423
Reserves		157,252	176,098
		188,675	207,521
Total equity		188,675	207,521
Total equity and liabilities		314,399	325,787

The consolidated financial statements on pages 106 to 178 were approved and authorised for issue by the board of directors on 29 March 2023 and are signed on its behalf by:

Ms. Zhao Shu – Director

Mr. Li Ke – Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Note	Attributable to owners of the Company					Non-controlling interests	Total	
		Share capital	Share premium	Capital reserves	Other reserves (note i)	Accumulated losses			Subtotal
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			RMB'000
At 1 January 2021		31,423	849,824	(552,410)	31,283	(138,673)	221,447	13,989	235,436
Loss for the year		–	–	–	–	(12,296)	(12,296)	(7,157)	(19,453)
Other comprehensive expense for the year									
Exchange differences arising on translation of financial statements from functional currency to presentation currency		–	–	–	(1,630)	–	(1,630)	–	(1,630)
Total comprehensive expense for the year		–	–	–	(1,630)	(12,296)	(13,926)	(7,157)	(21,083)
Dividends paid to non-controlling interests		–	–	–	–	–	–	(315)	(315)
Disposal of a subsidiary	35	–	–	–	(839)	839	–	(6,517)	(6,517)
At 31 December 2021		31,423	849,824	(552,410)	28,814	(150,130)	207,521	–	207,521

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

Note	Attributable to owners of the Company					Total RMB'000
	Share capital	Share premium	Capital reserves	Other reserves (note i)	Accumulated losses	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2022	31,423	849,824	(552,410)	28,814	(150,130)	207,521
Loss for the year	-	-	-	-	(23,531)	(23,531)
Other comprehensive income for the year						
Exchange differences arising on translation of financial statements from functional currency to presentation currency	-	-	-	4,685	-	4,685
Total comprehensive income (expense) for the year	-	-	-	4,685	(23,531)	(18,846)
At 31 December 2022	31,423	849,824	(552,410)	33,499	(173,661)	188,675

Note:

- (i) Other reserves include (a) the currency translation differences; and (b) the statutory reserves. In accordance with the respective articles of association and board resolutions, certain subsidiaries operated in the PRC appropriate certain percentage of the annual statutory net profits, after offsetting any prior year losses as determined under the PRC accounting standards, to the statutory reserve before distributing any dividends. The statutory reserve can be used to offset prior year losses, if any, and may be converted into paid-in capital. For the year ended 31 December 2022, nil (2021: nil) was appropriated from accumulated losses to the statutory reserve.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	2022 RMB'000	2021 RMB'000
OPERATING ACTIVITIES		
Loss before tax	(23,531)	(19,453)
Adjustments for:		
Interest income	(321)	(87)
Finance costs	256	279
Depreciation of property, plant and equipment	5,944	4,500
Depreciation of right-of-use assets	2,176	2,426
Amortisation of intangible assets	–	354
Share of result of an associate	(17)	(91)
Gain on early termination of leases	(254)	–
Gain on lease modification	(22)	–
Loss (gain) on disposal of property, plant and equipment, net	218	(61)
Gain on disposal of a subsidiary	–	(8,618)
Government grants	(831)	(937)
Write-down of inventories	430	824
Impairment loss (reversed) recognised in respect of trade receivables, net	(429)	486
Operating cash flows before movements in working capital	(16,381)	(20,378)
Increase in inventories	(39,345)	(36,255)
Decrease (increase) in trade receivables	19,884	(2,912)
Decrease (increase) in financial assets at fair value through other comprehensive income	10,693	(8,109)
Decrease (increase) in prepayment, deposits and other receivables	7,011	(3,181)
(Decrease) increase in trade payables	(1,835)	1,871
Decrease in bill payables	–	(3,418)
Increase in contract liabilities	14,984	38,355
(Decrease) increase in accruals and other payables	(1,089)	6,352
Cash used in operations	(6,078)	(27,675)
Interest received	321	87
NET CASH USED IN OPERATING ACTIVITIES	(5,757)	(27,588)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	2022 RMB'000	2021 RMB'000
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(2,445)	(4,459)
Proceeds on disposal of property, plant and equipment	30	82
Net cash inflow on disposal of a subsidiary	–	14,606
Withdrawal of restricted cash	4,492	2,372
Placement of restricted cash	(1,466)	(2,406)
Placement of bank deposits with original maturity over three months	(46,025)	–
Withdrawal of pledged bank deposits	–	3,418
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(45,414)	13,613
FINANCING ACTIVITIES		
Repayments of lease liabilities	(1,123)	(1,349)
Government grants received	523	3,914
Interest paid	(256)	(279)
Dividends paid to non-controlling interests	–	(315)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(856)	1,971
NET DECREASE IN CASH AND CASH EQUIVALENTS	(52,027)	(12,004)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	71,359	84,967
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	4,685	(1,604)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	24,017	71,359

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. GENERAL

Denox Environmental & Technology Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 7 November 2014 as an exempted company with limited liability under the Companies Act 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 (hereinafter collectively referred to as the “**Group**”) are principally engaged in design, development and manufacture of DeNOx catalysts in the People’s Republic of China (the “**PRC**”). The ultimate holding company of the Group is Advant Performance Limited, a company incorporated in the British Virgin Islands (“**BVI**”) which is wholly-owned by Ms. Zhao Shu (the “**Controlling Shareholder**”).

On 12 November 2015, the Company’s shares were listed on The Stock Exchange of Hong Kong Limited.

Items included in the consolidated financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “**functional currency**”). The consolidated financial statements are presented in Renminbi (“**RMB**”), which is the functional currency of the principal subsidiaries of the Group where the primary economic environment is in the PRC. Other than the subsidiaries established in the PRC which functional currencies are RMB, the functional currency of the Company and other subsidiaries is Hong Kong dollars (“**HK\$**”).

These consolidated annual financial statements were approved by board of directors of the Company for issue on 29 March 2023.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“**IFRSs**”)

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the “**IASB**”) which are mandatorily effective for the Group’s annual period beginning 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendment to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRSs	Annual Improvements to IFRSs 2018-2020

The application of the amendments to IFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

New and amendments to IFRSs issued but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback ³
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ³
Amendments to IAS 1	Non-current Liabilities with Covenants ³
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to IAS 8	Definition of Accounting Estimates ¹
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after a date to be determined.

³ Effective for annual periods beginning on or after 1 January 2024.

Except for the new and amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to IAS 1 “Classification of Liabilities as Current or Non-current ” (the “2020 Amendments”) and Amendments to IAS 1 “Non-current Liabilities with Covenants” (the “2022 Amendments”)

The 2020 Amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying IAS 32 “Financial Instruments: Presentation”.
- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that the classification should not be affected by management intentions or expectations to settle the liability within 12 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

New and amendments to IFRSs issued but not yet effective *(continued)*

Amendments to IAS 1 “Classification of Liabilities as Current or Non-current ” (the “2020 Amendments”) and Amendments to IAS 1 “Non-current Liabilities with Covenants” (the “2022 Amendments”) (continued)

For rights to defer settlement for at least twelve months from reporting date which are conditional on the compliance with covenants, the requirements introduced by the 2020 Amendments have been modified by the 2022 Amendments. The 2022 Amendments specify that only covenants with which an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date. Covenants which are required to comply with only after the reporting period do not affect whether that right exists at the end of the reporting period.

In addition, the 2022 Amendments specify the disclosure requirements about information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period, if the entity classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting period.

The 2022 Amendments also defer the effective date of applying the 2020 Amendments to annual reporting periods beginning on or after 1 January 2024. The 2022 Amendments, together with the 2020 Amendments, are effective for annual reporting periods beginning on or after 1 January 2024, with early application permitted. If an entity applies the 2020 amendments for an earlier period after the issue of the 2022 Amendments, the entity should also apply the 2022 Amendments for that period.

Based on the Group's outstanding liabilities as at 31 December 2022, the application of the amendments will not result in reclassification of the Group's liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

3.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Basis of consolidation *(continued)*

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Goodwill

Goodwill arising from a business combination is carried at cost less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (the "CGU") (or groups of CGU) that is expected to benefit from the synergies of the combination.

A CGU (or groups of CGU) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or groups of CGU) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit (or groups of CGU). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Investments in associates (continued)

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of IFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Revenue from contracts with customers

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognised revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- The Group’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

The Group recognised revenue from sales of catalysts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Revenue from contracts with customers (continued)

Sales of catalysts

The Group manufactures and sells plate-type DeNOx catalysts to coal-fired power plants (the “**Power Plants**”), certain engineering, procurement and construction (the “**EPCs**”) service providers and boiler manufacturers in the PRC. The Group is responsible for the delivery of goods to customers’ specified destinations after the sales contracts are signed. The customers are responsible for the test run of the function of the Group’s products after installation, and will issue a preliminary acceptance certificate to the Group when the Group’s products are qualified. Sales of plate-type DeNOx catalysts are recognised when control of the goods is transferred to the customers, generally coincides with the time of receipt of the preliminary acceptance certificate.

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

The Group requires certain customers to provide upfront deposits range from 10% to 30% of total contract sum and this has resulted in a contract liability. However, the Group also typically agrees to 1 to 3 years retention period for 10% of the contract value. This amount is included in trade receivables until the end of the retention period as the Group’s entitlement to this final payment is conditional on the Group’s work satisfactorily passing inspection.

Contract assets and contract liabilities

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration from the customer.

Warranties

If a customer does not have the option to purchase a warranty separately, the Group accounts for the warranty in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications (i.e. service-type warranties).

Provisions for the expected cost of warranty obligations are recognised at the date of sale of the relevant products, at the directors’ best estimate of the expenditure required to settle the Group’s obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application of IFRS 16 or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Leases (continued)

Right-of-use assets *(continued)*

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments. The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Leases (continued)

Lease liabilities (continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability, less any lease incentives receivable, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset.

Covid-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2022; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of other reserves.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Retirement benefits costs

Payments to defined contribution plans, including state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Termination benefits

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Taxation *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle current tax liabilities and assets on a net basis.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Current and deferred tax are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as “right-of-use assets” in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to allocate the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group’s accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment loss, on the same basis as intangible assets that are acquired separately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value of inventories represents the estimated selling price in the ordinary course of business less all estimated costs of completion and costs necessary to make the sale. Goods in transit refer to finished goods in transit and held at customer's place.

Cash and cash equivalents

Cash and cash equivalents presented on the consolidated statement of financial position include:

- (a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and
- (b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less accumulated impairment loss.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income which are derived from the Group's ordinary course of business are presented as revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Debt instruments/receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments/receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these debt instruments/receivables are recognised in other comprehensive income and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these debt instruments/receivables. When these debt instruments/receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits/will continue to be held in the FVTOCI reserve.

(iv) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains, net" line item.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets subject to impairment assessment under IFRS 9

The Group performs impairment assessment under expected credit loss (“**ECL**”) model on financial assets (including trade receivables, other receivables, deposits, bill receivables, restricted cash, bank deposits with original maturity over three months and bank balances and cash) which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“**12m ECL**”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument’s external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor’s ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor’s ability to meet its debt obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 (continued)

(i) Significant increase in credit risk *(continued)*

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 (continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Financial instruments (continued)

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities at FVTPL (continued)

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

For financial liabilities that are designated as at FVTPL, the amount of changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

Financial liabilities at amortised cost

Financial liabilities including trade payables and other payables are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Impairment losses on property, plant and equipment, right-of-use assets (other than impairment of goodwill set out in the accounting policy of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets (other than goodwill) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating unit, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit ("CGU")) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Significant accounting policies *(continued)*

Fair value measurement

When measuring fair value except for the Group's leasing transactions and net realisable value of inventories and non-financial assets for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the assets belongs.

The future cash flow is estimated based on past performance and expectation for market development. As the current environment is uncertain, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainty. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts.

As at 31 December 2022, the net carrying amounts of property, plant and equipment and right-of-use assets were RMB43,004,000 and RMB10,042,000 (2021: RMB46,751,000 and RMB14,455,000) respectively. Details of the impairment of property, plant and equipment and right-of-use assets are disclosed in notes 17 and 18.

Estimated useful life of property, plant and equipment

At the end of each reporting period, the directors of the Company review the estimated useful life of property, plant and equipment with finite useful life. The estimated useful life reflects the directors' estimates of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the assets, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life. The net carrying amounts of property, plant and equipment with finite useful life as at 31 December 2022 were RMB43,004,000 (2021: RMB46,751,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(continued)*

Impairment of trade receivables

The impairment provisions for trade receivables are based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the number of days that an individual receivable is outstanding as well as the Group's credit-loss experience and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss and other comprehensive income. As at 31 December 2022, the carrying amount of trade receivables was RMB15,502,000 (2021: RMB34,957,000), net of accumulated impairment loss of RMB3,131,000 (2021: RMB3,834,000).

Estimated allowance for inventories

The management of the Group reviews ageing analysis of inventories at the end of each reporting period and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices, current market conditions as well as the historical experience of selling products of similar nature. As at 31 December 2022, the net carrying amount of inventories was RMB160,950,000 (2021: RMB122,035,000), net of accumulated allowance for inventories of RMB6,326,000 (2021: RMB5,896,000).

Income taxes

As at 31 December 2022, no deferred tax asset has been recognised on the tax losses of RMB191,034,000 (2021: RMB175,170,000) and deductible temporary differences of RMB67,616,000 (2021: RMB64,042,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more than expected, a material deferred tax assets may arise, which would be recognised in profit or loss for the period in which such item takes place.

5. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group considers its capital structure as the aggregate of total equity and long-term debt less cash and short-term deposits. The Group manages its capital structure and makes adjustments to it in order to have funds available to support the business activities which the board of directors intends to pursue in addition to maximising the return to shareholders. The board of directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Group's management to sustain future development of the business. Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Group, is reasonable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2022 RMB'000	2021 RMB'000
Financial assets		
Financial assets at amortised cost (including cash and cash equivalents)	92,121	116,733
Financial assets at FVTOCI	4,398	15,091
Financial liabilities		
Financial liabilities at amortised cost	18,287	22,285

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, financial assets at FVTOCI, deposits and other receivables, bank deposits with original maturity over three months, restricted cash, bank balances and cash, trade payables and accruals and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Approximately 6% (2021: 3%) of the Group's sales is denominated in currencies other than the functional currency of the group entity making the sale.

Certain trade receivables and bank balances are denominated in currencies other than the functional currencies of the relevant group entities. The carrying amounts of the Group's foreign currencies denominated monetary assets at the end of the reporting period are as follows:

	2022 RMB'000	2021 RMB'000
United States dollars ("USD")	37,882	25,559
Euro ("EUR")	183	393
RMB	9	6,904
	38,074	32,856

The Group currently does not have a foreign exchange hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

6. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

Currency risk *(continued)*

Sensitivity analysis

The Group is mainly exposed to USD, EUR and RMB.

The following table details the Group's sensitivity to a 10% (2021: 10%) increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 10% (2021: 10%) change in foreign currency rates.

A positive number below indicates an increase in loss where the respective functional currencies strengthen by 10% (2021: 10%) against the relevant foreign currencies. For a 10% (2021: 10%) weakening of the respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the loss and the amount below would be negative.

	2022 RMB'000	2021 RMB'000
Impact on loss		
USD	3,062	2,070
EUR	14	30
RMB	1	576
	3,077	2,676

Interest rate risk

As the Group has no significant interest-bearing assets (other than cash and cash equivalents, restricted cash and bank deposits with original maturity over three months, details of which have been disclosed in note 25), as at 31 December 2022, the Group's exposure to interest rate risk is not material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

6. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objectives and policies *(continued)*

Credit risk

As at 31 December 2022, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The credit risk of the Group mainly arises from trade receivables, financial assets at FVTOCI, deposits and other receivables, bank deposits with original maturity over three months, restricted cash and bank balances and cash. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL collectively by using a provision matrix, estimated based on historical credit loss experience, the general economic conditions of the industry in which debtors operate as well as forward-looking information at the end of the reporting period. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For deposits and other receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Management considered financial assets at FVTOCI to be low credit risk because they are issued by banks with high credit ratings and thus the impairment provision recognised during the year was limited to 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

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

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

6. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objectives and policies *(continued)*

Credit risk *(continued)*

The Group's exposure to credit risk

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

6. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objectives and policies *(continued)*

Credit risk *(continued)*

The Group's exposure to credit risk *(continued)*

The table below details the credit quality of the Group's financial assets as well as the Group's maximum exposure to credit risk by credit risk rating grades.

	Notes	Internal credit rating	12-month or lifetime ECL	31 December 2022			31 December 2021		
				Gross carrying amount	Loss allowance	Net carrying amount	Gross carrying amount	Loss allowance	Net carrying amount
				RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	22	Note	Lifetime ECL (simplified approach)	18,633	3,131	15,502	38,791	3,834	34,957
Financial assets at FVTOCI	23	Performing	12-month ECL	4,398	–	4,398	15,091	–	15,091
Deposits and other receivables	24	Performing	12-month ECL	3,977	–	3,977	4,791	–	4,791
Bank deposits with original maturity over three months	25	Performing	12-month ECL	46,025	–	46,025	–	–	–
Restricted cash	25	Performing	12-month ECL	2,600	–	2,600	5,626	–	5,626
bank balances and cash	25	Performing	12-month ECL	24,017	–	24,017	71,359	–	71,359

Note: For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on trade receivables by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile is presented based on their past due status in terms of the provision matrix. Note 22 includes further details on the loss allowance for trade receivables.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% (2021: 99%) of the total trade receivables as at 31 December 2022.

The Group has concentration of credit risk as 39% (2021: 30%) of the total trade receivables was due from the five largest customers of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

6. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objectives and policies *(continued)*

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows.

Liquidity tables

	On demand or within 1 year RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2022					
Financial liabilities					
Trade payables	11,217	–	–	11,217	11,217
Accruals and other payables	7,070	–	–	7,070	7,070
Total	18,287	–	–	18,287	18,287
Lease liabilities	1,380	1,449	284	3,113	2,942
	On demand or within 1 year RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2021					
Financial liabilities					
Trade payables	13,052	–	–	13,052	13,052
Accruals and other payables	9,233	–	–	9,233	9,233
Total	22,285	–	–	22,285	22,285
Lease liabilities	2,292	1,708	2,566	6,566	5,932

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

6. FINANCIAL INSTRUMENTS *(continued)*

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured at fair value at the end of each reporting period, grouped into Levels 1 to 3 based on the degree to which the fair value is observable in accordance to the Group's accounting policy.

	2022			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Financial assets at FVTOCI				
Bill receivables	–	–	4,398	4,398

	2021			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Financial assets at FVTOCI				
Bill receivables	–	–	15,091	15,091

There were no transfers between levels of fair value hierarchy during the years ended 31 December 2022 and 2021.

Fair value of financial assets that are measured at fair value on a recurring basis

The valuation techniques and inputs used in the fair value measurements of the financial instrument on a recurring basis are set out below:

Financial instrument	Fair value hierarchy	Fair value as at		Valuation technique and key inputs	Significant unobservable inputs
		2022 RMB'000	2021 RMB'000		
Bill receivables	Level 3	4,398	15,091	Discounted cash flows – By reference to the present value of the expected future cash flows, based on an appropriate discount rate	Discount rate*

* The higher the discount rate, the lower the fair value of bill receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

6. FINANCIAL INSTRUMENTS *(continued)*

Fair value of financial assets that are measured at fair value on a recurring basis *(continued)*

Reconciliation of Level 3 fair value measurements of financial assets on recurring basis:

	Financial assets at FVTOCI RMB'000
At 1 January 2021	7,680
Received from third parties	100,630
Collection upon expiration/selling of financial assets	(92,521)
Disposal of a subsidiary (note 35)	(698)
At 31 December 2021	15,091
Received from third parties	94,543
Collection upon expiration/selling of financial assets	(105,236)
At 31 December 2022	4,398

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosure are required)

The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. REVENUE

Revenue represents revenue arising on sales of goods. An analysis of the Group's revenue for the year is as follows:

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products		
– Sales of goods		
• Plate-type DeNOx catalysts	51,945	34,373
• Honey-comb DeNOx catalysts	9,551	18,310
• DeNOx catalysts for vehicles	1,295	18,777
	62,791	71,460

All revenue from contracts with customers are recognised at a point in time for both years.

Transaction price allocated to the remaining performance obligations for contracts with customers

As at 31 December 2022 and 2021, all of the Group's remaining performance obligations for contracts with customers are for periods of one year or less. Accordingly, the Group has elected the practical expedient and has not disclosed the amount of transaction price allocated to the performance obligations that are unsatisfied (or partially satisfied) as at the end of both reporting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

8. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker (“**CODM**”), for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered. The Group’s business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the CODM. As a result of this evaluation, the Group determined that its business, as a whole, falls into one segment. Accordingly, no analysis of this single operating segment is presented.

Geographical information

The Group’s operations are located in Hong Kong and the PRC.

Information about the Group’s revenue from external customers is presented based on the location of the operations of customers.

	Revenue from external customers	
	2022	2021
	RMB’000	RMB’000
The PRC	59,252	69,486
Southeast Asia	3,539	1,156
Europe	–	818
Total	62,791	71,460

All non-current assets of the Group are located in the PRC.

Information about major customers

Revenue from customers of the corresponding year contributing over 10% of the total revenue of the Group are as follows:

	2022	2021
	RMB’000	RMB’000
Customer A	9,592	11,071
Customer B	N/A ¹	9,909
Customer C	N/A ¹	7,378

¹ The corresponding revenue did not contribute over 10% of the total revenue of the Group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

9. OTHER GAINS, NET

	2022 RMB'000	2021 RMB'000
Government grants (note)	831	937
(Loss) gain on disposal of property, plant and equipment, net	(218)	61
Net foreign exchange gain (loss)	658	(322)
Gain on early termination of leases	254	–
Gain on lease modification	22	–
Others	43	37
	1,590	713

Note: During the year ended 31 December 2021, the Group received a government subsidy of approximately RMB3,080,000 for acquisition of machineries, which has been treated as deferred income and is amortised to profit or loss over the useful lives of the related machineries. This policy has resulted in a credit to profit or loss in the current year of approximately RMB308,000 (2021: RMB103,000). Details of deferred income are set out in note 30.

The remaining amount represented the subsidy income granted to a subsidiary of the Company by the government in Hebei, the PRC. The government grants were one-off with no specific conditions.

10. FINANCE INCOME/FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Finance income		
Interest income on bank balances and cash, restricted cash and bank deposits with original maturity over three months	321	87
Finance costs		
Interest expenses on lease liabilities	(256)	(279)

11. INCOME TAX EXPENSES

	2022 RMB'000	2021 RMB'000
PRC Enterprise Income Tax:		
Current year	–	–
	–	–
Deferred taxation (note 29):		
Current year	–	–
	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

11. INCOME TAX EXPENSES *(continued)*

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI for the years ended 31 December 2022 and 2021.

No provision for Hong Kong Profits Tax of 16.5% been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax for the years ended 31 December 2022 and 2021.

Under the Law of the PRC on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of certain PRC subsidiaries of the Group is 25%.

Pursuant to the relevant laws and regulations in the PRC, the Group’s subsidiary, Gu’an Denox Environmental Equipment Manufacturing Co., Ltd, (“**Gu’an Denox**”), was accredited as high-tech enterprises. It is entitled to the preferential tax rate of 15% for the years ended 31 December 2022 and 2021.

No provision for PRC Enterprise Income Tax has been made as the Group did not have any taxable profits subject to PRC Enterprise Income Tax for the years ended 31 December 2022 and 2021.

The income tax expenses for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2022 RMB'000	2021 RMB'000
Loss before tax	(23,531)	(19,453)
Tax at the domestic income tax rate of 25% (2021: 25%)	(5,883)	(4,863)
Effect of different tax rates of subsidiaries operating in other jurisdictions	356	336
Effect of preferential tax rate in the PRC	413	1,371
Tax effect of expenses not deductible for tax purpose	685	871
Tax effect of tax losses not recognised	3,966	2,029
Utilisation of deductible temporary differences previously not recognised	–	(624)
Tax effect of deductible temporary differences not recognised	463	880
Income tax expenses for the year	–	–

Details of deferred taxation are set out in note 29.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

12. LOSS FOR THE YEAR

	2022 RMB'000	2021 RMB'000
Loss for the year has been arrived at after charging (crediting):		
Employee benefits expenses:		
Directors' emoluments (<i>note 13</i>)	938	1,138
Other staffs' wages, salaries and bonuses	17,817	15,417
Other staffs' retirement benefits schemes contributions	2,526	2,703
Other staffs' welfare and allowance	1,097	1,194
Total employee benefits expenses	22,378	20,452
Auditor's remuneration	604	788
Depreciation of property, plant and equipment	5,944	4,500
Depreciation of right-of-use assets	2,176	2,426
Amortisation of intangible assets	–	354
Net foreign exchange (gain) loss	(658)	322
Impairment loss (reversed) recognised in respect of trade receivables, net	(429)	486
Write-down of inventories included in cost of sales (<i>note</i>)	430	824
Amount of inventories recognised as an expense	48,971	58,413

Note: During the year ended 31 December 2022, write-down of inventories of approximately RMB430,000 (2021: RMB824,000) was made for obsolete inventories that no longer suitable for use in production or saleable in the market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

	Fees RMB'000	Salaries RMB'000	Discretionary bonus RMB'000	Retirement benefits schemes contributions RMB'000	Total RMB'000
For the year ended 31 December 2022					
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings					
Executive directors:					
Ms. Zhao Shu (Chief executive)	–	215	36	–	251
Mr. Kong Hongjun (note ii)	–	43	31	12	86
Mr. Li Ke	–	195	36	58	289
Non-executive directors:					
Mr. Li Xingwu	–	–	–	–	–
Mr. Teo Yi-Dar (note i)	–	–	–	–	–
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings					
Independent non-executive directors:					
Ms. Chan Yeuk Wa	104	–	–	–	104
Mr. Ong Chor Wei	104	–	–	–	104
Mr. Li Min	104	–	–	–	104
	312	453	103	70	938

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (continued)

	Fees RMB'000	Salaries RMB'000	Discretionary bonus RMB'000	Retirement benefits schemes contributions RMB'000	Total RMB'000
For the year ended 31 December 2021					
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings					
Executive directors:					
Ms. Zhao Shu (Chief executive)	–	205	36	36	277
Mr. Kong Hongjun (note ii)	–	187	31	55	273
Mr. Li Ke	–	197	36	55	288
Non-executive directors:					
Mr. Li Xingwu	–	–	–	–	–
Mr. Teo Yi-Dar (note i)	–	–	–	–	–
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings					
Independent non-executive directors:					
Ms. Chan Yeuk Wa	100	–	–	–	100
Mr. Ong Chor Wei	100	–	–	–	100
Mr. Li Min	100	–	–	–	100
	300	589	103	146	1,138

Notes:

(i) Resigned on 25 February 2022.

(ii) Resigned on 18 March 2022.

Ms. Zhao Shu is also the chief executive of the Company and her emoluments disclosed above include those for services rendered by her as the chief executive.

During the years ended 31 December 2022 and 2021, neither the chief executive nor any of directors waived or agreed to waive any emoluments. No emoluments were paid or payable by the Group to the chief executive or any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office during both years.

The discretionary bonus is determined by reference to the Group's and the individuals' performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2021: two) were directors and the chief executive of the Company whose emoluments are included in the disclosures in note 13 above. The emoluments of the remaining three (2021: three) individuals were as follows:

	2022 RMB'000	2021 RMB'000
Salaries and allowances	637	662
Discretionary bonus	901	914
Retirement benefits scheme contributions	97	132
	1,635	1,708

Their emoluments were within the following bands:

	2022 No. of employees	2021 No. of employees
Nil to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	1	1

During the years ended 31 December 2022 and 2021, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

15. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2022, nor has any dividend been proposed since the end of the reporting period (2021: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

16. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	2022 RMB'000	2021 RMB'000
Loss		
Loss for the purpose of basic and diluted loss per share (loss for the year attributable to owners of the Company)	(23,531)	(12,296)
	Number of shares '000	Number of shares '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	494,037	494,037

The diluted loss per share was the same as the basic loss per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Vehicles RMB'000	Office equipment and others RMB'000	Leasehold improvements RMB'000	Construction in progress ("CIP") RMB'000	Total RMB'000
Cost							
At 1 January 2021	35,156	77,132	1,820	1,606	2,311	552	118,577
Additions	–	1,461	131	11	–	4,535	6,138
Write-off	–	(251)	(128)	(30)	–	–	(409)
Transfer from CIP	–	4,627	–	–	–	(4,627)	–
Disposal of a subsidiary (note 35)	(8,437)	(5,691)	(174)	(399)	(1,520)	–	(16,221)
At 31 December 2021 and 1 January 2022	26,719	77,278	1,649	1,188	791	460	108,085
Additions	–	2,243	9	193	–	–	2,445
Disposals/write-off	–	(1,529)	–	(155)	–	–	(1,684)
At 31 December 2022	26,719	77,992	1,658	1,226	791	460	108,846
Accumulated depreciation and impairment							
At 1 January 2021	11,666	49,023	1,485	1,431	164	–	63,769
Depreciation provided for the year	1,498	2,577	51	115	259	–	4,500
Eliminated on write-off	–	(237)	(122)	(29)	–	–	(388)
Disposal of a subsidiary (note 35)	(2,036)	(3,893)	(159)	(358)	(101)	–	(6,547)
At 31 December 2021 and 1 January 2022	11,128	47,470	1,255	1,159	322	–	61,334
Depreciation provided for the year	1,279	4,394	98	173	–	–	5,944
Eliminated on disposals/write-off	–	(1,329)	–	(107)	–	–	(1,436)
At 31 December 2022	12,407	50,535	1,353	1,225	322	–	65,842
Carrying amounts							
At 31 December 2022	14,312	27,457	305	1	469	460	43,004
At 31 December 2021	15,591	29,808	394	29	469	460	46,751

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

The above items of property, plant and equipment, other than CIP, are depreciated on a straight-line basis over the estimated useful lives of the assets, as follows:

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

As at 31 December 2022, the Group is in the progress of applying for registration of the ownership certificates for certain of its buildings with carrying amounts of approximately RMB1,836,000 (2021: RMB5,030,000). In the opinion of the directors of the Company, the absence of formal title to these buildings does not impair the value of the relevant assets and the ownership of the buildings to the Group as the Group has paid in full purchase consideration of these buildings and the probability of being evicted on the ground of an absence of formal title is remote.

In view of the operating losses during the years ended 31 December 2022 and 2021, the directors of the Company have conducted impairment assessment on recoverable amount of the property, plant and equipment and right-of-use assets of the Group. The Group estimates the recoverable amount of three CGUs to which the asset belongs when it is not possible to estimate the recoverable amount individually, including Plate-type DeNOx catalysts (the “**Plate-type CGU**”), DeNOx catalysts for vehicles (the “**Vehicle CGU**”) and honey-comb DeNOx catalysts (the “**Honey-comb CGU**”). The recoverable amount of the three CGUs are determined based on value in use calculation performed by the management of the Group.

Based on the result of the assessment, management of the Group determined that the estimated recoverable amounts of the Plate-type CGU, the Vehicle CGU and Honey-comb CGU are higher than their carrying amounts. No impairment loss was identified during the years ended 31 December 2022 and 2021. The recoverable amounts of the CGUs have been determined on the basis of its value in use using cashflow projection provided by the management of the Company. That calculation uses cash flow projections based on financial budgets approved by the management of the Group covering the following 5 years with a pre-tax discount rate of 14.7% as at 31 December 2022 (2021: 13.2%). The cash flows beyond the five-year period are extrapolated using 2% growth rate (2021: 0%). This growth rate is based on the industry growth forecasts and does not exceed the long-term average growth rate for the relevant industry. Another key assumption for the value in use calculated is the budgeted gross margin, which is determined based on the CGUs’ past performance and management expectations for the market development.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

18. LEASES

(i) Right-of-use assets

	2022 RMB'000	2021 RMB'000
Land	5,615	7,101
Properties	4,427	7,345
Vehicle	–	9
	10,042	14,455

Right-of-use assets of RMB5,615,000 (2021: RMB7,101,000) represents land use rights located in the PRC.

The Group has lease arrangements for properties including offices, warehouse and factory and vehicle. The lease terms are generally ranged from four to six years. None of these leases include variable lease payments.

Extension options are included in the lease of properties. Certain periods covered by extension options were included in these lease terms as the Group was reasonably certain to exercise the option.

Due to a new lease of factory, addition to the right-of-use assets for the year ended 31 December 2022 amounted to approximately RMB1,450,000 (2021: RMB4,370,000), of which none of advance payment (2021: RMB880,000) was made in previous year and lease liabilities of RMB1,450,000 (2021: RMB3,490,000) was recognised.

In current year, the early termination on the rental agreements has been mutually agreed, resulting in the gain on early termination of leases amounted to RMB254,000 (2021: Nil). The Group has also extended a two-year lease in respect of a property from Mr. Chen Qizhao, resulting in the gain on lease modification amounted to RMB22,000 (2021: Nil).

(ii) Lease liabilities

	2022 RMB'000	2021 RMB'000
Non-current	1,675	3,966
Current	1,267	1,966
	2,942	5,932

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

18. LEASES (continued)

(ii) Lease liabilities (continued)

	2022 RMB'000	2021 RMB'000
Amounts payable under lease liabilities		
Within one year	1,267	1,966
After one year but within two years	1,393	1,531
After two years but within five years	282	2,435
	2,942	5,932
Less: amount due for settlement within 12 months (shown under current liabilities)	(1,267)	(1,966)
Amount due for settlement after 12 months	1,675	3,966

During the year ended 31 December 2022, the Group entered into a new lease agreement in respect of renting factory and recognised lease liabilities of approximately RMB1,450,000 (2021: RMB3,490,000).

(iii) Amounts recognised in profit or loss

	2022 RMB'000	2021 RMB'000
Depreciation expense on right-of-use assets		
– Land	182	265
– Properties	1,985	2,126
– Vehicle	9	35
Interest expenses on lease liabilities	256	279

(iv) Others

During the year ended 31 December 2022, the total cash outflow for leases amount to RMB1,379,000 (2021: RMB1,628,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

19. INTANGIBLE ASSETS

	Goodwill RMB'000	Patent rights RMB'000	Technical know-how RMB'000	Software RMB'000	Total RMB'000
Cost					
At 1 January 2021	7,262	8,124	31,640	7	47,033
Disposal of a subsidiary (note 35)	(7,262)	(2)	(11,040)	(7)	(18,311)
At 31 December 2021 and 31 December 2022	–	8,122	20,600	–	28,722
Accumulated amortisation and impairment					
At 1 January 2021	7,262	8,124	28,785	5	44,176
Charge for the year	–	–	353	1	354
Disposal of a subsidiary (note 35)	(7,262)	(2)	(8,538)	(6)	(15,808)
At 31 December 2021 and 31 December 2022	–	8,122	20,600	–	28,722
Carrying amounts					
At 31 December 2022	–	–	–	–	–
At 31 December 2021	–	–	–	–	–

Patent rights, technical know-how and software are amortised on a straight-line basis over 7 to 10 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

20. INTEREST IN AN ASSOCIATE

	2022 RMB'000	2021 RMB'000
Cost of investment in an associate – unlisted	600	600
Share of post-acquisition losses and other comprehensive income	(492)	(509)
	108	91

As at 31 December 2022 and 2021, the Group had interest in the following associate:

Name of entity	Form of entity	Place of establishment/ operation	Class of shares held	Proportion of ownership interest/voting power held by the Group		Principal activity
				2022	2021	
廊坊迪諾思環保科技有限公司 Langfang Denox Environmental & Technology Co., Ltd.* ("Langfang Denox") (note)	Company with limited liability	The PRC	Registered capital	40%	40%	Manufacture and sale of DeNOx catalysts for vehicles

* The English name is for identification purposes only.

Note: During the year ended 31 December 2022, the Group contributed an amount of nil (2021: nil) to Langfang Denox and holds 40% equity interest in Langfang Denox.

The financial information of the associate is immaterial to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

21. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	17,363	20,467
Work-in-progress	695	1,262
Finished goods	26,354	22,208
Goods in transit	116,538	78,098
	160,950	122,035

During the year ended 31 December 2022, write-down of inventories of approximately RMB430,000 (2021: RMB824,000) was recognised and included in cost of sales for obsolete inventories that no longer suitable for use in production or saleable in the market.

22. TRADE RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	18,633	38,791
Less: Allowance for impairment of trade receivables	(3,131)	(3,834)
	15,502	34,957

As at 31 December 2022, the gross amount of trade receivables arising from contracts with customers amounted to RMB18,633,000 (2021: RMB38,791,000).

Included in trade receivables, amount of RMB6,524,000 (2021: RMB12,581,000) represented the receivables under retention periods.

The Group allows a credit period of 30 days to 90 days (2021: 30 days to 90 days) to its customers. The following is an ageing analysis of trade receivables, net of allowance for impairment of trade receivables, presented based on the date of revenue recognition dates, at the end of the reporting period.

	2022 RMB'000	2021 RMB'000
Within 1 year	8,267	18,332
1 year to 2 years	4,842	7,951
2 years to 3 years	1,755	7,413
Over 3 years	638	1,261
	15,502	34,957

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

22. TRADE RECEIVABLES *(continued)*

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtors' current financial positions, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The Group recognised lifetime ECL for trade receivables based on the ageing of customers collectively that are not individually significant as follows:

As at 31 December 2022	Gross carrying amount RMB'000
Within 1 year	8,464
1 year to 2 years	5,619
2 years to 3 years	2,407
Over 3 years	2,143
	18,633

As at 31 December 2021	Gross carrying amount RMB'000
Within 1 year	19,285
1 year to 2 years	8,708
2 years to 3 years	8,953
Over 3 years	1,845
	38,791

The weighted average expected loss rate is 16.80% (2021: 9.88%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

22. TRADE RECEIVABLES *(continued)*

The movement in the allowance for impairment of trade receivables is set out below:

	2022 RMB'000	2021 RMB'000
At the beginning of the year	3,834	3,348
Impairment losses recognised	–	486
Impairment losses reversed	(429)	–
Write-offs	(274)	–
At the end of the year	3,131	3,834

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022 RMB'000	2021 RMB'000
Bill receivables	4,398	15,091

The fair value of bill receivables is disclosed in note 6.

As at 31 December 2022 and 2021, financial assets at FVTOCI represented bill receivables where the contractual cash flows are solely principal and interest and the objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets.

All financial assets at FVTOCI are aged within 365 days (2021: 365 days).

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Value-added tax recoverable	1,861	4,581
Deposits	2,713	2,984
Prepayments	1,915	6,050
Other receivables	1,264	1,807
	7,753	15,422
Less: prepayments classified as non-current assets	(351)	(1,135)
Current portion included in prepayments, deposits and other receivables	7,402	14,287

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

25. BANK DEPOSITS WITH ORIGINAL MATURITY OVER THREE MONTHS/RESTRICTED CASH/BANK BALANCES AND CASH

Bank deposits with original maturity over three months

As at 31 December 2022, bank deposits with original maturity over three months amounting to RMB46,025,000 (2021: nil). The pledged bank deposits carried interest rate ranging from 4% to 5.07% (2021: nil) per annum as at 31 December 2022.

Restricted cash

Restricted cash are held as guarantee for bidding, product quality and performance of the Group's products. The guarantee period is ranged from one to two years. The restricted cash carried interest rate ranging from 0.001% to 1.1%% (2021: ranging from 0.001% to 1.1%) per annum as at 31 December 2022.

Bank balances and cash

Bank balances and cash comprise cash at bank and in hand. Cash at bank carried interest rates ranging from 0.001% to 0.35% (2021: 0.1% to 0.35%) per annum as at 31 December 2022.

Restricted cash, bank deposits with original maturity over three months and bank balances and cash are denominated in the following currencies:

	2022 RMB'000	2021 RMB'000
RMB	8,660	24,920
HK\$	25,918	26,425
USD	37,882	25,559
EUR	182	81
	72,642	76,985

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

26. TRADE PAYABLES

	2022 RMB'000	2021 RMB'000
Trade payables	11,217	13,052

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2022 RMB'000	2021 RMB'000
Within 6 months	8,183	12,960
6 months to 1 year	1,791	–
1 year to 2 years	1,134	45
Over 2 years	109	47
	11,217	13,052

The average credit period on purchases is from 30 days to 60 days (2021: 30 days to 60 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

27. ACCRUALS AND OTHER PAYABLES

	2022 RMB'000	2021 RMB'000
Payables for purchases of property, plant and equipment	993	3,123
Accrued payroll and welfare	4,032	4,878
Warranty provision	730	1,006
Other payables and accruals	2,131	1,272
	7,886	10,279

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

28. CONTRACT LIABILITIES

	2022 RMB'000	2021 RMB'000
Advances received to deliver goods	97,307	82,323

Receipts in advance are mainly from sales of plate-type DeNOx catalysts and honey-comb DeNOx catalysts. In general, the Group receives certain percentage of the contract sum as advance payment from the customers upon signing of the sales contracts.

The increase in contract liabilities in 2022 were mainly due to more sales contracts were entered and payment received from customers near the end of the reporting period.

Revenue recognised during the year ended 31 December 2022 that was included in the contract liabilities at the beginning of the year is RMB44,661,000 (2021: RMB13,717,000). There was no revenue recognised in the current year that related to performance obligations that were satisfied in a prior year.

29. DEFERRED TAXATION

The following are the deferred tax liabilities recognised and movements thereon during the current and prior year:

	Fair value adjustments resulting from acquisition of a subsidiary RMB'000
At 1 January 2021	1,291
Disposal of a subsidiary (note 35)	(1,291)
At 31 December 2021 and 31 December 2022	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

29. DEFERRED TAXATION *(continued)*

As at 31 December 2022, the Group has unused tax losses of RMB191,034,000 (2021: RMB175,170,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB185,382,000 (2021: RMB169,182,000) that will be expired within ten years. Other losses may be carried forward indefinitely.

As at 31 December 2022, the Group has deductible temporary differences of RMB67,616,000 (2021: RMB64,042,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

30. DEFERRED INCOME

	2022 RMB'000	2021 RMB'000
Government grants		
Non-current	2,361	2,669
Current	308	308
	2,669	2,977

During the year ended 31 December 2021, the Group received a government subsidy of approximately RMB3,080,000 for acquisition of machineries. This amount has been treated as deferred income and is amortised to profit or loss over the useful lives of the related machineries. This policy has resulted in a credit to profit or loss in the current year of approximately RMB308,000 (2021: RMB103,000). As at 31 December 2022, an amount of approximately RMB2,669,000 (2021: RMB2,977,000) remains to be amortised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

31. SHARE CAPITAL

	Number of shares '000	Share capital USD'000
--	-----------------------------	--------------------------

Ordinary shares of USD0.01 each

Authorised

At 1 January 2021, 31 December 2021, 1 January 2022 and
31 December 2022

5,000,000 50,000

	Number of shares '000	Share capital RMB'000
--	-----------------------------	--------------------------

Issued and fully paid

At 1 January 2021, 31 December 2021, 1 January 2022 and
31 December 2022

494,037 31,423

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during both years.

32. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2022, the Group entered into a new arrangement in respect of factory. At the commencement of lease, the Group recognised right-of-use assets and lease liabilities of RMB1,450,000 (2021: RMB3,490,000) which represents the present value of the lease payments that are not paid at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

33. CAPITAL COMMITMENTS

	2022 RMB'000	2021 RMB'000
Commitment to contribute capital to an associate (note i)	1,400	1,400
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	1,115	1,114

Note:

- (i) In February 2019, Gu'an Denox, a subsidiary of the Company, and two third party individuals established Langfang Denox, a company engaged in development and manufacture of DeNOx catalysts for vehicles, in which the Group will make a capital contribution of RMB2,000,000 and hold 40% of its total interests. During the year ended 31 December 2022, the Group contributed an amount of RMBnil (2021: nil) to Langfang Denox.

34. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs, capped at HK\$1,500 per month, to the MPF Scheme, in which the contribution is matched by employees.

The employees of the Company's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to profit or loss of RMB2,596,000 (2021: RMB2,849,000) represents contributions payable to these schemes by the Group in respect of the year ended 31 December 2022.

35. DISPOSAL OF A SUBSIDIARY

On 8 March 2021, the Group entered into a sale and purchase agreement with Mr. Chen Zheng Fang (陳正芳), the non-controlling shareholder of the Group in which the Group agreed to dispose of the entire 51% equity interest of a subsidiary, Wuxi Denox Environmental & Technology Co., Ltd ("Wuxi Denox"), with the cash consideration of approximately RMB15,401,000. The transaction was completed in April 2021. Details are disclosed in the Group's announcement dated 8 March 2021. As at 31 December 2021, cash consideration of approximately RMB15,401,000 was fully settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

35. DISPOSAL OF A SUBSIDIARY *(continued)*

The net assets of Wuxi Denox as at the date of disposal were as follow:

	RMB'000
Property, plant and equipment	9,674
Right-of-use assets	7,266
Intangible assets	2,503
Inventories	4,119
Financial assets at fair value through other comprehensive income	698
Other receivables	119
Bank balances and cash	795
Trade and other payables	(6,734)
Tax payables	(3,849)
Deferred tax liability	(1,291)
Net assets disposed of	13,300
Less: Non-controlling interests	(6,517)
	6,783
Gain on disposal of a subsidiary:	
Consideration received	15,401
Net assets disposed of	(13,300)
Non-controlling interests	6,517
Gain on disposal of a subsidiary	8,618
	RMB'000
Net cash inflow arising on disposal:	
Cash consideration received	15,401
Less: Cash and cash equivalents disposed of	(795)
	14,606

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

36. RELATED PARTY TRANSACTIONS

- (a) The following persons are related parties of the Group during the years ended 31 December 2022 and 2021:

Name of related party	Nature of relationship
Mr. Chen Qizhao	Close family member of the Controlling Shareholder

(b) Transactions with related parties

- (i) In current year, the Group has extended a two-year lease in respect of a property from Mr. Chen Qizhao. The amount of rent payable by the Group under the lease is RMB329,000 per year. As at 31 December 2021, the carrying amount of such lease liabilities is RMB287,000 (2022: nil). During the year ended 31 December 2022, the Group fully paid the lease payment of RMB658,000 (2021: nil) to Mr. Chen Qizhao.

(c) Compensation of key management personnel

The remuneration of the directors of the Company and other members of key management during the year was as follows:

	2022 RMB'000	2021 RMB'000
Salaries and allowances	1,090	1,242
Discretionary bonus	1,004	981
Retirement benefits scheme contributions	167	256
	2,261	2,479

The remuneration of the directors of the Company and key management is determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities.

	1/1/2022 RMB'000	Financing cash flows RMB'000	Non-cash changes				31/12/2022 RMB'000
			Finance cost incurred RMB'000	New lease arrangement RMB'000	Lease modification RMB'000	Early termination of leases RMB'000	
Lease liabilities (note 18)	5,932	(1,379)	256	1,450	(313)	(3,004)	2,942
	5,932	(1,379)	256	1,450	(313)	(3,004)	2,942

	1/1/2021 RMB'000	Financing cash flows RMB'000	Non-cash changes			31/12/2021 RMB'000
			Finance cost incurred RMB'000	New lease arrangement RMB'000	Disposal of a subsidiary RMB'000	
Amount due to non-controlling shareholder of a subsidiary	610	–	–	–	(610)	–
Lease liabilities (note 18)	3,791	(1,628)	279	3,490	–	5,932
	4,401	(1,628)	279	3,490	(610)	5,932

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	NOTES	2022 RMB'000	2021 RMB'000
ASSETS			
Non-current assets			
Investment in a subsidiary		–	–
Amount due from a subsidiary	(a)	194,211	178,655
		194,211	178,655
Current assets			
Prepayments, deposits and other receivables		402	367
Bank deposits with original maturity over three months		46,025	–
Bank balances and cash		4,738	48,024
		51,165	48,391
Total assets		245,376	227,046
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		31,423	31,423
Reserves	(b)	199,285	182,621
Total equity		230,708	214,044
LIABILITIES			
Current liabilities			
Accruals and other payables		2,008	1,428
Amounts due to subsidiaries		12,660	11,574
Total liabilities		14,668	13,002
Total equity and liabilities		245,376	227,046

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Notes:

- (a) The amount is unsecured, non-interest bearing and not expected to repay within one year.
- (b) Movements in reserves

	Share premium RMB'000	Accumulated losses RMB'000	Other reserves RMB'000	Total RMB'000
At 1 January 2021	849,824	(689,050)	31,784	192,558
Loss for the year	–	(3,341)	–	(3,341)
Exchange differences arising on translation of financial statements	–	–	(6,596)	(6,596)
At 31 December 2021	849,824	(692,391)	25,188	182,621
Loss for the year	–	(3,307)	–	(3,307)
Exchange differences arising on translation of financial statements	–	–	19,971	19,971
At 31 December 2022	849,824	(695,698)	45,159	199,285

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

39. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at 31 December 2022 and 2021 are as follows:

Name of subsidiary	Place of incorporation/ operations	Class of shares held	Issued and fully paid share capital/ registered capital	Proportion of ownership interest held by the Company				Proportion of voting power held by the Company		Principal activities
				Directly		Indirectly		2022	2021	
				2022	2021	2022	2021			
				%	%	%	%			
Denox Investments Holdings Limited	The BVI	Ordinary share	USD1/USD1	100	100	–	–	100	100	Investment holding
Denox Environmental & Technology (HK) Investments Co., Ltd	Hong Kong	Ordinary share	HK\$1/HK\$1	–	–	100	100	100	100	Investment holding
Beijing Denox [#]	The PRC	Registered capital	RMB250,000,000/ RMB270,000,000	–	–	100	100	100	100	Plate-type DeNOx catalysts design, distribution and selling
Gu'an Denox [*]	The PRC	Registered capital	RMB15,000,000/ RMB15,000,000	–	–	100	100	100	100	Plate-type DeNOx catalysts production
Wuxi Denox [*]	The PRC	Registered capital	RMB10,500,000/ RMB26,000,000	–	–	–	–	–	–	Stainless steel mesh production

[#] Being wholly foreign owned enterprise established in the PRC.

^{*} Being registered as a limited liability company under the PRC law.

None of the subsidiaries have non-controlling interests that are material to the Group.

None of the subsidiaries had issued any debt securities at the end of both years or at any time during both years.

FIVE YEARS FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000
Revenue	54,436	61,540	64,776	71,460	62,791
Gross (loss)/profit	(3,847)	6,660	15,690	12,223	13,390
Operating loss	(43,036)	(38,886)	(21,523)	(19,261)	(23,596)
Loss before income tax	(39,217)	(38,385)	(21,400)	(19,453)	(23,531)
Loss for the year attributable to owners of the Company	(39,716)	(40,058)	(21,027)	(12,296)	(23,531)

ASSETS AND LIABILITIES

	As at 31 December				
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000
Total assets	335,782	312,094	315,726	325,787	314,399
Total liabilities	37,310	51,563	80,290	118,266	125,724
Total equity	298,472	260,531	235,436	207,521	188,675

GLOSSARY

"Articles of Association"	the memorandum and articles of association of the Company (as amended, supplemented or otherwise modified from time to time)
"Audit Committee"	the audit committee of the Company
"Board"	the board of Directors
"CG Code"	Corporate Governance Code contained in Appendix 14 of the Listing Rules
"China" or the "PRC"	the People's Republic of China and, except where the context requires and only for the purpose of this annual report, references in this annual report to China and the PRC exclude Taiwan, Macau Special Administrative Region and Hong Kong Special Administrative Region
"Company"	Denox Environmental & Technology Holdings Co., Ltd., an exempted company incorporated in Cayman Islands with limited liability, the shares of which is listed on Stock Exchange (stock code: 1452)
"DeNOx"	the process of reducing the NOx concentration in industrial flue gas emissions
"DeNOx catalyst"	a kind of chemical substance which is the core component of SCR, and acts by producing the chemical reaction to convert NOx into N2 and H2O. The basic element of the catalyst mainly includes TiO 2 and V2O5
"Directors"	the directors of the Company
"Group"	Company and its subsidiaries (collectively, the " Group " or " Denox ")
"Listing Date"	12 November 2015, being the date on which dealing in the Shares first commenced on the main board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules
"plate-type DeNOx catalyst"	a plate-type DeNOx catalyst takes metal as the carrier. Surface coating is composed of active ingredient
"Reporting Period"	the year ended 31 December 2022
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shares"	the shares of the Company
"Shareholders"	the holder of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"%"	per cent