

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

For the transition period from to

Commission file number: 001-39978

CN ENERGY GROUP, INC.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

British Virgin Islands

(Jurisdiction of incorporation or organization)

**Building 2-B, Room 206, No. 268 Shiniu Road
Liandu District, Lishui City, Zhejiang Province
PRC**

(Address of principal executive offices)

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At the address of the Company set forth above

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A ordinary shares, no par value per share	CNEY	The Nasdaq Stock Market LLC

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

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An aggregate of 20,062,658 Class A ordinary shares and 3,020,969 Class B ordinary shares, no par value, as of September 30, 2022.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

* The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

* If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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INTRODUCTION

In this annual report on Form 20-F, unless the context otherwise requires, references to:

- “China” or the “PRC” are to the People’s Republic of China;
- “Class A ordinary shares” are to the Class A ordinary shares, no par value, of CN Energy (as defined below);
- “Class B ordinary shares” are to the Class B ordinary shares, no par value, of CN Energy. Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. In respect of matters requiring a vote of all shareholders, each holder of Class A ordinary shares will be entitled to one vote per one Class A ordinary share and each holder of Class B ordinary shares will be entitled to 50 votes per one Class B ordinary share. The Class A ordinary shares are not convertible into shares of any other class. The Class B ordinary shares are convertible into Class A ordinary shares at any time after issuance at the option of the holder on a one-to-one basis;
- “CN Energy,” “we,” “us,” “our,” “our Company,” and the “Company” are to CN ENERGY GROUP. INC. (also referred to as 中北能源集团有限公司 in Chinese), a company limited by shares organized under the laws of British Virgin Islands;
- “CN Energy Development” are to CN Energy Industrial Development Co., Ltd. (also referred to as 中北能源产业发展有限公司 in Chinese), a company with limited liability organized under the laws of the PRC, which is jointly owned by Zhejiang CN Energy and Manzhouli CN Technology (as defined below);
- “Energy Holdings” are to CN Energy’s wholly owned subsidiary, CLEAN ENERGY HOLDINGS LIMITED (also referred to as 清洁能源控股有限公司 in Chinese), a Hong Kong corporation;
- “Exchange Act” are to the Securities Exchange Act of 1934, as amended;
- “Hangzhou Forasen” are to Hangzhou Forasen Technology Co., Ltd. (also referred to as 杭州富来森科技有限公司 in Chinese), a company with limited liability organized under the laws of the PRC, which is wholly owned by CN Energy Development;
- “Khingang Forasen” are to Greater Khingan Range Forasen Energy Technology Co., Ltd. (also referred to as 大兴安岭富来森能源科技有限公司 in Chinese), a company with limited liability organized under the laws of the PRC, which is wholly owned by CN Energy Development;
- “Manzhouli CN Energy” are to Manzhouli CN Energy Industrial Co., Ltd. (also referred to as 满洲里市中北能实业有限公司 in Chinese), a company with limited liability organized under the laws of the PRC, which is wholly owned by Energy Holdings;
- “Manzhouli CN Technology” are to Manzhouli CN Energy Technology Co., Ltd. (also referred to as 满洲里市中北能科技有限公司 in Chinese), a company with limited liability organized under the laws of the PRC, which is jointly owned by Zhejiang CN Energy (as defined below) and Manzhouli CN Energy;
- “MZ HK” are to MZ Mining International Co., Ltd, a Hong Kong company acquired by the Company on November 11, 2022;
- “MZ Pintai” are to MZ Pintai Mining (Zhejiang) Co., Ltd (also referred to as 美中品泰矿业(浙江)有限公司 in Chinese), a company incorporated under the laws of the PRC which is wholly owned by MZ HK;
- “Ningbo Nadoutong” are to Ningbo Nadoutong Trading Co., Ltd. (also referred to as 宁波哪都通贸易有限公司 in Chinese), a company with limited liability organized under the laws of the PRC, which is wholly owned by CN Energy Development;
- “operating entities” are to CN Energy Development and its subsidiaries;
- “RMB” or “Renminbi” are to the legal currency of China;

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- “SEC” are to the U.S. Securities and Exchange Commission;
- “Securities Act” are to the Securities Act of 1933, as amended;
- “Tahe Biopower Plant” are to Greater Khingan Range Forasen Energy Technology Co., Ltd. Tahe Biopower Plant (also referred to as 大兴安岭富来森能源科技有限公司塔河生物发电厂 in Chinese), the branch office of Khingan Forasen;
- “Yunnan Honghao” are to Yunnan Honghao Forestry Development Co., Ltd. (also referred to as 云南宏灏林业发展有限公司 in Chinese), a company incorporated in the PRC with limited liability, which is wholly owned by Yunnan Yuemu (as defined below);
- “Yunnan Yuemu” are to Yunnan Yuemu Agriculture and Forestry Technology Co., Ltd (also referred to as 云南岳沐农林科技有限公司 in Chinese), a company incorporated in the PRC and wholly owned by MZ Pintai;
- “Zhejiang CN Energy” are to Zhejiang CN Energy Technology Development Co., Ltd. (also referred to as 浙江中北能源科技开发有限公司 in Chinese), a company with limited liability organized under the laws of the PRC, which is wholly owned by Energy Holdings;
- “Zhejiang New Material” are to Zhejiang CN Energy New Material Co., Ltd. (also referred to as 浙江中北能新材料有限公司 in Chinese), a company with limited liability organized under the laws of the PRC, which is wholly owned by CN Energy Development;
- “Zhejiang Yongfeng New Material” are to Zhejiang Yongfeng New Material Technology Co., Ltd. (also refers to as 浙江咏丰新材料科技有限公司 in Chinese), a company with limited liability organized under the PRC, which is wholly owned by Hangzhou Forasen;
- “Zhongxing Energy” are to Manzhouli Zhongxing Energy Technology Co., Ltd. (also referred to as 满洲里市众兴能源科技有限公司 in Chinese), a company with limited liability organized under the laws of the PRC, which is wholly owned by CN Energy Development; and
- “Zhoushan Xinyue” are to Zhoushan Xinyue Trading Co., Ltd. (also referred to as 舟山信跃贸易有限公司 in Chinese), a company with limited liability organized under the laws of the PRC, which is wholly owned by Hangzhou Forasen.

This annual report on Form 20-F includes our audited consolidated financial statements for the fiscal years ended September 30, 2022, 2021, and 2020. In this annual report, we refer to assets, obligations, commitments, and liabilities in our consolidated financial statements in United States dollars. These dollar references are based on the exchange rate of RMB to United States dollars, determined as of a specific date or for a specific period. Changes in the exchange rate will affect the amount of our obligations and the value of our assets in terms of United States dollars which may result in an increase or decrease in the amount of our obligations and the value of our assets.

This annual report contains translations of certain RMB amounts into U.S. dollars at specified rates. Unless otherwise stated, the following exchange rates are used in this annual report:

US\$ Exchange Rate	September 30,		
	2022	2021	2020
At the end of the year – RMB	RMB7.1135 to \$1.00	RMB6.4599 to \$1.00	RMB6.8027 to \$1.00
Average rate for the year - RMB	RMB6.5728 to \$1.00	RMB6.5104 to \$1.00	RMB7.0077 to \$1.00

Part I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

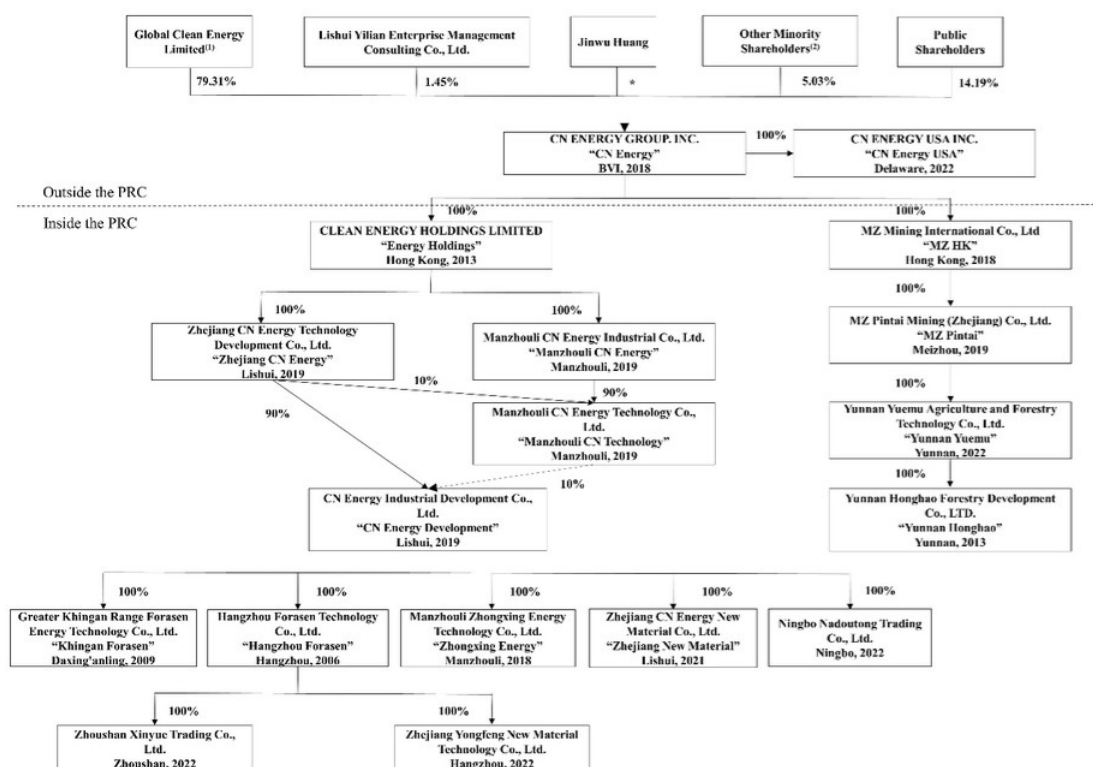
Item 3. KEY INFORMATION

We are incorporated in the British Virgin Islands and conduct our operations primarily in China. As a holding company with no material operations of our own, our operations are conducted in China through the operating entities. Our ordinary shares are shares of CN Energy, the offshore holding company in the British Virgin Islands, instead of shares of our operating companies in China. Therefore, our shareholders will not directly hold any equity interests in our operating companies.

Wholly owned subsidiaries of CN Energy Development include Khingan Forasen, Hangzhou Forasen, Zhongxing Energy, and Zhejiang New Material, Ningbo Nadoutong Trading Co., Ltd., Zhoushan Xinyue, and Zhejiang Yongfeng New Material, all of which were established as companies with limited liabilities pursuant to PRC laws. Khingan Forasen produces activated carbon and biomass electricity through its branch office, Tahe Biopower Plant, which houses the operating entities' current manufacturing facility; Hangzhou Forasen is engaged in the marketing of activated carbon products; Zhongxing Energy is expected to hold the operating entities' second biopower plant and produce activated carbon and heat in the future; Zhejiang New Material is expected to be engaged in the manufacturing and marketing of activated carbon products used for water treatment and purification in 2023; Ningbo Nadoutong is engaged in the marketing of activated carbon products; Zhoushan Xinyue is engaged in the marketing of activated carbon products; and Zhejiang Yongfeng New Material is expected to be engaged in the marketing of activated carbon products.

Wholly owned subsidiaries of MZ HK include MZ Pintai, Yunnan Yuemu and Yunnan Honghao, all of which were incorporated as companies with limited liabilities in pursuant to PRC laws. MZ HK is a holding company with no business operation; MZ Pintai is engaged in sales of minerals, stone, metal materials, construction materials, wood, chemical materials and products, rubber products, and paper products; Yunnan Yuemu is engaged in management and conversion of forest and natural ecosystem; and Yunnan Honghao is engaged in forest acquisition, rights transfer, and nurturing, and timber harvesting and processing.

The following diagram illustrates our corporate structure as of the date of this annual report.



* Indicates less than 1%

Notes: All percentages reflect the voting ownership interests instead of the equity interests held by each of our shareholders given that each holder of Class B ordinary shares will be entitled to 50 votes per one Class B ordinary share and each holder of Class A ordinary shares will be entitled to one vote per one Class A ordinary share.

- (1) Represents 3,020,969 Class B ordinary shares held by Yefang Zhang, the 100% owner of Global Clean Energy Limited, as of the date of this annual report.
- (2) Represents an aggregate of 9,578,320 Class A ordinary shares held by 10 shareholders, each one of which holds less than 5% of our voting ownership interests, as of the date of this annual report.

Risks Associated with Our Corporate Structure

Our holding company structure involves certain risks in terms of dividend distribution, direct investment in PRC entities, and obtaining benefits under relevant tax treaty. See “—D. Risk Factors—Risks Related to Doing Business in the PRC—We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirement we may have, and any limitation on the ability of our subsidiaries to make payments to us and any tax we are required to pay could have a materially adverse effect on our ability to conduct our business,” “—D. Risk Factors—Risks Related to Doing Business in the PRC—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using proceeds from our future financing activities to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business,” “—D. Risk Factors—Risks Related to Doing Business in the PRC—PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries’ ability to increase their registered capital or distribute profits to us, or otherwise expose us or our PRC resident shareholders to liabilities or penalties,” and “—D. Risk Factors—Risks Related to Doing Business in the PRC—Under the EIT Law, we may be classified as a ‘resident enterprise’ of China, which could result in unfavorable tax consequences to us and our non-PRC shareholders.” See also “Item 4. Information on the Company—B. Business Overview—Regulations—PRC Regulations Relating to Foreign Exchange.”

Risks Associated with Doing Business in the PRC

We are subject to certain legal and operational risks associated with having the majority of our operations in China, which could significantly limit or completely hinder our ability to offer securities to investors and cause the value of our securities to significantly decline or be worthless. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in the PRC—Any actions by the Chinese government, including any decision to intervene or influence the operating entities’ operations or to exert control over any offering of securities conducted overseas and/or foreign investment in China-based issuers, may cause them to make material changes to their operations, may limit or completely hinder their ability to offer or continue to offer securities to investors, and may cause the value of such securities to significantly decline or be worthless.” Recently, the PRC government adopted a series of regulatory actions and issued statements to regulate business operations in China, including cracking down on illegal activities in the securities market, enhancing supervision over China-based companies listed overseas using variable interest entity structure, adopting new measures to extend the scope of cybersecurity reviews, and expanding the efforts in anti-monopoly enforcement. As of the date of this annual report, we and our subsidiaries have not been involved in any investigations on cybersecurity review initiated by any PRC regulatory authority, nor has any of them received any inquiry, notice or sanction. As of the date of this annual report, we are not subject to cybersecurity review by the Cyberspace Administration of China (the “CAC”), since we currently do not have over one million users’ personal information and do not anticipate that we will be collecting over one million users’ personal information in the foreseeable future, which we understand might otherwise subject us to the Cybersecurity Review Measures. We are not subject to network data security review by the CAC if the Draft Regulations on the Network Data Security Administration (Draft for Comments) (the “Security Administration Draft”) are enacted as proposed, because we currently do not have over one million users’ personal information, we do not collect data that affect or may affect national security and we do not anticipate that we will be collecting over one million users’ personal information or data that affect or may affect national security in the foreseeable future, which we understand might otherwise subject us to the Security Administration Draft. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in the PRC—Recent greater oversight by the CAC over data security, particularly for companies seeking to list on a foreign exchange, could adversely impact the operating entities’ business and our offerings.” According to our PRC counsel, Yingke Wuxi Law Firm, no relevant laws or regulations in the PRC explicitly require us to seek approval from the China Securities Regulatory Commission (the “CSRC”) for our overseas listing. As of the date of this annual report, we and our subsidiaries have not received any inquiry, notice, warning, or sanction regarding our overseas listing from the CSRC or any other PRC governmental authorities. However, since these statements and regulatory actions are newly published, official guidance and related implementation rules have not been issued. It is highly uncertain what the potential impact such modified or new laws and regulations will have on the daily business operations of our subsidiaries, our ability to accept foreign investments, and our listing on an U.S. exchange. The Standing Committee of the National People’s Congress (the “SCNPC”) or PRC regulatory authorities may in the future promulgate laws, regulations, or implementing rules that require us or our subsidiaries to obtain regulatory approval from Chinese authorities for listing in the U.S.

In addition, our securities may be prohibited from trading on a national exchange or over-the-counter under the Holding Foreign Companies Accountable Act, or the HFCA Act, if the Public Company Accounting Oversight Board (United States), or the “PCAOB,” is unable to inspect our auditor for two consecutive years instead of three beginning in 2021, as amended. Our auditor, the independent registered public accounting firm that issues the audit report included elsewhere in this annual report, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is subject to laws in the U.S., pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. The PCAOB currently has access to inspect the working papers of our auditor. In the event that future regulators in China take steps to restrict the audit firm's access to working papers in mainland China or Hong Kong, or if the PCAOB is unable to fully inspect our audit working papers, or if the PCAOB expands the scope of its determination so that we are subject to the HFCA Act, it could restrict or limit our access to the U.S. capital markets, trading of our securities on a national securities exchange or in the over-the-counter trading market in the U.S. may be prohibited under the HFCA Act and Nasdaq may determine to delist our securities. On June 22, 2021, the U.S. Senate passed the Accelerating Holding Foreign Companies Accountable Act, which was signed into law on December 29, 2022, amending the HFCA Act and requiring the SEC to prohibit an issuer’s securities from trading on any U.S. stock exchange if its auditor is not subject to PCAOB inspections for two consecutive years instead of three, thus reducing the time period for triggering the delisting of our Company and the prohibition of trading in our securities if the PCAOB is unable to inspect our accounting firm at any future time. On August 26, 2022, the CSRC, the Ministry of Finance of the PRC (the “MOF”), and the PCAOB signed a Statement of Protocol (the “Protocol”) governing inspections and investigations of audit firms based in mainland China and Hong Kong, taking the first step toward opening access for the PCAOB to inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong. Pursuant to the fact sheet with respect to the Protocol disclosed by the SEC, the PCAOB shall have independent discretion to select any issuer audits for inspection or investigation and has the unfettered ability to transfer information to the SEC. On December 15, 2022, the PCAOB Board determined that the PCAOB was able to secure complete access to inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong and voted to vacate its previous determinations to the contrary. However, should PRC authorities obstruct or otherwise fail to facilitate the PCAOB’s access in the future, the PCAOB Board will consider the need to issue a new determination. See “—D. Risk Factors—Risks Relating to Doing Business in the PRC—Recent joint statement by the SEC and the PCAOB, rule changes by Nasdaq, and the Holding Foreign Companies Accountable Act all call for additional and more stringent criteria to be applied to emerging market companies upon assessing the qualification of their auditors, especially the non-U.S. auditors who are not inspected by the PCAOB. These developments could add uncertainties to our offerings.”

Permissions Required from PRC Authorities

The operating entities are not operating in an industry that prohibits or limits foreign investment. As a result, as advised by our PRC counsel, Yingke Wuxi Law Firm, other than those requisite for a domestic company in China to engage in the businesses similar to those of the operating entities, the operating entities are not required to obtain any permission from Chinese authorities, including the CSRC, the CAC, or any other governmental agency that is required to approve the operating entities’ operations. However, if the operating entities do not receive or maintain the approvals, or we inadvertently conclude that such approvals are not required, or applicable laws, regulations, or interpretations change such that the operating entities are required to obtain approval in the future, the operating entities may be subject to investigations by competent regulators, fines or penalties, ordered to suspend the operating entities’ relevant operations and rectify any non-compliance, prohibited from engaging in relevant business or conducting any offering, and these risks could result in a material adverse change in the operating entities’ operations, significantly limit or completely hinder our ability to offer or continue to offer securities to investors, or cause such securities to significantly decline in value or become worthless. As of the date of this annual report, we and the operating entities have received from PRC authorities all requisite licenses, permissions, or approvals needed to engage in the businesses currently conducted in China, and no permission or approval has been denied.

We are currently not required to obtain permission from any of the PRC authorities to operate and issue our securities to foreign investors. In addition, we and our subsidiaries are not required to obtain permission or approval relating to our securities from the PRC authorities, including the CSRC or the CAC, for our subsidiaries' operations, nor have we or our subsidiaries received any denial for our subsidiaries' operations with respect to the offerings of our securities. Recently, however, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council jointly issued the "Opinions on Severely Cracking Down on Illegal Securities Activities According to Law," or the "Opinions," which were made available to the public on July 6, 2021. The Opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision over overseas listings by Chinese companies. The Opinions proposed to take effective measures, such as promoting the construction of relevant regulatory systems, to deal with the risks and incidents facing China-based overseas-listed companies and the demand for cybersecurity and data privacy protection. The aforementioned policies and any related implementation rules to be enacted may subject us to additional compliance requirements in the future. Given the current regulatory environment in the PRC, we are still subject to the uncertainty of different interpretation and enforcement of the rules and regulations in the PRC adverse to us, which may take place quickly with little advance notice. See "**D. Risk Factors—Risks Relating to Doing Business in the PRC—The Opinions** recently issued by the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council may subject the operating entities to additional compliance requirement in the future."

Transfer of Funds and Other Assets Between Our Company and Our Subsidiaries

As of the date of this annual report, CN Energy has transferred the net proceeds from our initial public offering, through Energy Holdings and Zhejiang CN Energy, to CN Energy Development and its subsidiaries, including RMB15,000,000 (approximately \$2,287,500) to CN Energy Development, RMB103,921,379 (approximately \$15,848,010) to Hangzhou Forasen, and RMB12,891,800 (approximately \$1,966,000) to Zhongxing Energy.

Our finance department is supervising cash management, following the instructions of our management. Our finance department is responsible for establishing our cash operation plan and coordinating cash management matters among our subsidiaries and departments. Each subsidiary and department initiates a cash request by putting forward a cash demand plan, which explains the specific amount and timing of cash requested, and submits it to our finance department. The finance department reviews the cash demand plan and prepares a summary for the management of our Company. Management examines and approves the allocation of cash based on the sources of cash and the priorities of the needs. Other than the above, we currently do not have other cash management policies or procedures that dictate how funds are transferred.

Dividends or Distributions and Tax Consequences

As of the date of this annual report, none of our subsidiaries have made any dividends or distributions to CN Energy and CN Energy has not made any dividends or distributions to its shareholders. We intend to keep any future earnings to finance the expansion of our business, and we do not anticipate that any cash dividends will be paid in the foreseeable future. Subject to the passive foreign investment company ("PFIC") rules, the gross amount of distributions we make to investors with respect to our ordinary shares (including the amount of any taxes withheld therefrom) will be taxable as a dividend, to the extent that the distribution is paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles.

Pursuant to the BVI Business Companies Act, 2004 as amended from time to time (the "BVI Act"), and our third amended and restated memorandum and articles of association, our board of directors may authorize and declare a dividend to shareholders at such time and of such an amount as they think appropriate, if they are satisfied on reasonable grounds that immediately following the dividend payment, the value of our assets will exceed our liabilities and we will be able to pay our debts as they become due. There is no further British Virgin Islands statutory restriction on the amount of funds which may be distributed by us by dividends.

If we determine to pay dividends on any of our ordinary shares in the future, as a holding company, we will be dependent on receipt of funds from our Hong Kong subsidiaries, Energy Holdings and MZ HK, and our U.S. subsidiary, CN Energy USA Inc.

Current PRC regulations permit our indirect PRC subsidiaries to pay dividends to Energy Holdings only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, each of our subsidiaries in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. Each of such entity in China is also required to further set aside a portion of its after-tax profits to fund the employee welfare fund, although the amount to be set aside, if any, is determined at the discretion of its board of directors. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation.

The PRC government imposes controls on the conversion of RMB into foreign currencies and the remittance of currencies out of the PRC (excluding the special administrative regions of Hong Kong and Macau). Under the applicable PRC regulations, RMB is freely convertible only to the extent of current account items, such as trade-related receipts and payments, interest, and dividends. Conversion of RMB into a foreign currency such as U.S. dollars for capital account items, such as direct equity investments, loans, and repatriation of investment, requires prior approval from the State Administration of Foreign Exchange or its local branch. Such approval, however, does not guarantee the availability of foreign currency conversion. Furthermore, the value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The RMB may not be stable against the U.S. dollar or other foreign currency. To the extent that we seek to convert RMB into U.S. dollars, depreciation of the RMB against the U.S. dollar would have an adverse effect on the U.S. dollar amount we receive from the conversion. Therefore, we may experience difficulties in complying with the administrative requirements necessary to obtain and remit foreign currency for the payment of dividends from our profits, if any. Furthermore, if our subsidiaries and affiliates in the PRC incur debt on their own in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments. If we or our subsidiaries are unable to receive all of the revenue from our operations, we may be unable to pay dividends on our ordinary shares.

Cash dividends, if any, on our ordinary shares will be paid in U.S. dollars. Energy Holdings or MZ HK may be considered a non-resident enterprise for PRC tax purposes. Any dividends that our PRC subsidiaries pay to Energy Holdings may be regarded as China-sourced income and as a result may be subject to PRC withholding tax at a rate of up to 10%. See "Item 10. Additional Information—E. Taxation—People's Republic of China Taxation."

In order for us to pay dividends to our shareholders, we will rely on payments made from (i) CN Energy Development's subsidiaries to CN Energy Development and from CN Energy Development to Zhejiang CN Energy and indirectly to Manzhouli CN Energy, and the distribution of such payments to Energy Holdings and then to our Company and (ii) MZ Pintai's subsidiaries to MZ Pintai, and the distribution of such payments to MZ HK and then to our Company. According to the EIT Law, such payments from subsidiaries to parent companies in China are subject to the PRC enterprise income tax at a rate of 25%. In addition, if CN Energy Development or MZ Pintai or their subsidiaries incur debt on their own behalf, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us.

Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income (the "Double Tax Avoidance Arrangement"), the 10% withholding tax rate may be lowered to 5% if a Hong Kong resident enterprise owns no less than 25% of a PRC project. The 5% withholding tax rate, however, does not automatically apply and certain requirements must be satisfied, including without limitation that (a) the Hong Kong project must be the beneficial owner of the relevant dividends; and (b) the Hong Kong project must directly hold no less than 25% share ownership in the PRC project during the 12 consecutive months preceding its receipt of the dividends. In current practice, a Hong Kong project must obtain a tax resident certificate from the Hong Kong tax authority to apply for the 5% lower PRC withholding tax rate. As the Hong Kong tax authority will issue such a tax resident certificate on a case-by-case basis, we cannot assure you that we will be able to obtain the tax resident certificate from the relevant Hong Kong tax authority and enjoy the preferential withholding tax rate of 5% under the Double Taxation Avoidance Arrangement with respect to any dividends paid by our PRC subsidiaries to their immediate holding company, Energy Holdings and MZ HK. As of the date of this annual report, we have not applied for the tax resident certificate from the relevant Hong Kong tax authority. Energy Holdings intends to apply for the tax resident certificate if and when Zhejiang CN Energy and Manzhouli CN Energy plan to declare and pay dividends to Energy Holdings and MZ HK intends to apply for the tax resident certificate if and when MZ Pintai plans to declare and pay dividends to MZ HK. See "—D. Risk Factors—Risks Relating to Doing Business in the PRC—There are significant uncertainties under the EIT Law relating to the withholding tax liabilities of our PRC subsidiaries, and dividends payable by our PRC subsidiaries to our Hong Kong subsidiaries may not qualify to enjoy certain treaty benefits."

A. [Reserved]

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Related to Our Business

The operating entities' financial results could be materially and adversely affected by an interruption of supply of raw materials.

The operating entities are dependent on a variety of raw materials (including forestry residues, little fuelwood, and wood wastes) that support their manufacturing activities. The operating entities' ability to meet their customers' needs depends heavily on an uninterrupted supply of these materials. Although the operating entities source strategic raw materials from multiple suppliers whenever possible and have instituted back-up procedures or contracted with a secondary supplier for any raw material that is sourced primarily from one location or supplier, production problems, lack of capacity, breach of contractual obligations by their third-party suppliers, changes in third-party suppliers' financial or business condition, or planned and unplanned shutdowns of their production facilities that affect their ability to supply the operating entities with raw materials that meet the operating entities' specifications, or at all, could disrupt the operating entities' ability to supply products to their customers. In addition, interruptions in raw material supply caused by events outside their suppliers' control, such as wildfires, labor disputes, or transportation disruptions, could also disrupt the operating entities' ability to meet customer demand. These supply disruptions could cause the operating entities to miss deliveries and breach their contracts, which could damage their relationships with their customers and subject the operating entities to claims for damages under their contracts. If any of these events were to occur for more than a temporary period, the operating entities may not be able to make arrangements for transition supply and qualified replacement suppliers on terms acceptable to the operating entities or at all, which could have a material adverse effect on their business and financial results.

Increases in the prices of raw materials could materially and adversely affect the operating entities' financial results.

If the prices the operating entities have to pay for raw materials under their existing supply contracts or under replacement supply contracts increase, they could face significantly higher production costs. Although the operating entities' long-term supply contracts typically provide for a specific price, increases in raw material prices could adversely affect their ability to renew these contracts on similar terms or at all. Similarly, increases in raw material prices could adversely affect their ability to enter into shorter-term supply agreements at favorable prices. The operating entities may not be able to pass the whole price increase through to their customers, which could have a material adverse effect on their financial results.

A majority of the operating entities' activated carbon sales are currently derived from a small number of customers. If any of these customers experiences a material business disruption, the operating entities would likely incur substantial losses of revenue.

For the fiscal year ended September 30, 2022, one major customer accounted for approximately 58% of the operating entities' total sales. For the fiscal year ended September 30, 2021, three major customers accounted for approximately 44%, 33%, and 11% of the operating entities' total sales, respectively. For the fiscal year ended September 30, 2020, three major customers accounted for approximately 36%, 26%, and 20% of the operating entities' total sales, respectively. The operating entities' major customers may change as they adjust marketing strategies, and any material business disruption affecting the operating entities' major customers or any decrease in sales to their major customers may negatively impact their operations and cash flows if they fail to increase sales to other customers.

The operating entities have sourced their raw materials primarily from a limited number of suppliers. If they lose one or more of their suppliers, their operations may be disrupted, and their results of operations may be adversely and materially impacted.

For the fiscal year ended September 30, 2022, the operating entities sourced 35% and 14% of their raw materials from their top two suppliers, respectively. For the fiscal year ended September 30, 2021, the operating entities sourced 26%, 25%, and 16% of their raw materials and activated carbon from their top three suppliers, respectively. For the fiscal year ended September 30, 2020, the operating entities sourced 29%, 17%, and 10% of their raw materials and activated carbon from their top three suppliers, respectively. If they lose one or more of these suppliers and are unable to swiftly engage new suppliers, the operating entities' production operations may be disrupted or even suspended, and they may not be able to deliver products to their customers on time. The operating entities may also have to pay a higher price to source from a different supplier on short notice. While the operating entities are actively searching for and negotiating with new suppliers, there is no guarantee that they will be able to locate appropriate new suppliers in their desired timeline. As a result, the operating entities' results of operations may be adversely and materially impacted.

A disruption or delay in production at the operating entities' existing production facilities could have a material adverse effect on their financial results.

If the operating entities' production facilities were to cease production unexpectedly in whole or in part, their sales and financial results could be materially and adversely affected. Such a disruption could be caused by a number of different events, including:

- maintenance outages;
- prolonged power failures;
- equipment failures or malfunctions;
- fires, floods, tornadoes, earthquakes, or other catastrophes;
- potential unrest or terrorist activities;
- labor difficulties; or
- other construction, design, or operational problems, including those related to the granting, or the timetable for granting, of permits.

If any of these or other events were to result in a material disruption of the operating entities' current manufacturing operations, production of their products may be delayed and their ability to meet the production capacity targets and satisfy customer requirements may be materially adversely affected or the operating entities may be required to recognize impairment charges, any of which could have a material adverse effect on their financial results. In addition, a prolonged shutdown of any of the operating entities' production facilities could cause them to miss deliveries and breach their contracts, which could damage their relationships with their customers and subject them to claims for damages under their contracts. Any of these events could have a material adverse effect on the operating entities' business and financial results.

The operating entities rely on third-party manufacturers to produce some of their activated carbon products and problems with, or loss of, these manufacturers could harm the operating entities' business and operating results.

The operating entities have outsourced some of their customer orders to third-party manufacturers to keep up with the demand for the operating entities' activated carbon products. The operating entities face the risk that these third-party manufacturers may not produce and deliver activated carbon products on a timely basis, or at all. The operating entities may also experience difficulties with their third-party manufacturers since they do not have the same manufacturing processes or quality control as the operating entities do. These difficulties include reductions in the availability of production capacity, errors in complying with product specifications and regulatory and customer requirements, failures to meet production deadlines, failure to achieve the operating entities' product quality standards, increases in costs of materials, and manufacturing or other business interruptions. The ability of the operating entities' third-party manufacturers to effectively satisfy their production requirements could also be impacted by manufacturer financial difficulty or damage to their operations caused by fire, a terrorist attack, natural disasters, or other events. Although the operating entities carefully select third-party manufacturers, the failure of any manufacturer to perform to the operating entities' expectations could result in supply shortages or delays for the operating entities' activated carbon products and harm their business. If the operating entities experience significantly increased demand, or if they need to replace an existing manufacturer due to lack of performance, the operating entities may be unable to supplement or replace their manufacturing capacity on a timely basis, or identify manufacturers with the same or similar quality controls in place as the existing manufacturers do, or on terms that are acceptable to the operating entities, which may increase their costs, reduce their margins, and harm their ability to deliver activated carbon products on time.

The operating entities may incur delays and budget overruns with respect to a facility under construction. Any such delays or cost overruns may have a material adverse effect on the operating entities' operating results.

The operating entities are currently constructing a new facility in Manzhouli City. Such construction projects entail significant risks that can give rise to delays or cost overruns, including the following:

- the COVID-19 pandemic;
- insufficient capital to complete construction;
- shortage of material or skilled labor;
- unforeseen engineering, environmental, or geological problems;
- work stoppages;
- weather interference;
- floods, typhoons, and other natural disasters;
- delays or failures in obtaining the requisite construction licenses, permits, and certificates;
- unanticipated cost increases; and
- legal or political challenges.

The anticipated costs and construction periods are based upon budgets, conceptual design documents, and construction estimates prepared by the operating entities in consultation with their architects and contractors. Construction, equipment, staffing requirements, and problems or difficulties in obtaining and maintaining any of the requisite licenses, permits, allocations, or authorizations from regulatory authorities can increase the costs or delay the construction or commencement of production or otherwise affect the planned design and features of the facility. We cannot be sure that the operating entities will not exceed the budgeted costs of the facility or that the facility will commence production within the contemplated time frame, if at all. Budget overruns and delays with respect to the construction could have a material adverse impact on the operating entities' results of operations.

The operating entities' financial condition, results of operations, and cash flows have been adversely affected by the COVID-19 pandemic.

Since early 2020, the COVID-19 pandemic has significantly impacted the business operations of the operating entities. In response to the COVID-19 pandemic, the Chinese government implemented the shelter-in-place orders and travel restrictions. As a result, the employees of Tahe Biopower Plant and Hangzhou Forasen could not return to work on time after the Chinese New Year of 2020 and the transportation of raw materials and activated carbon was delayed or even stopped in January and February 2020, which adversely impacted the operating entities' production and sales during that period, as well as the construction of their new facility in Manzhouli City. In addition, the operating entities suspended the construction of their new facility in Manzhouli City due to the impact of COVID-19 and bad weather. During fiscal year 2021, the operating entities' production, sales, and construction of the new facility in Manzhouli City were disrupted several times by government regulations in response to the COVID-19 pandemic. In 2022, the repeated COVID-19 outbreaks in China have continued to impact the operating entities' production, sales, and construction activities. Due to regulations of the Chinese government in response to the COVID-19 pandemic, the operating entities had to halt the transportation of raw materials several times, which led to higher costs of raw materials and transportation. The construction of the new facility in Manzhouli City was also disrupted several times.

The COVID-19 pandemic may continue to adversely impact the operating entities' business operations and operating results, including decreasing their revenue, slowing the collection of accounts receivables, generating additional allowance for doubtful accounts, disrupting their supply chain, and increasing the costs of raw materials. Because of the significant uncertainties surrounding the COVID-19 pandemic, the operating entities cannot reasonably estimate the extent of its impact on their business operations and financial condition at this time.

Uncertainties as to the future of existing and planned environmental and health and safety laws and regulations, as well as delays of or changes to these laws and regulations, could have a material adverse effect on demand for the operating entities' products.

The operating entities' strategic growth initiatives rely significantly upon the enactment of restrictive environmental and health and safety laws and regulations, particularly those that would require industrial facilities to reduce the quantity of air and water pollutants they release. If stricter regulations are delayed, are not enacted as proposed, are enacted but subsequently repealed or amended to be less strict, or are enacted with prolonged phase-in periods, demand for the operating entities' products could be materially and adversely affected and they may not be able to meet sales growth and return on invested capital targets, which could materially and adversely affect the operating entities' financial results.

For example, a significant market driver for the operating entities' activated carbon products and biomass electricity is the Notice on Issuing the Work Plan for Greenhouse Gas Emission Control During the 14th Five-Year Plan Period (the "Work Plan") of the State Council of the PRC (the "State Council"), which supports the development of clean energy, including biomass electricity, and restricts the emission of industrial pollutants. Although the Work Plan would potentially promote the use of activated carbon products, we are unable to predict with certainty when and how the Work Plan will affect demand for the operating entities' products. Changes to, or delays in implementing, the Work Plan could reduce or delay an expected increase in future demand for the operating entities' products, which could have a material adverse effect on the operating entities' business and financial results.

On the other hand, increased costs to utilities and other potential customers in complying with environmental regulations could limit production and reduce or delay an expected increase in demand for the operating entities' products, which could also have a material adverse effect on the operating entities' business and financial results.

Disclosure of the operating entities' trade secrets and other proprietary information, or a failure to adequately protect these or the operating entities' other intellectual property rights, could result in increased competition and have a material adverse effect on the operating entities' business and financial results.

The operating entities' ability to compete effectively depends in part on their ability to obtain, maintain, and protect their trade secrets, proprietary information, and other intellectual property rights. The operating entities rely on a combination of trade secret, patent, trademark, and copyright laws, as well as contractual restrictions and physical security measures, to protect the operating entities' proprietary information and other intellectual property rights.

Where we believe patent protection is not appropriate or obtainable, the operating entities rely on trade secret laws and practices to protect their proprietary technology and processes, including physical security, limited dissemination and access, and confidentiality agreements with their employees, customers, consultants, business partners, potential licensees and others, to protect their trade secrets and other proprietary information. However, trade secrets are difficult to protect, and courts outside the PRC may be less willing to protect their trade secrets. There can be no assurance that the operating entities' protective measures will effectively prevent disclosure or unauthorized use of proprietary information or provide an adequate remedy in the event of misappropriation, infringement, or other violations of the operating entities' proprietary information and other intellectual property rights.

Existing laws afford only limited protection for the operating entities' intellectual property rights. Despite the operating entities' efforts, they may not be able to protect some of their technology, or the protection that they receive may not be sufficient. The operating entities face additional risks that their protective measures, including their patents and trademarks, could prove to be inadequate, including:

- the steps the operating entities take to prevent circumvention, misappropriation, or infringement of the operating entities' proprietary rights may not be successful;
- confidentiality agreements may be intentionally or unintentionally breached, be deemed unenforceable, or not provide adequate recourse against the disclosing party;
- intellectual property laws may not sufficiently support the operating entities' proprietary rights or may change in the future in a manner adverse to them;
- patent or trademark rights may not be granted or construed as they expect, or may be challenged, narrowed, or invalidated;
- intellectual property protection, including patents, may lapse or expire which may result in key technology becoming widely available which may hurt the operating entities' competitive position;
- effective protection of intellectual property rights may be unavailable or limited in some countries in which they operate or plan to do business;
- third parties may independently develop or obtain comparable information and technology, and in some jurisdictions, obtain intellectual property protection for such technology; and
- third parties may commercialize the operating entities' products in countries in which they do not have adequate intellectual property protection.

From time to time, the operating entities may seek to enforce their intellectual property and proprietary rights against third parties. Policing unauthorized use of intellectual property can be difficult and expensive. The operating entities may not be successful in their attempts to enforce their intellectual property rights against third parties. Any such litigation may result in substantial diversion of financial and management resources and, if decided unfavorably to us, could have a material adverse effect on the operating entities' business and financial results.

Third parties may claim that the operating entities' products or processes infringe their intellectual property rights, which may cause them to pay unexpected litigation costs or damages or prevent them from selling their products.

It is the operating entities' intention to avoid infringing, misappropriating, or otherwise violating the intellectual property rights of others. We cannot, however, be certain that the conduct of the operating entities' business or their products or processes do not infringe or otherwise violate these rights. From time to time, the operating entities may become subject to legal proceedings, including allegations and claims of alleged infringement or misappropriation by them of the patents and other intellectual property rights of third parties. As the operating entities' business expands and faces increasing competition, the number of such claims may grow. In addition, attempts to enforce the operating entities' own intellectual property claims may subject them to counterclaims that their intellectual property rights are invalid, unenforceable, or are licensed to the party against whom they are asserting the claim or that they are infringing that party's alleged intellectual property rights.

Legal proceedings involving intellectual property rights, regardless of merit, are highly uncertain and can involve complex legal and scientific analyses, can be time consuming, expensive to litigate or settle, and can significantly divert resources. The operating entities' failure to prevail in such matters could result in loss of intellectual property rights or judgments awarding substantial damages and injunctive or other equitable relief against us. If the operating entities were to be held liable or discover or be notified that their products or processes potentially infringe or otherwise violate the intellectual property rights of others, they may face a loss of reputation, may not be able to exploit some or all of the operating entities' intellectual property rights or technology, and may need to obtain licenses from third parties or substantially re-engineer the operating entities' products or processes in order to avoid infringement. The operating entities might not be able to obtain the necessary licenses on acceptable terms, or at all, or be able to re-engineer the operating entities' products or processes successfully or cost effectively and these efforts may cause them to delay or stop selling and marketing their products or processes.

Any of the foregoing may require considerable effort and expense, result in substantial increases in operating costs, delay or inhibit sales, and may preclude them from effectively competing in the marketplace, which in turn could have a material adverse effect on the operating entities' business and financial results.

Compliance with environmental and other laws and regulations could result in significant costs and liabilities.

The operation and expansion of the operating entities' manufacturing facilities are subject to strict environmental laws and regulations at the state, provincial, and local level in various jurisdictions, and, over the next several years, we expect that the operating entities and the industry in general will become subject to new or more stringent environmental requirements. These laws and regulations generally require the operating entities to obtain and comply with various environmental registrations, licenses, permits, inspections, and other approvals. As required by the current laws and regulations, Khingan Forasen obtained the License of Pollutant Discharges on February 27, 2020 with a term of three years. Under certain environmental, health, and safety laws, the operating entities could be held responsible for any and all liabilities and consequences arising out of past or future releases of hazardous materials, human exposure to these substances, and other environmental damage, in some cases, without regard to fault. The discovery of contamination at any of the operating entities' current site or at locations at which they dispose of waste may expose them to clean-up expenditures and other damages imposed by government agencies. In addition, private parties may have the right to pursue legal action to enforce compliance as well as to seek damages for non-compliance with such laws and regulations or for personal injury or property damage. Currently, the operating entities do not carry insurance that covers environmental risks and costs. Although the operating entities intend to procure environmental insurance in the future, such insurance may not cover all environmental risks and costs or may not provide sufficient coverage in the event an environmental claim is made against us.

The operating entities' operations emit carbon dioxide and other greenhouse gases. Currently there are no industrial standards in the PRC specifying the emission of pollutants for activated carbon production. The operating entities are subject to the PRC environmental laws and regulations on air pollution prevention in general. A number of other legislative and regulatory measures to address greenhouse gas emissions, including the Kyoto Protocol and the Draft Emission Standards of Activated Carbon Industrial Pollutants, are in various phases of implementation or discussion. The systems and measures could result in increased costs for them to install new controls to reduce hazardous air emissions from the operating entities' facilities, to purchase air emissions credits or allowances, or to monitor and inventory greenhouse gas emissions from the operating entities' operations.

Even though the operating entities devote considerable efforts to comply with environmental laws, regulations, and permits, there can be no assurance that the operating entities' operations will at all times be in compliance with them. The enactment of new environmental laws and regulations, the more stringent interpretation or enforcement of existing requirements, or the imposition of liabilities under environmental laws could force them to incur costs for compliance, capital upgrades, or liabilities relating to damage claims or limit the operating entities' current or planned operations, any of which could have a material adverse effect on the operating entities' business and financial results.

The operating entities' operations are subject to various litigation risks that could increase the operating entities' expenses and have a material adverse effect on their business and financial results.

The nature of the operating entities' operations exposes them to possible litigation claims, including environmental damage and remediation, intellectual property, workers' compensation and other employee-related matters, insurance coverage, and property rights and easements. Any claim could be adversely decided against us, which could have a material adverse effect on the operating entities' business and financial results. Similarly, the costs associated with defending claims could dramatically increase the operating entities' expenses as litigation is often very expensive, divert management's attention, and impact their profitability. If the operating entities become involved in any litigation, they may be forced to direct their resources to defending or prosecuting the claim, which in turn could have a material adverse effect on the operating entities' business and financial results.

The operating entities may not be able to keep up with competitive changes affecting the activated carbon industry.

The activated carbon industry is characterized by evolving industry and end-market standards, changing regulation, frequent enhancements to existing products and technologies, introduction of new products and changing customer demand, all of which can result in unpredictable product transitions, shortened lifecycles and increased importance of being first to market with new products. The success of the operating entities' new products depends on their initial and continued acceptance by their customers. If the operating entities are not able to anticipate changes or develop and introduce new and enhanced products that are accepted by the operating entities' customers on a timely basis and compete with new technologies, their ability to remain competitive may be adversely affected. In addition, the operating entities may experience difficulties in the research, development, production, or marketing of new products, which may delay them in bringing new products to market and prevent them from recouping or realizing a return on the operating entities' investments. Any of the foregoing could have a material adverse effect on the operating entities' business and financial results.

The activated carbon industry is highly competitive, and if the operating entities are unable to compete effectively with existing competitors, or with new entrants, the operating entities' business and financial results could be materially and adversely affected.

The operating entities compete in the PRC market with producers and importers of activated carbon. The operating entities' business faces significant competition from other PRC producers of activated carbon, some of which may from time to time have revenue and capital resources exceeding ours, which they may use to develop more advanced or more cost-effective technologies, increase market share, or leverage their distribution networks. In addition, new competitors and alliances may emerge to take market share away from us. The operating entities' competitive position in the market in which they operate depends upon the relative strength of these competitors in the market and the relative resources they devote to competing in the market. The operating entities could experience reduced sales and loss of market share, which could lead to lower prices and decreased revenue, gross margins, and profits, any of which could have a material and adverse effect on the operating entities' results of operations.

Development of competitive technologies could materially and adversely affect the operating entities' business and financial results.

Activated carbon is utilized in various applications as a cost-effective solution to address the operating entities' customers' needs. If other competitive technologies or alternative processes or combinations of technologies or processes, such as alternate sorbents, resins, certain types of membranes, ozone, and ultraviolet, are advanced to the stage at which they could compete on a cost-effective basis with activated carbon technologies, they could experience a decline in demand for the operating entities' products, which could have a material adverse effect on the operating entities' business and financial results.

Competitive technologies and new regulations may also affect the operating entities' customers, and therefore us. For example, a shift away from coal-burning technology due to environmental trends and regulations or new technologies could diminish future demand for the operating entities' activated carbon products, which could have a material adverse effect on the operating entities' business and financial results.

If the operating entities fail to hire, train, and retain qualified managerial and other employees, the operating entities' business and results of operations could be materially and adversely affected.

The operating entities place substantial reliance on the activated carbon and biomass electricity market experience and knowledge of their senior management team as well as their relationships with other industry participants. The operating entities do not carry, and do not intend to procure, key person insurance on any of their senior management team. The loss of the services of one or more members of their senior management team due to their departure, or otherwise, could hinder the operating entities' ability to effectively manage their business and implement their growth strategies. Finding suitable replacements for the operating entities' current senior management could be difficult, and competition for such personnel of similar experience is intense. If the operating entities fail to retain their senior management, the operating entities' business and results of operations could be materially and adversely affected.

The market for engineers and other individuals with the required technical expertise to succeed in the operating entities' business is highly competitive. There may be a limited supply of qualified individuals in some of the cities in China where the operating entities have operations and other cities into which they intend to expand. The operating entities must hire and train qualified managerial and other employees on a timely basis to keep pace with the operating entities' rapid growth while maintaining consistent quality of services across the operating entities' operations in various geographic locations. The operating entities must also provide continuous training to their managerial and other employees so that they are equipped with up-to-date knowledge of various aspects of the operating entities' operations and can meet the operating entities' demand for high-quality products. If they fail to do so, the quality of their products may decrease in one or more of the markets where they operate, which in turn, may cause a negative perception of the operating entities' brand and adversely affect the operating entities' business.

The lease agreements of the operating entities' leased properties have not been registered with the relevant PRC government authorities as required by PRC laws, which may expose them to potential fines.

Under PRC laws, all lease agreements are required to be registered with the local land and real estate administration bureau. Although failure to do so does not in itself invalidate the leases, the lessees may not be able to defend these leases against bona fide third parties and may also be exposed to potential fines if they fail to rectify such non-compliance within the prescribed time frame after receiving notice from the relevant PRC government authorities.

The penalty ranges from RMB1,000 to RMB10,000 for each unregistered lease, at the discretion of the relevant authority. As of the date of this annual report, the operating entities have not registered the lease agreements for their headquarters or the leased properties of Tahe Biopower Plant with the relevant PRC government authorities. In the event that any fine is imposed on the operating entities for their failure to register their lease agreements, the operating entities may not be able to recover such losses from the lessors. However, as the fines, if any, will be minor, the operating entities' business and financial results will not be materially affected.

The operating entities depend on third parties for certain construction, maintenance, engineering, transportation, warehousing, and logistics services.

The operating entities contract with third parties, typically for a period of six to 18 months, for certain services relating to the design, construction, and maintenance of various components of the operating entities' production facilities and other systems. If these third parties fail to comply with their obligations, the operating entities may experience delay in the completion of new facilities or expansions of existing facilities or the facilities may not operate as intended, which may result in delays in the production of the operating entities' products and materially and adversely affect the operating entities' ability to meet their production capacity targets and satisfy customer requirements or they may be required to recognize impairment charges. In addition, production delays could cause the operating entities to miss deliveries and breach the operating entities' contracts, which could damage their relationships with their customers and subject them to claims for damages under their contracts. Any of these events could have a material adverse effect on the operating entities' business and financial results.

The operating entities also rely primarily on third parties for the transportation of the products they manufacture. The operating entities' contracts with these third parties are usually for one to two years. If any of the third parties that the operating entities use to transport products are unable to deliver the goods they manufacture in a timely manner, they may be unable to sell these products at full value, or at all, which could cause them to miss deliveries and breach their contracts, which could damage their relationships with their customers and subject them to claims for damages under the contracts. Any of these events could have a material adverse effect on the operating entities' business and financial results.

Future acquisitions may have an adverse effect on the operating entities' ability to manage their business.

The operating entities may acquire businesses, technologies, services, or products which are complementary to their core activated carbon and biomass electricity businesses. Future acquisitions may expose them to potential risks, including risks associated with: the integration of new operations, services, and personnel; unforeseen or hidden liabilities; the diversion of resources from their existing business and technology; their potential inability to generate sufficient revenue to offset new costs; the expenses of acquisitions; or the potential loss of or harm to relationships with both employees and customers resulting from their integration of new businesses.

Any of the potential risks listed above could have a material and adverse effect on the operating entities' ability to manage their business, revenue, and net income. The operating entities may need to raise additional debt funding or sell additional equity securities to make such acquisitions. The raising of additional debt funding by us, if required, would result in increased debt service obligations and could result in additional operating and financing covenants, or liens on the operating entities' assets, that would restrict their operations. The sale of additional equity securities could result in additional dilution to the operating entities' shareholders.

Risks Relating to Doing Business in the PRC

A severe or prolonged slowdown in the Chinese economy could materially and adversely affect the operating entities' business and financial condition.

The rapid growth of the Chinese economy has slowed down since 2012 and such slowdown may continue. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China; the withdrawal of these expansionary monetary and fiscal policies could lead to a contraction. There are also concerns about the relationship among China and other Asian countries, which may result in or intensify potential conflicts in relation to territorial disputes. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the Chinese economy would likely materially and adversely affect the operating entities' business, results of operations, and financial condition. In addition, continued turbulence in the international markets may adversely affect the operating entities' ability to access capital markets to meet liquidity needs.

Changes in the policies, regulations, rules, and the enforcement of laws of the PRC government may be quick with little advance notice and could have a significant impact upon the operating entities' ability to operate profitably in the PRC.

The operating entities currently conduct all of their operations and all of their revenue is generated in the PRC. Accordingly, economic, political, and legal developments in the PRC will significantly affect the operating entities' business, financial condition, results of operations, and prospects. Policies, regulations, rules, and the enforcement of laws of the PRC government can have significant effects on economic conditions in the PRC and the ability of businesses to operate profitably. The operating entities' ability to operate profitably in the PRC may be adversely affected by changes in policies, regulations, rules, and the enforcement of laws by the PRC government, which changes may be quick with little advance notice.

Given the Chinese government's significant oversight and discretion over the conduct of the operating entities' business, the Chinese government may intervene or influence the operating entities' operations at any time, which could result in a material change in their operations and/or the value of our ordinary shares.

The Chinese government has significant oversight and discretion over the conduct of the operating entities' business and may intervene or influence their operations at any time as the government deems appropriate to further regulatory, political, and societal goals, which could result in a material change in their operations and/or the value of our ordinary shares.

The Chinese government has recently published new policies that significantly affected certain industries, such as the education and Internet industries, and the operating entities cannot rule out the possibility that it will in the future release regulations or policies regarding the operating entities' industry that could adversely affect their business, financial condition, and results of operations. Furthermore, if China adopts more stringent standards with respect to certain areas, such as environmental protection or corporate social responsibilities, the operating entities may incur increased compliance costs or become subject to additional restrictions in their operations. Certain areas of the law in China, including intellectual property rights and confidentiality protections, may also not be as effective as in the United States or other countries. In addition, we cannot predict the effects of future developments in the PRC legal system on the operating entities' business operations, including the promulgation of new laws, or changes to existing laws or the interpretation or enforcement thereof. These uncertainties could limit the legal protections available to our Company and subsidiaries as a whole and our investors.

Any actions by the Chinese government, including any decision to intervene or influence the operating entities' operations or to exert control over any offering of securities conducted overseas and/or foreign investment in China-based issuers, may cause them to make material changes to their operations, may limit or completely hinder our ability to offer or continue to offer securities to investors, and may cause the value of such securities to significantly decline or be worthless.

The Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. The operating entities' ability to operate in China may be impaired by changes in its laws and regulations, including those relating to taxation, environmental regulations, land use rights, foreign investment limitations, and other matters. The central or local governments of these jurisdictions may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations. As such, the operating entities may be subject to various government and regulatory interference in the provinces in which they operate. The operating entities could be subject to regulation by various political and regulatory entities, including various local and municipal agencies and government sub-divisions. The operating entities may incur increased costs necessary to comply with existing and newly adopted laws and regulations or penalties for any failure to comply.

Furthermore, it is uncertain when and whether we will be required to obtain permission from the PRC government to list on U.S. exchanges in the future, and even when such permission is obtained, whether it will be denied or rescinded. Although we believe our Company and our PRC subsidiaries are currently not required to obtain permission from any Chinese authorities and has not received any notice of denial of permission to list on the U.S. exchange, our operations could be adversely affected, directly or indirectly, by existing or future laws and regulations relating to our business or industry, particularly in the event permission to list on U.S. exchanges may be later required, or withheld or rescinded once given.

Accordingly, government actions in the future, including any decision to intervene or influence the operating entities' operations at any time or to exert control over an offering of securities conducted overseas and/or foreign investment in China-based issuers, may cause the operating entities to make material changes to their operation, may limit or completely hinder our ability to offer or continue to offer securities to investors, and/or may cause the value of such securities to significantly decline or be worthless.

Recent greater oversight by the CAC over data security, particularly for companies seeking to list on a foreign exchange, could adversely impact the operating entities' business and our offerings.

On December 28, 2021, the CAC, together with 12 other governmental departments of the PRC, jointly promulgated the Cybersecurity Review Measures, which became effective on February 15, 2022. The Cybersecurity Review Measures provides that, in addition to critical information infrastructure operators ("CIIOs") that intend to purchase Internet products and services, data processing operators engaging in data processing activities that affect or may affect national security must be subject to cybersecurity review by the Cybersecurity Review Office of the PRC. According to the Cybersecurity Review Measures, a cybersecurity review assesses potential national security risks that may be brought about by any procurement, data processing, or overseas listing. The Cybersecurity Review Measures further requires that CIIOs and data processing operators that possess personal data of at least one million users must apply for a review by the Cybersecurity Review Office of the PRC before conducting listings in foreign countries.

On November 14, 2021, the CAC published the Security Administration Draft, which provides that data processing operators engaging in data processing activities that affect or may affect national security must be subject to network data security review by the relevant Cyberspace Administration of the PRC. According to the Security Administration Draft, data processing operators who possess personal data of at least one million users or collect data that affects or may affect national security must be subject to network data security review by the relevant Cyberspace Administration of the PRC. The deadline for public comments on the Security Administration Draft was December 13, 2021.

As of the date of this annual report, we have not received any notice from any authorities identifying any of the operating entities as a CIO or requiring any of the operating entities to go through cybersecurity review or network data security review by the CAC. As the Cybersecurity Review Measures became effective and if the Security Administration Draft is enacted as proposed, we believe that the operating entities' operations and our listing will not be affected and that the operating entities are not subject to cybersecurity review or network data security review by the CAC, given that: (i) as a company that mainly manufactures and sells wood-based activated carbon and produces biomass electricity, our operating entities are unlikely to be classified as CIOs by the PRC regulatory agencies; (ii) the operating entities' customers are enterprises in Anhui Province, Fujian Province, Zhejiang Province, Shanghai, and Heilongjiang Province in China and the operating entities do not have individual customers; as a result, the operating entities possess personal data of fewer than one million individual clients in the operating entities' business operations as of the date of this annual report and do not anticipate that the operating entities will be collecting over one million users' personal information in the near future, which the operating entities understand might otherwise subject the operating entities to the Cybersecurity Review Measures; and (iii) since the operating entities are in the activated carbon and biomass energy industries, data processed in their business is unlikely to have a bearing on national security and therefore is unlikely to be classified as core or important data by the authorities. There remains uncertainty, however, as to how the Cybersecurity Review Measures and the Security Administration Draft will be interpreted or implemented and whether the PRC regulatory agencies, including the CAC, may adopt new laws, regulations, rules, or detailed implementation and interpretation related to the Cybersecurity Review Measures and the Security Administration Draft. If any such new laws, regulations, rules, or implementation and interpretation come into effect, the operating entities will take all reasonable measures and actions to comply and to minimize the adverse effect of such laws on them. We cannot guarantee, however, that the operating entities will not be subject to cybersecurity review and network data security review in the future. During such reviews, the operating entities may be required to suspend their operations or experience other disruptions to their operations. Cybersecurity review and network data security review could also result in negative publicity with respect to our Company and diversion of the operating entities' managerial and financial resources, which could materially and adversely affect the operating entities' business, financial conditions, and results of operations and our offerings.

The Opinions recently issued by the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council may subject the operating entities to additional compliance requirement in the future.

Recently, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council jointly issued the Opinions, which were made available to the public on July 6, 2021. The Opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies. These opinions proposed to take effective measures, such as promoting the construction of relevant regulatory systems, to deal with the risks and incidents facing China-based overseas-listed companies and the demand for cybersecurity and data privacy protection. The aforementioned policies and any related implementation rules to be enacted may subject the operating entities to additional compliance requirement in the future. As the Opinions were recently issued, official guidance and interpretation of the Opinions remain unclear in several respects at this time. Therefore, we cannot assure you that the operating entities will remain fully compliant with all new regulatory requirements of the Opinions or any future implementation rules on a timely basis, or at all.

The tariffs by the U.S. government and the trade war between the U.S. and China, and on a larger scale, internationally, may dampen global growth. If the U.S. government, in the future, subjects the products that the operating entities produce to tariffs, the operating entities' business operations and revenue may be negatively impacted.

The U.S. government has, among other actions, imposed new or higher tariffs on specified products imported from China to penalize China for what it characterizes as unfair trade practices and China has responded by imposing new or higher tariffs on specified products imported from the United States. Based on our analysis of the list of products affected by the tariffs, we expect that the tariffs will not have a material direct impact on the operating entities' business operations, as currently, the operating entities are based in the PRC, and deliver products to customers exclusively located within the PRC market. In December 2019, China announced that it suspended tariffs on certain products, and the U.S. and China signed a "Phase 1" agreement in January 2020 that cut some U.S. tariffs on Chinese goods in exchange for Chinese pledges to purchase more of American farm, energy, and manufactured goods and address some U.S. complaints about intellectual property practices. Due to various political developments, including a new administration in the U.S. government, however, it remains unclear whether any "Phase 2" agreement will be negotiated and how much economic relief from the trade war it will offer. The imposed tariffs may cause the depreciation of the RMB currency and a contraction of certain PRC industries that will likely be affected by the tariffs. As such, there is the potential for a decrease in the spending powers of activated carbon and biomass energy customers, which in turn, may lead to a contraction of the PRC activated carbon and biomass energy market. As such, the operating entities may have access to fewer business opportunities and the operating entities' operation may be negatively impacted. In addition, future actions or escalations by either the United States or China that affect trade relations may cause global economic turmoil and potentially have a negative impact on the operating entities' business and we cannot provide any assurances as to whether such actions will occur or the form that they may take.

Increases in labor costs in the PRC may adversely affect the operating entities' business and profitability.

China's economy has experienced increases in labor costs in recent years. China's overall economy and the average wage in China are expected to continue to grow. The average wage level for the operating entities' employees has also increased in recent years. We expect that the operating entities' labor costs, including wages and employee benefits, will continue to increase. Unless the operating entities are able to pass on these increased labor costs to their customers by increasing prices for their products, the operating entities' profitability and results of operations may be materially and adversely affected.

In addition, pursuant to the PRC Labor Contract Law, or the "Labor Contract Law," that became effective in January 2008 and its implementing rules that became effective in September 2008 and its amendments that became effective in July 2013, employers are subject to stricter requirements in terms of signing labor contracts, minimum wages, paying remuneration, determining the term of employees' probation, and unilaterally terminating labor contracts. In the event that the operating entities decide to terminate some of their employees or otherwise change their employment or labor practices, the Labor Contract Law and its implementation rules may limit the operating entities' ability to effect those changes in a desirable or cost-effective manner, which could adversely affect the operating entities' business and results of operations. Besides, pursuant to the Labor Contract Law and its amendments, dispatched employees are intended to be a supplementary form of employment and the fundamental form should be direct employment by enterprises and organizations that require employees.

As the interpretation and implementation of labor-related laws and regulations are still evolving, we cannot assure you that the operating entities' employment practice does not and will not violate labor-related laws and regulations in China, which may subject them to labor disputes or government investigations. If the operating entities are deemed to have violated relevant labor laws and regulations, the operating entities could be required to provide additional compensation to their employees and the operating entities' business, financial condition and results of operations could be materially and adversely affected.

The operating entities are not in compliance with the PRC's regulations relating to employee benefit plans, and as a result, they may be subject to penalties if they are not able to remediate the non-compliance.

Companies operating in China are required to participate in various government sponsored employee benefit plans, including certain social insurance, housing funds, and other welfare-oriented payment obligations, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of their employees up to a maximum amount specified by the local government from time to time at locations where they operate their businesses. The requirement of employee benefit plans has not been implemented consistently by the local governments in China given the different levels of economic development in different locations. Our PRC subsidiaries have not paid adequate social insurance and housing provident fund payments for all their employees. The relevant PRC authorities may order the operating entities to make up the contributions to these plans. In addition, failure to make adequate social insurance payments may subject them to 0.05% late fees per day starting from the date of underpayment, and fines equal to one to three times the underpaid amount if the operating entities cannot make up the payments within the prescribed time. For failure to open the housing provident fund accounts for all the operating entities' employees within the prescribed time, they may be ordered to open the accounts within the prescribed time, and if they cannot do so, they may be fined RMB10,000 to RMB50,000. For failure to make the adequate housing provident fund contributions, the operating entities may be ordered by the competent authorities to make such contributions within the prescribed time and any delay in doing so may subject them to a court order to make up the contributions. If the operating entities are subject to late fees or fines in relation to underpaid employee benefits, their financial condition and results of operations may be adversely affected. However, the risk of regulatory penalty that the relevant authorities may impose on the operating entities for their failure to make adequate contributions to the employee benefit plans for all their employees as required is remote, because they have not received any order from the relevant local authorities requiring the operating entities to make up the payments for employee benefit plans, and the relevant local authorities confirmed in writing that no records of violation were found on the operating entities for social insurance plan.

Because we are a British Virgin Islands corporation and all of our business is conducted in the PRC, you may be unable to bring an action against us or our officers and directors or to enforce any judgment you may obtain. It may also be difficult for you or overseas regulators to conduct investigations or collect evidence within China.

We are incorporated in the British Virgin Islands and conduct our operations primarily in China. All of our assets are located outside of the United States. In addition, three out of our six directors and officers, namely Jinwu Huang, Wenhua Liu, and Wenbiao Zhang, reside in the PRC; the other directors, namely, Kangbin Zheng, Phillip Connelly, and Jian Chen, reside in the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe we have violated your rights, either under United States federal or state securities laws or otherwise, or if you have a claim against us. Even if you are successful in bringing an action of this kind, the laws of the British Virgin Islands and of China may not permit you to enforce a judgment against our assets or the assets of our directors and officers.

It may also be difficult for you or overseas regulators to conduct investigations or collect evidence within China. For example, in China, there are significant legal and other obstacles to obtaining information needed for shareholder investigations or litigation outside China or otherwise with respect to foreign entities. Although the authorities in China may establish a regulatory cooperation mechanism with its counterparts of another country or region to monitor and oversee cross-border securities activities, such regulatory cooperation with the securities regulatory authorities in the United States may not be efficient in the absence of a practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law, or "Article 177," which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigations or evidence collection activities within the territory of the PRC. Article 177 further provides that Chinese entities and individuals are not allowed to provide documents or materials related to securities business activities to foreign agencies without prior consent from the securities regulatory authority of the State Council and the competent departments of the State Council. While detailed interpretation of or implementing rules under Article 177 have yet to be promulgated, the inability for an overseas securities regulator to directly conduct investigation or evidence collection activities within China may further increase difficulties faced by you in protecting your interests.

Recent joint statement by the SEC and the PCAOB, rule changes by Nasdaq, and the Holding Foreign Companies Accountable Act all call for additional and more stringent criteria to be applied to emerging market companies upon assessing the qualification of their auditors, especially the non-U.S. auditors who are not inspected by the PCAOB. These developments could add uncertainties to our offerings.

On April 21, 2020, SEC Chairman Jay Clayton and PCAOB Chairman William D. Duhnke III, along with other senior SEC staff, released a joint statement highlighting the risks associated with investing in companies based in or have substantial operations in emerging markets including China. The joint statement emphasized the risks associated with lack of access for the PCAOB to inspect auditors and audit work papers in China and higher risks of fraud in emerging markets.

On May 18, 2020, Nasdaq filed three proposals with the SEC to (i) apply a minimum offering size requirement for companies primarily operating in a “Restrictive Market,” (ii) adopt a new requirement relating to the qualification of management or the board of directors for Restrictive Market companies, and (iii) apply additional and more stringent criteria to an applicant or listed company based on the qualifications of the company’s auditor. On October 4, 2021, the SEC approved Nasdaq’s revised proposal for the rule changes.

On May 20, 2020, the U.S. Senate passed the HFCA Act requiring a foreign company to certify it is not owned or controlled by a foreign government if the PCAOB is unable to audit specified reports because the company uses a foreign auditor not subject to PCAOB inspection. If the PCAOB is unable to inspect the company’s auditors for three consecutive years, the issuer’s securities are prohibited from trading on a national exchange. On December 2, 2020, the U.S. House of Representatives approved the HFCA Act. On December 18, 2020, the HFCA Act was signed into law.

On March 24, 2021, the SEC adopted interim final rules relating to the implementation of certain disclosure and documentation requirements of the HFCA Act.

On June 22, 2021, the U.S. Senate passed the Accelerating Holding Foreign Companies Accountable Act, which was signed into law on December 29, 2022, amending the HFCA Act and requiring the SEC to prohibit an issuer’s securities from trading on any U.S. stock exchange if its auditor is not subject to PCAOB inspections for two consecutive years instead of three.

On September 22, 2021, the PCAOB adopted a final rule implementing the HFCA Act, which provides a framework for the PCAOB to use when determining, as contemplated under the HFCA Act, whether the board of directors of a company is unable to inspect or investigate completely registered public accounting firms located in a foreign jurisdiction because of a position taken by one or more authorities in that jurisdiction.

On December 2, 2021, the SEC adopted amendments to finalize rules implementing the submission and disclosure requirements in the HFCA Act.

On December 16, 2021, the PCAOB issued a report on its determinations that it is unable to inspect or investigate completely PCAOB-registered public accounting firms headquartered in mainland China and in Hong Kong because of positions taken by PRC and Hong Kong authorities in those jurisdictions, which determinations were vacated on December 15, 2022.

The lack of access to the PCAOB inspection in China prevents the PCAOB from fully evaluating audits and quality control procedures of the auditors based in China. As a result, investors may be deprived of the benefits of such PCAOB inspections. Although the PCAOB announced on December 15, 2022 that it was able to secure complete access to inspect and investigate PCAOB-registered public accounting firms headquartered in mainland China and Hong Kong completely in 2022, the risk that the PCAOB may be unable to conduct inspections of auditors in China in the future makes it more difficult to evaluate the effectiveness of these accounting firm’s audit procedures or quality control procedures as compared to auditors outside of China that are subject to the PCAOB inspections, which could cause investors and potential investors in our ordinary shares to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

Our auditor is an independent registered public accounting firm with the PCAOB, and as an auditor of publicly traded companies in the U.S., is subject to laws in the U.S., pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. The PCAOB currently has access to inspect the working papers of our auditor. However, the recent developments would add uncertainties to our offering and we cannot assure you whether Nasdaq or regulatory authorities would apply additional and more stringent criteria to us after considering the effectiveness of our auditor's audit procedures and quality control procedures, adequacy of personnel and training, or sufficiency of resources, geographic reach or experience as they relate to the audit of our financial statements. To the extent this status changes in the future and our auditor's audit documentation related to their audit reports for our Company is inaccessible for inspection by the PCAOB or if the PCAOB is unable to inspect or investigate our auditor completely because of a position taken by an authority in a foreign jurisdiction, trading in our shares could be prohibited under the HFCA Act, and, as a result, our shares could be delisted from Nasdaq. Furthermore, if the PCAOB is unable to inspect our accounting firm in the future, the HFCA Act, which requires that the PCAOB be permitted to inspect an issuer's public accounting firm within two years, will prohibit trading in our securities, and, as a result, an exchange may determine to delist our securities. The Accelerating HFCA Act passed by the U.S. House of Representatives and signed into law on December 29, 2022 reduces the period of time for foreign companies to comply with PCAOB audits to two consecutive years instead of three, thus reducing the time period for triggering the delisting of our Company and the prohibition of trading in our securities if the PCAOB is unable to inspect our accounting firm at such future time. In addition, delisting may cause a significant decrease in or a total loss of the value of our securities. Although a shareholder's ownership of our Company may not decrease directly from delisting, the ownership may become worth much less, or, in some cases, lose its entire value.

On August 26, 2022, the CSRC, the MOF, and the PCAOB signed the Protocol, governing inspections and investigations of audit firms based in China and Hong Kong. The Protocol remains unpublished and is subject to further explanation and implementation. Pursuant to the fact sheet with respect to the Protocol disclosed by the SEC, the PCAOB shall have independent discretion to select any issuer audits for inspection or investigation and has the unfettered ability to transfer information to the SEC. On December 15, 2022, the PCAOB Board determined that the PCAOB was able to secure complete access to inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong and voted to vacate its previous determinations to the contrary. However, whether the PCAOB will continue to be able to satisfactorily conduct inspections of PCAOB-registered public accounting firms headquartered in mainland China and Hong Kong is subject to uncertainties and depends on a number of factors out of our and our auditor's control. The PCAOB continues to demand complete access in mainland China and Hong Kong moving forward and is making plans to resume regular inspections in early 2023 and beyond, as well as to continue pursuing ongoing investigations and initiate new investigations, as needed. However, should PRC authorities obstruct or otherwise fail to facilitate the PCAOB's access in the future, the PCAOB Board will consider the need to issue a new determination.

PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us, or otherwise expose us or our PRC resident shareholders to liabilities or penalties.

In July 2014, the State Administration of Foreign Exchange ("SAFE") promulgated the Circular on Issues Concerning Foreign Exchange Administration over the Overseas Investment and Financing and Roundtrip Investment by Domestic Residents via Special Purpose Vehicles, or the "SAFE Circular 37," which replaced the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Corporate Financing and Roundtrip Investment through Offshore Special Purpose Vehicles. According to the SAFE Circular 37, PRC residents or entities are required to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle, known as "SPV," undergoes material events relating to any changes of basic information (such as change of such PRC residents or entities, name and operation term), increase or decrease of investment amount, transfer or exchanges of shares, and mergers or divisions.

As of the date of this annual report, four of our beneficial owners who are PRC residents have completed the registrations required by the SAFE Circular 37. We have urged all PRC residents or entities who directly or indirectly hold shares in our Company and who are currently known to us as being PRC residents to make the necessary applications, filings, and amendments as required under the SAFE Circular 37 and other related rules. We attempt to comply, and attempt to ensure that our shareholders and beneficial owners who are subject to these rules comply with the relevant requirements. We cannot, however, provide any assurances that all of our shareholders or beneficial owners who are PRC residents will comply with our request to comply with the SAFE Circular 37 requirements, nor can we assure that we will be informed of the identities of all the current and future PRC residents or entities holding direct or indirect interest in our Company. Failure by any of such shareholders or beneficial owners to comply with relevant requirements under these regulations could subject us to fines or sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiaries' ability to pay dividends or make distributions to us and limit our ability to increase our investment in our PRC subsidiaries, which could adversely affect our business and prospects.

Furthermore, as these foreign exchange regulations are still relatively new and their interpretation and implementation has been constantly evolving, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant government authorities. For example, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owner of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirement we may have, and any limitation on the ability of our subsidiaries to make payments to us and any tax we are required to pay could have a materially adverse effect on our ability to conduct our business.

We are a British Virgin Islands holding company and we rely principally on dividends and other distributions on equity from our PRC subsidiaries for our cash requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. If our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us. Any limitation on the ability of our PRC subsidiaries to distribute dividends or other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends or otherwise fund and conduct our business.

Under PRC laws and regulations, our PRC subsidiaries, Zhejiang CN Energy and Manzhouli CN Energy, as wholly foreign-owned enterprises in the PRC, may pay dividends only out of their accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its accumulated after-tax profits each year, if any, to fund certain statutory reserve funds, until the aggregate amount of such fund reaches 50% of its registered capital. At its discretion, a wholly foreign-owned enterprise may allocate a portion of its after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends.

In response to the persistent capital outflow and the RMB's depreciation against U.S. dollar in the fourth quarter of 2016, the People's Bank of China ("PBOC") and SAFE have implemented a series of capital control measures, including stricter vetting procedures for China-based companies to remit foreign currency for overseas acquisitions, dividend payments and shareholder loan repayments. For instance, PBOC issued the Circular on Further Clarification of Relevant Matters Relating to Offshore RMB Loans Provided by Domestic Enterprises, or "PBOC Circular 306," on November 26, 2016, which provides that offshore RMB loans provided by a domestic enterprise to offshore enterprises with which it has an equity relationship shall not exceed 30% of the domestic enterprise's most recent audited owner's equity. PBOC Circular 306 may constrain our PRC subsidiaries' ability to provide offshore loans to us. The PRC government may continue to strengthen its capital controls, and our PRC subsidiaries' dividends and other distributions may be subjected to tighter scrutiny in the future. Any limitation on the ability of our PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business. See also "—Under the EIT Law, we may be classified as a 'resident enterprise' of China, which could result in unfavorable tax consequences to us and our non-PRC shareholders."

PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using proceeds from our future financing activities to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to approval by or registration with relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises, or "FIEs," in China, capital contributions to our PRC subsidiaries Zhejiang CN Energy and Manzhouli CN Energy, which are FIEs, are subject to the approval of or filing with the Ministry of Commerce of the PRC ("MOFCOM") or its local counterparts and registration with a local bank authorized by SAFE. There is, in effect, no statutory limit on the amount of capital contribution that we can make to our PRC subsidiaries. The reason is that there is no statutory limit on the amount of registered capital for our PRC subsidiaries, and we are allowed to make capital contributions to our PRC subsidiaries by subscribing for their initial registered capital and increased registered capital, provided that the PRC subsidiaries complete the relevant filing and registration procedures.

On the other hand, any foreign loan provided by us to our PRC subsidiaries is required to be registered with SAFE or its local branches or filed with SAFE in its information system, and our PRC subsidiaries may not procure foreign loans which exceed the difference between its total investment amount and registered capital (the “Current Foreign Debt Mechanism”) or, as an alternative, only procure loans subject to the calculation approach and limitations as provided in the PBOC’s Circular on Matters concerning the Macro-Prudential Management of Full-Covered Cross-Border Financing, or “PBOC Notice No. 9” (the “PBOC Notice No. 9 Mechanism”), which shall not exceed 200% of the net asset of the relevant PRC subsidiary. According to PBOC Notice No. 9, after a transition period of one year since its promulgation, PBOC and SAFE will determine the cross-border financing administration mechanism for the FIEs after evaluating the overall implementation of PBOC Notice No. 9. As of the date hereof, neither PBOC nor SAFE has promulgated and made public any further rules, regulations, notices, or circulars in this regard. It is uncertain which mechanism will be adopted by PBOC and SAFE in the future and what statutory limits will be imposed on us when providing loans to our PRC subsidiaries. Currently, our PRC subsidiaries have the flexibility to choose between the Current Foreign Debt Mechanism and the PBOC Notice No. 9 Mechanism. However, if a more stringent foreign debt mechanism becomes mandatory, our ability to provide loans to our PRC subsidiaries may be significantly limited, which may adversely affect our business, financial condition, and results of operations.

If we seek to make capital contribution into our PRC subsidiaries or provide any loan to our PRC subsidiaries in the future, we may not be able to obtain the required government approvals or complete the required registrations on a timely basis, if at all. If we fail to receive such approvals or complete such registrations, our ability to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

Because the operating entities’ business is conducted in RMB and the price of our ordinary shares is quoted in U.S. dollars, changes in currency conversion rates may affect the value of your investments.

The operating entities’ business is conducted in the PRC, our books and records are maintained in RMB, which is the currency of the PRC, and the financial statements that we file with the SEC and provide to our shareholders are presented in U.S. dollars. Changes in the exchange rate between RMB and U.S. dollar affect the value of our assets and the results of our operations, when presented in U.S. dollars. The value of RMB against the U.S. dollars and other currencies may fluctuate and is affected by, among other things, changes in the PRC’s political and economic conditions and perceived changes in the economy of the PRC and the United States. Any significant revaluation of RMB may materially and adversely affect our cash flows, revenue, and financial condition.

Under the EIT Law, we may be classified as a “resident enterprise” of China, which could result in unfavorable tax consequences to us and our non-PRC shareholders.

The PRC Enterprise Income Tax Law (the “EIT Law”) and its implementing rules provide that enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises” under PRC tax laws. The implementing rules promulgated under the EIT Law define the term “de facto management bodies” as a management body which substantially manages, or has control over the business, personnel, finance and assets of an enterprise. In April 2009, the State Administration of Taxation, or the “SAT,” issued a circular known as “SAT Circular 82” (partially abolished on December 29, 2017), which provides certain specific criteria for determining whether the “de facto management bodies” of a PRC-controlled enterprise that is incorporated offshore are located in China. There are, however, no further detailed rules or precedents governing the procedures and specific criteria for determining “de facto management body.” Although our board of directors and management are located in the PRC, it is unclear if the PRC tax authorities would determine that we should be classified as a PRC “resident enterprise.”

If we are deemed as a PRC “resident enterprise,” we will be subject to PRC enterprise income tax on our worldwide income at a uniform tax rate of 25%, although dividends distributed to us from our existing PRC subsidiaries and any other PRC subsidiaries which we may establish from time to time could be exempt from the PRC dividend withholding tax due to our PRC “resident recipient” status. This could have a material and adverse effect on our overall effective tax rate, our income tax expenses and our net income. Furthermore, dividends, if any, paid to our shareholders may be decreased as a result of the decrease in distributable profits. In addition, if we were considered a PRC “resident enterprise,” any dividends we pay to our non-PRC investors, and the gains realized from the transfer of our ordinary shares may be considered income derived from sources within the PRC and be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty). It is unclear whether holders of our ordinary shares would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. This could have a material and adverse effect on the value of your investment in us and the price of our ordinary shares.

There are significant uncertainties under the EIT Law relating to the withholding tax liabilities of our PRC subsidiaries, and dividends payable by our PRC subsidiaries to our Hong Kong subsidiaries may not qualify to enjoy certain treaty benefits.

Under the EIT Law and its implementation rules, the profits of a foreign invested enterprise generated through operations, which are distributed to its immediate holding company outside the PRC, will be subject to a withholding tax rate of 10%. Pursuant to a special arrangement between Hong Kong and the PRC and the Notice of the SAT on Issues Regarding the Implementation of Dividend Provisions in Tax Treaties, or the “SAT Circular 81,” issued by the SAT, such rate may be reduced to 5% if the PRC enterprise is at least 25% held by a Hong Kong enterprise for at least 12 consecutive months prior to the distribution of the dividends and is determined by the relevant PRC tax authority to have satisfied other conditions and requirements under the China-Hong Kong special arrangement and other applicable PRC laws. Furthermore, under the SAT’s Administrative Measures for Non-Resident Taxpayers to Enjoy Treatments under Tax Treaties effective in August 2015, non-resident taxpayers shall determine whether they are qualified to enjoy the preferential tax treatment under the tax treaties and file relevant report and materials with the tax authorities. See “Item 10. Additional Information—E. Taxation—People’s Republic of China Taxation.” We have determined that we are qualified to enjoy the preferential tax treatment. We cannot assure you, however, that our determination will not be challenged by the relevant PRC tax authority or we will be able to complete the necessary filings with the relevant PRC tax authority and enjoy the preferential withholding tax rate of 5% under the China-Hong Kong special arrangement with respect to dividends to be paid by our PRC subsidiaries to Energy Holdings and MZ HK, our Hong Kong subsidiaries.

We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

In February 2015, the SAT issued the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, or “SAT Bulletin 7,” which was partially abolished in 2017. Pursuant to this bulletin, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. In respect of an indirect offshore transfer of assets of a PRC establishment, the resulting gain is to be included with the enterprise income tax filing of the PRC establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to the immovable properties located in China or to equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax of 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. SAT Bulletin 7 does not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange.

There is uncertainty as to the application of SAT Bulletin 7. We face uncertainties as to the reporting and other implications of certain future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore subsidiaries or investments. We may be subject to filing obligations or taxed if we are transferor in such transactions, and may be subject to withholding obligations if we are transferee in such transactions under SAT Bulletin 7. For transfer of shares in our Company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under SAT Bulletin 7. As a result, we may be required to expend valuable resources to comply with SAT Bulletin 7 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our Company should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

Our PRC subsidiaries are subject to restrictions on paying dividends or making other payments to us, which may have a material adverse effect on our ability to conduct our business.

We are a holding company incorporated in the British Virgin Islands. We may need dividends and other distributions on equity from our PRC subsidiaries to satisfy our liquidity requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. If our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us.

Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a PRC company is required to set aside at least 10% of its after-tax profits as statutory reserve funds, until the cumulative amount of such reserve funds reaches 50% of its registered capital, unless laws regarding foreign investment provide otherwise. Our PRC subsidiaries may also allocate a portion of their respective after-tax profits based on PRC accounting standards to employee welfare and bonus funds at their discretion. These reserves are not distributable as cash dividends. These limitation on the ability of our PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments, or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

To address the persistent capital outflow and the RMB's depreciation against the U.S. dollar in the fourth quarter of 2016, the People's Bank of China and the State Administration of Foreign Exchange, or SAFE, have implemented a series of capital control measures in the subsequent months, including stricter vetting procedures for China-based companies to remit foreign currency for overseas acquisitions, dividend payments and shareholder loan repayments. For instance, the Circular on Promoting the Reform of Foreign Exchange Management and Improving Authenticity and Compliance Review, or the SAFE Circular 3, issued on January 26, 2017, provides that the banks shall, when dealing with dividend remittance transactions from domestic enterprise to its offshore shareholders of more than US\$50,000, review the relevant board resolutions, original tax filing form and audited financial statements of such domestic enterprise based on the principle of genuine transaction. The PRC government may continue to strengthen its capital controls and our PRC subsidiaries' dividends and other distributions may be subject to tightened scrutiny in the future. Any limitation on the ability of our PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

In addition, the EIT Law and its implementation rules provide that a withholding tax at a rate of 10% will be applicable to dividends payable by Chinese companies to non-PRC-resident enterprises unless reduced under treaties or arrangements between the PRC central government and governments of other countries or regions where the non-PRC resident enterprises are tax resident. See “-Under the EIT Law, we may be classified as a ‘resident enterprise’ of China, which could result in unfavorable tax consequences to us and our non-PRC shareholders.”

If we become directly subject to the scrutiny, criticism, and negative publicity involving U.S.-listed Chinese companies, we may have to expend significant resources to investigate and resolve the matter which could harm our business operations, stock price, and reputation.

U.S. public companies that have substantially all of their operations in China have been the subject of intense scrutiny, criticism, and negative publicity by investors, financial commentators, and regulatory agencies, such as the SEC. Much of the scrutiny, criticism, and negative publicity has centered on financial and accounting irregularities and mistakes, a lack of effective internal controls over financial accounting, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result of the scrutiny, criticism, and negative publicity, the publicly traded stock of many U.S. listed Chinese companies sharply decreased in value and, in some cases, has become virtually worthless. Many of these companies are now subject to shareholder lawsuits and SEC enforcement actions and are conducting internal and external investigations into the allegations. It is not clear what effect this sector-wide scrutiny, criticism, and negative publicity will have on us, our business, and our stock price. If we become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we will have to expend significant resources to investigate such allegations and/or defend our Company. This situation will be costly and time consuming and distract our management from developing our business. If such allegations are not proven to be groundless, we and our business operations will be severely affected and you could sustain a significant decline in the value of our stock.

The disclosures in our reports and other filings with the SEC and our other public pronouncements are not subject to the scrutiny of any regulatory bodies in the PRC.

We are regulated by the SEC and our reports and other filings with the SEC are subject to SEC review in accordance with the rules and regulations promulgated by the SEC under the Securities Act and the Exchange Act. Our SEC reports and other disclosure and public pronouncements are not subject to the review or scrutiny of any PRC regulatory authority. For example, the disclosure in our SEC reports and other filings are not subject to the review by China Securities Regulatory Commission, a PRC regulator that is responsible for oversight of the capital markets in China. Accordingly, you should review our SEC reports, filings, and other public pronouncements with the understanding that no local regulator has done any review of us, our SEC reports, other filings, or any of our other public pronouncements.

The M&A Rules and certain other PRC regulations establish complex procedures for certain acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the “M&A Rules,” and recently adopted PRC regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex. For example, the M&A Rules require that MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such transaction involves factors that have or may have impact on the national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. Mergers or acquisitions that allow one market player to take control of or to exert decisive impact on another market player must also be notified in advance to MOFCOM when the threshold under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, or the “Prior Notification Rules,” issued by the State Council in August 2008 is triggered. In addition, the security review rules issued by MOFCOM that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns are subject to strict review by MOFCOM, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes may delay or inhibit our ability to complete such transactions. It is clear that our business would not be deemed to be in an industry that raises “national defense and security” or “national security” concerns. MOFCOM or other government agencies, however, may publish explanations in the future determining that our business is in an industry subject to the security review, in which case our future acquisitions in the PRC, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

Risks Relating to Our Ordinary Shares and the Trading Market

Substantial future sales of our Class A ordinary shares or the anticipation of future sales of our ordinary shares, whether by us or our shareholders, could cause the price of our Class A ordinary shares to decline.

An aggregate of 39,396,196 Class A ordinary shares are outstanding as of the date of this annual report. If our existing shareholders sell, or indicate an intent to sell, substantial amounts of our ordinary shares in the public market, the trading price of our Class A ordinary shares could decline significantly. Similarly, the perception in the public market that our shareholders might sell our ordinary shares could also depress the market price of our shares. A decline in the price of our Class A ordinary shares might impede our ability to raise capital through the issuance of additional Class A ordinary shares or other equity securities. In addition, the issuance and sale by us of additional ordinary shares, or securities convertible into or exercisable for our ordinary shares, or the perception that we will issue such securities, could reduce the trading price for our Class A ordinary shares as well as make future sales of equity securities by us less attractive or not feasible.

Because we do not expect to pay dividends in the foreseeable future, you must rely on the price appreciation of our Class A ordinary shares for return on your investment.

We currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in our Class A ordinary shares as a source for any future dividend income.

Our board of directors has complete discretion as to whether to distribute dividends, subject to certain requirements of British Virgin Islands law. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Under British Virgin Islands law, a British Virgin Islands company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions, and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our Class A ordinary shares will likely depend entirely upon any future price appreciation of our Class A ordinary shares. There is no guarantee that our Class A ordinary shares will appreciate in value or even maintain the price at which you purchased the Class A ordinary shares. You may not realize a return on your investment in our Class A ordinary shares and you may even lose your entire investment in our Class A ordinary shares.

Securities analysts may not cover our Class A ordinary shares and this may have a negative impact on the market price of our Class A ordinary shares.

The trading market for our Class A ordinary shares will depend, in part, on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over independent analysts (provided that we have engaged various non-independent analysts). We do not currently have and may never obtain research coverage by independent securities and industry analysts. If no independent securities or industry analysts commence coverage of us, the trading price for our Class A ordinary shares would be negatively impacted. If we obtain independent securities or industry analyst coverage and if one or more of the analysts who covers us downgrades our Class A ordinary shares, changes their opinion of our shares, or publishes inaccurate or unfavorable research about our business, the price of our Class A ordinary shares would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our Class A ordinary shares could decrease and we could lose visibility in the financial markets, which could cause the price and trading volume of our Class A ordinary shares to decline.

The trading price of our Class A ordinary shares is likely to be volatile, which could result in substantial losses to our investors.

From the closing of our initial public offering on February 9, 2021 to January 27, 2023, the closing price of our Class A ordinary shares ranged from \$0.61 to \$11.58 per share. The trading price of our Class A ordinary shares is likely to continue to be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, including the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in the United States. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in their trading prices. The trading performances of other Chinese companies' securities after their offerings may affect the attitudes of investors toward Chinese companies listed in the United States in general and consequently may impact the trading performance of our Class A ordinary shares, regardless of our actual operating performance.

In addition, the market price of our Class A ordinary shares may be volatile, both because of actual and perceived changes in our financial results and reports, and because of general volatility in the stock market. The factors that could cause fluctuations in our share price may include, among other factors discussed in this section, the following:

- actual or anticipated variations in the financial results and prospects of our Company or other companies in the activated carbon business;
- changes in financial estimates by research analysts;
- mergers or other business combinations involving us;
- additions and departures of key personnel and senior management;
- changes in accounting principles;
- the passage of legislation or other developments affecting us or our industry;

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- the trading volume of our Class A ordinary shares in the public market;
- the release of lockup, escrow, or other transfer restrictions on our outstanding equity securities or sales of additional equity securities;
- changes in economic conditions, including fluctuations in global and Chinese economies;
- financial market conditions;
- the COVID-19 pandemic;
- natural disasters, terrorist acts, acts of war, or periods of civil unrest; and
- the realization of some or all of the risks described in this section.

In addition, the stock markets have experienced significant price and trading volume fluctuations from time to time, and the stock prices of many companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. These broad market fluctuations may materially and adversely affect the market price of our Class A ordinary shares.

Techniques employed by short sellers may drive down the market price of our Class A ordinary shares.

Short selling is the practice of selling securities that the seller does not own but rather has borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is in the short seller's interest for the price of the security to decline, many short sellers publish, or arrange for the publication of, negative opinions regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a security short. These short attacks have, in the past, led to selling of shares in the market.

Public companies listed in the United States that have a substantial majority of their operations in China have been the subject of short selling. Much of the scrutiny and negative publicity has centered on allegations of a lack of effective internal control over financial reporting resulting in financial and accounting irregularities and mistakes, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result, many of these companies are now conducting internal and external investigations into the allegations and, in the interim, are subject to shareholder lawsuits and/or SEC enforcement actions.

We may in the future be the subject of unfavorable allegations made by short sellers. Any such allegations may be followed by periods of instability in the market price of our Class A ordinary shares and negative publicity. If and when we become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we could have to expend a significant amount of resources to investigate such allegations and/or defend ourselves. While we would strongly defend against any such short seller attacks, we may be constrained in the manner in which we can proceed against the relevant short seller by principles of freedom of speech, applicable federal or state law, or issues of commercial confidentiality. Such a situation could be costly and time-consuming and could distract our management from growing our business. Even if such allegations are ultimately proven to be groundless, allegations against us could severely impact our business operations and shareholder's equity, and the value of any investment in our could be greatly reduced or rendered worthless.

The requirements of being a public company may strain our resources and divert management's attention.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002, or the "Sarbanes-Oxley Act," the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of Nasdaq, and other applicable securities rules and regulations. Despite recent reforms made possible by the Jumpstart Our Business Startups Act of 2012, or the "JOBS Act," compliance with these rules and regulations will nonetheless increase our legal, accounting, and financial compliance costs and investor relations and public relations costs, make some activities more difficult, time-consuming, or costly, and increase demand on our systems and resources, particularly after we are no longer an "emerging growth company." The Exchange Act requires, among other things, that we file annual and current reports with respect to our business and operating results as well as proxy statements.

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As a result of disclosure of information in the Form 20-F and in filings required of a public company, our business and financial condition are more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and operating results could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business, brand and reputation and results of operations.

Being a public company and these new rules and regulations make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

If we cease to qualify as a foreign private issuer, we would be required to comply fully with the reporting requirements of the Exchange Act applicable to U.S. domestic issuers, and we would incur significant additional legal, accounting, and other expenses that we would not incur as a foreign private issuer.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors, and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as United States domestic issuers, and we are not required to disclose in our periodic reports all of the information that United States domestic issuers are required to disclose. While we currently are qualified as a foreign private issuer, we may cease to qualify as a foreign private issuer in the future, in which case we would incur significant additional expenses that could have a material adverse effect on our results of operations.

Because we are a foreign private issuer and have taken advantage of exemptions from certain Nasdaq corporate governance standards applicable to U.S. issuers, you will have less protection than you would have if we were a domestic issuer.

As an exempted company incorporated in the British Virgin Islands company with limited liability that is listed on the Nasdaq, we are subject to the Nasdaq corporate governance listing standards. However, Nasdaq rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the British Virgin Islands, which is our home country, may differ significantly from the Nasdaq corporate governance listing standards. We have relied on and plan to rely on home country practice with respect to our corporate governance. Specifically, we have elected to be exempt from the requirements under (a) Nasdaq Listing Rule 5635 to obtain shareholder approval for (i) the issuance 20% or more of our outstanding ordinary shares or voting power in a private offering, (ii) the issuance of securities pursuant to a stock option or purchase plan to be established or materially amended or other equity compensation arrangement made or materially amended, (iii) the issuance of securities when the issuance or potential issuance will result in a change of control of our Company, and (iv) certain acquisitions in connection with the acquisition of the stock or assets of another company and (b) Nasdaq Listing Rule 5640, which requires that the voting rights of a listed company cannot be disparately reduced or restricted through any corporate action or issuance. As a result, our shareholders may be afforded less protection than they otherwise would enjoy under the Nasdaq corporate governance listing standards applicable to U.S. domestic issuers.

If we cannot satisfy, or continue to satisfy, the continued listing requirements and other rules of the Nasdaq Capital Market, our securities may be delisted, which could negatively impact the price of our securities and your ability to sell them.

Our securities are listed on the Nasdaq Capital Market. We cannot assure you that our securities will continue to be listed on the Nasdaq Capital Market. In order to maintain our listing on the Nasdaq Capital Market, we are required to comply with certain rules, including those regarding minimum stockholders' equity, minimum share price, minimum market value of publicly held shares, and various additional requirements. Even if we initially meet the listing requirements and other applicable rules of the Nasdaq Capital Market, we may not be able to continue to satisfy these requirements and applicable rules. If we are unable to satisfy the criteria for maintaining our listing, our securities could be subject to delisting.

If our securities are subsequently delisted from trading, we could face significant consequences, including:

- a limited availability for market quotations for our securities;
- reduced liquidity with respect to our securities;

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- a determination that our Class A ordinary shares is a “penny stock,” which will require brokers trading in our Class A ordinary shares to adhere to more stringent rules and possibly result in a reduced level of trading activity in the secondary trading market for our Class A ordinary shares;
- limited amount of news and analyst coverage; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

We do not know whether a market for the Class A ordinary shares will be sustained or what the trading price of the Class A ordinary shares will be and as a result it may be difficult for you to sell your Class A ordinary shares.

Although our Class A ordinary shares trade on Nasdaq, an active trading market for the Class A ordinary shares may not be sustained. It may be difficult for you to sell your Class A ordinary shares without depressing the market price for the Class A ordinary shares. As a result of these and other factors, you may not be able to sell your Class A ordinary shares. Further, an inactive market may also impair our ability to raise capital by selling Class A ordinary shares, or may impair our ability to enter into strategic partnerships or acquire companies or products by using our Class A ordinary shares as consideration.

Anti-takeover provisions in our third amended and restated memorandum and articles of association may discourage, delay, or prevent a change in control.

We have adopted our third amended and restated memorandum and articles of association, which became effective on July 22, 2022. Some provisions of our third amended and restated memorandum and articles of association may discourage, delay, or prevent a change in control of our Company or management that shareholders may consider favorable, including, among other things, the following:

- provisions that authorize our board of directors to issue shares with preferred, deferred, or other special rights or restrictions without any further vote or action by our shareholders; and
- provisions that restrict the ability of our shareholders to call meetings and to propose special matters for consideration at shareholder meetings.

The exclusive jurisdiction provision in our third amended and restated articles of association may limit our shareholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.

Our third amended and restated articles provide that, to the fullest extent permitted by applicable law, unless our board of directors consents in writing to the selection of an alternative forum, the courts of the British Virgin Islands shall have exclusive jurisdiction to hear and determine:

- (i) any dispute, suit, action, proceedings, controversy, or claim of any kind arising out of or in connection with our memorandum and/or articles, including, without limitation, claims for set-off and counterclaims and any dispute, suit, action, proceedings, controversy, or claim of any kind arising out of or in connection with: (x) the creation, validity, effect, interpretation, performance, or non-performance of, or the legal relationships established by, our memorandum and/or articles; or (y) any non-contractual obligations arising out of or in connection with our memorandum and/or articles; or
- (ii) any dispute, suit, action (including, without limitation, any derivative action or proceeding brought on behalf or in our name or any application for permissions to bring a derivative action), proceedings, controversy, or claim of any kind relating or connected to us, our board of directors, officers, management, or shareholders arising out of or in connection with the BVI Act, the Insolvency Act, 2003 of the British Virgin Islands, as amended from time to time, any other statute, rule, or common law of the British Virgin Islands affecting any relationship between us, our shareholders, and/or our directors and officers (or any of them) or any rights and duties established thereby (including, without limitation, Division 3 of Part VI and Part XI of the BVI Act and section 162(1)(b) of the Insolvency Act, 2003, and fiduciary or other duties owed by any director, officer, or shareholder of the Company to the Company or the Company’s shareholders).

To the fullest extent permitted by applicable laws, unless our board of directors consents in writing to the selection of an alternative forum, the federal district courts of the United States of America shall be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act or the Exchange Act. Notwithstanding the foregoing, we note that holders of our ordinary shares cannot waive compliance with the federal securities laws and the rules and regulations thereunder. Section 27 of the Exchange Act creates exclusive federal jurisdiction over all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder, and Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder. As a result, the exclusive jurisdiction provision will not preclude or contract the scope of exclusive federal or concurrent jurisdiction for actions brought under the Securities Act or the Exchange Act, or the respective rules and regulations promulgated thereunder.

Although we believe this provision benefits us by providing consistency in the application of BVI law in the types of lawsuits to which it applies, the provision may impose additional litigation costs on shareholders in pursuing such claims, particularly if the shareholders do not reside in or near the British Virgin Islands. Additionally, the provision may limit our shareholders' ability to bring a claim in a judicial forum that they find favorable for disputes with us or our directors, officers, or employees, which may discourage the filing of such lawsuits. The courts of the British Virgin Islands may also reach different judgment or results than would other courts, including courts where a shareholder considering an action may be located or would otherwise choose to bring the action, and such judgments may be more or less favorable to us than our shareholders. Alternatively, if a court were to find the exclusive jurisdiction provision contained in our third amended and restated articles to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could adversely affect our business and financial condition.

Our board of directors may refuse or delay the registration of the transfer of ordinary shares in certain circumstances.

Except in connection with the settlement of trades or transactions entered into through the facilities of a stock exchange or automated quotation system on which our ordinary shares are listed or traded from time to time, our board of directors may resolve to refuse or delay the registration of the transfer of our ordinary shares. Where our directors do so, they must specify the reason(s) for this refusal or delay in a resolution of the board of directors. Our directors may also refuse or delay the registration of any transfer of ordinary shares if the transferor has failed to pay an amount due in respect to those ordinary shares. If our directors refuse to register a transfer, they shall, as soon as reasonably practicable, send the transferor and the transferee a notice of the refusal or delay in the approved form.

This, however, will not affect market transactions of the ordinary shares purchased by investors in a public offering. Where the ordinary shares are listed on a stock exchange, the ordinary shares may be transferred without the need for a written instrument of transfer, if the transfer is carried out in accordance with the rules of the stock exchange and other requirements applicable to the ordinary shares listed on the stock exchange.

During the course of the audit of our consolidated financial statements, we identified a material weakness in our internal control over financial reporting. If we fail to establish and maintain an effective system of internal control over financial reporting, our ability to accurately and timely report our financial results or prevent fraud may be adversely affected, and investor confidence and the market price of our ordinary shares may be adversely impacted.

We are subject to reporting obligations under U.S. securities laws. The SEC adopted rules pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 requiring every public company to include a management report on such company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of its internal control over financial reporting.

We, in connection with the preparation of our consolidated financial statements for the fiscal year ended September 30, 2022, identified a material weakness in our internal control over financial reporting, that is, we do not have sufficient in-house personnel in our accounting department with sufficient knowledge of the accounting principles generally accepted in the U.S. ("U.S. GAAP") and SEC reporting rules. See "Item 15. Controls and Procedures—Disclosure Controls and Procedures." Our management is currently in the process of evaluating the steps necessary to remediate the ineffectiveness, such as (i) hiring more qualified accounting personnel with relevant U.S. GAAP and SEC reporting experience and qualifications to strengthen the financial reporting function and to set up a financial and system control framework, and (ii) implementing regular and continuous U.S. GAAP accounting and financial reporting training programs for our accounting and financial reporting personnel. Measures that we implement may not fully address the material weakness in our internal control over financial reporting and we may not be able to conclude that the material weakness has been fully remedied.

Failure to correct the material weakness and other control deficiencies or failure to discover and address any other control deficiencies could result in inaccuracies in our consolidated financial statements and could also impair our ability to comply with applicable financial reporting requirements and make related regulatory filings on a timely basis. As a result, our business, financial condition, results of operations, and prospects, as well as the trading price of our ordinary shares, may be materially and adversely affected. Due to the material weakness in our internal control over financial reporting as described above, our management concluded that our internal control over financial reporting was not effective as of September 30, 2022. This could adversely affect the market price of our Class A ordinary shares due to a loss of investor confidence in the reliability of our reporting processes.

We are an “emerging growth company” within the meaning of the Securities Act, and if we take advantage of certain exemptions from disclosure requirements available to emerging growth companies, this will make it more difficult to compare our performance with other public companies.

We are an “emerging growth company” within the meaning of the Securities Act, as modified by the JOBS Act. Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such an election to opt out is irrevocable. We have elected not to opt out of such extended transition period, which means that when a standard is issued or revised and it has different application dates for public or private companies, we, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard. This will make comparison of our financial statements with another public company which is neither an emerging growth company nor an emerging growth company which has opted out of using the extended transition period difficult or impossible because of the potential differences in accounting standards used.

Because we are an “emerging growth company,” we may not be subject to requirements that other public companies are subject to, which could affect investor confidence in us and our Class A ordinary shares.

We are classified as an “emerging growth company” under the JOBS Act. For as long as we remain an “emerging growth company,” as defined in the JOBS Act, we will elect to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies,” including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. Because of these lessened regulatory requirements, our shareholders would be left without information or rights available to shareholders of more mature companies. If some investors find our Class A ordinary shares less attractive as a result, there may be a less active trading market for our Class A ordinary shares and our share price may be more volatile.

The laws of the British Virgin Islands may not provide our shareholders with benefits comparable to those provided to shareholders of corporations incorporated in the United States.

Our corporate affairs are governed by our third amended and restated memorandum and articles of association, by the BVI Act and the common law of the British Virgin Islands. The rights of shareholders to take action against our directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under British Virgin Islands law are to a large extent governed by the common law of the British Virgin Islands. The common law in the British Virgin Islands is derived in part from comparatively limited judicial precedent in the British Virgin Islands and from English common law. For example, under the rule established in the English case known as *Foss v. Harbottle*, a court will generally refuse to interfere with the management of a company at the insistence of a minority of its shareholders who express dissatisfaction with the conduct of the company’s affairs by the majority or the board of directors subject to a number of limited exceptions. Decisions of the Privy Council (which is the final Court of Appeal for British overseas territories such as the British Virgin Islands) are binding on a court in the British Virgin Islands. Decisions of the English courts, and particularly the Supreme Court and the Court of Appeal are generally of persuasive authority but are not binding in the courts of the British Virgin Islands. Decisions of courts in other Commonwealth jurisdictions are similarly of persuasive but not binding authority. The rights of our shareholders and the fiduciary responsibilities of our directors under British Virgin Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the British Virgin Islands has a less developed body of securities laws relative to the United States. Therefore, our public shareholders may have more difficulty protecting their interests in the face of actions by our management, directors or controlling shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

Recently introduced economic substance legislation of the British Virgin Islands may adversely impact us or our operations.

The British Virgin Islands, together with several other non-European Union jurisdictions, have recently introduced legislation aimed at addressing concerns raised by the Council of the European Union (the “EU”) as to offshore structures engaged in certain activities which attract profits without real economic activity. With effect from January 1, 2019, the Economic Substance (Companies and Limited Partnerships) Act, 2018 (the “Substance Law”) came into force in the British Virgin Islands introducing certain economic substance requirements for British Virgin Islands “relevant entities” which are engaged in certain banking, insurance, fund management, financing and leasing, headquarters, shipping, holding company, intellectual property or distribution and service center business (being “relevant activities”) and are in receipt of gross income arising from relevant activities in any relevant financial period. In the case of business companies incorporated before January 1, 2019, the economic substance requirements apply for financial years commencing June 30, 2019.

The economic substance requirements that are imposed include that in-scope companies be directed and managed in the British Virgin Islands, have core income generating activities in the British Virgin Islands, and have an adequate level of employees, expenditures, and premises in the British Virgin Islands. Business companies that carry on holding company business (which means it only holds equity participations in other entities and only earns dividends and capital gains) will be subject to reduced substance requirements.

Based on the Substance Law and announced guidance currently issued, we are currently subject to limited substance requirements applicable to a holding company. At present, we are only required to confirm we comply with the BVI Business Companies Act, 2004 and that we have adequate premises and employees in the British Virgin Islands for passively holding or actively managing the equity participation, but to the extent we are required to increase our substance in the British Virgin Islands due to any regulatory change, it could result in additional costs. Although it is presently anticipated that the Substance Law (including the ongoing EU review of the British Virgin Islands’ implementation of such law), will have minimal material impact on us or our operations, as the legislation and guidance are new and remain subject to further clarification, adjustment, interpretation, and the EU review, it is not currently possible to ascertain the precise impact of these developments on us, for example, whether we could also be treated as carrying out “headquarter business” in the British Virgin Islands (despite our headquarters physically being in China). It is therefore possible that we may be subject to additional requirements under the Substance Law in the future. Should that occur, it is our intention to seek appropriate advice and take appropriate steps to ensure that we (to the extent we fall within the scope of the Substance Law) are fully compliant.

If we are classified as a PFIC, United States taxpayers who own our Class A ordinary shares may have adverse United States federal income tax consequences.

A non-U.S. corporation such as ourselves will be classified as a PFIC, for any taxable year if, for such year, either:

- At least 75% of our gross income for the year is passive income; or
- The average percentage of our assets (determined at the end of each quarter) during the taxable year which produce passive income or which are held for the production of passive income is at least 50%.

Passive income generally includes dividends, interest, rents and royalties (other than rents or royalties derived from the active conduct of a trade or business), and gains from the disposition of passive assets.

If we are determined to be a PFIC for any taxable year (or portion thereof) that is included in the holding period of a U.S. taxpayer who holds our Class A ordinary shares, the U.S. taxpayer may be subject to increased U.S. federal income tax liability and may be subject to additional reporting requirements.

Depending on the amount of cash we have and any other assets held for the production of passive income, it is possible that, for our current taxable year or for any subsequent year, more than 50% of our assets may be assets which produce passive income, in which case we would be deemed a PFIC, which could have adverse U.S. federal income tax consequences for U.S. taxpayers who are shareholders. We will make this determination following the end of any particular tax year.

Although the law in this regard is unclear, we treat the operating entities as being owned by us for United States federal income tax purposes, not only because we exercise effective control over the operations of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their operating results in our consolidated financial statements. For purposes of the PFIC analysis, in general, a non-U.S. corporation is deemed to own its pro rata share of the gross income and assets of any entity in which it is considered to own at least 25% of the equity by value.

For a more detailed discussion of the application of the PFIC rules to us and the consequences to U.S. taxpayers if we were or are determined to be a PFIC, see “Item 10. Additional Information—E. Taxation—United States Federal Income Taxation—PFIC.”

The dual class structure of our ordinary shares has the effect of concentrating voting control with Ms. Yefang Zhang, and her interests may not be aligned with the interests of our other shareholders.

We have a dual-class voting structure consisting of Class A ordinary shares and Class B ordinary shares. Under this structure, holders of Class A ordinary shares are entitled to one vote per one Class A ordinary share, and holders of Class B ordinary shares are entitled to 50 votes per one Class B ordinary share, which may cause the holders of Class B ordinary shares to have an unbalanced, higher concentration of voting power. Ms. Yefang Zhang indirectly holds 3,020,969, or 100% of our issued and outstanding Class B ordinary shares, representing approximately 79.31% of the voting rights in our Company. As a result, until such time as his collective voting power is below 50%, Ms. Zhang as the controlling shareholder has substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors, and other significant corporate actions. She may take actions that are not in the best interests of us or our other shareholders. These corporate actions may be taken even if they are opposed by our other shareholders. Further, such concentration of voting power may discourage, prevent, or delay the consummation of recent change of control transactions that shareholders may consider favorable, including transactions in which shareholders might otherwise receive a premium for their shares. Future issuances of Class B ordinary shares may also be dilutive to the holders of Class A ordinary shares. As a result, the market price of our Class A ordinary shares could be adversely affected.

The dual-class structure of our ordinary shares may adversely affect the trading market for our Class A ordinary shares.

Several shareholder advisory firms have announced their opposition to the use of multiple class structures. As a result, the dual class structure of our ordinary shares may cause shareholder advisory firms to publish negative commentary about our corporate governance practices or otherwise seek to cause us to change our capital structure. Any actions or publications by shareholder advisory firms critical of our corporate governance practices or capital structure could also adversely affect the value of our Class A ordinary shares.

Since we are a “controlled company” within the meaning of the Nasdaq listing rules, we are allowed to follow certain exemptions from certain corporate governance requirements that could adversely affect our public shareholders.

Our largest shareholder, Ms. Yefang Zhang, through Global Clean Energy Limited, owns more than a majority of the voting power of our outstanding ordinary shares. Under the Nasdaq listing rules, a company of which more than 50% of the voting power is held by an individual, group, or another company is a “controlled company” and is permitted to phase in its compliance with the independent committee requirements. Although we do not intend to rely on the “controlled company” exemptions under the Nasdaq listing rules, we are allowed to elect to rely on these exemptions in the future. If we were to elect to rely on the “controlled company” exemptions, a majority of the members of our board of directors might not be independent directors and our nominating and corporate governance and compensation committees might not consist entirely of independent directors. Accordingly, if we rely on the exemptions, during the period we remain a controlled company and during any transition period following a time when we are no longer a controlled company, you would not have the same protections afforded to shareholders of companies that are subject to all of the corporate governance requirements of Nasdaq.

Item 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

On March 31, 2022, we established a wholly owned subsidiary, CN Energy USA Inc., as a corporation pursuant to the laws of the State of Delaware. CN Energy currently holds 100% of the equity interests in CN Energy USA Inc.

On April 8, 2022, we formed Zhoushan Xinyue, a PRC limited liability company. Zhoushan Xinyue is a wholly owned subsidiary of Hangzhou Forasen.

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On April 13, 2022, we formed Ningbo Nadoutong, a PRC limited liability company. Ningbo Nadoutong is a wholly owned subsidiary of CN Energy Development.

On October 11, 2022, we formed Zhejiang Yongfeng New Material, a PRC limited liability company. Zhejiang Yongfeng New Material is a wholly owned subsidiary of Hangzhou Forasen.

On November 11, 2022, we completed the acquisition of MZ HK, which wholly owns Yunnan Yuemu through MZ Pintai, pursuant to an equity transfer agreement (the “Equity Transfer Agreement”) dated September 30, 2022 with Shenzhen Xiangfeng Trading Co., Ltd. (“Shenzhen Xiangfeng”). Pursuant to the Equity Transfer Agreement, Shenzhen Xiangfeng first transferred 100% of its equity interests in Yunnan Honghao to Yunnan Yuemu, and Shenzhen Xiangfeng then sold and transferred, and we purchased and acquired, 100% of its equity interests in MZ HK for a consideration of \$17,706,575.88 and the issuance of 8,819,520 Class A ordinary shares of our Company having a value of \$18,373,771, delivered to Shenzhen Xiangfeng and its designees.

See “Item 3. Key Information” for our latest corporate structure.

Corporate Information

Our principal executive offices are located at Building 2-B, Room 206, No. 268 Shiniu Road, Liandu District, Lishui City, Zhejiang Province, the PRC, and our phone number is +86-571-87555823. Our registered office in the British Virgin Islands is located at 2/F, Palm Grove House, P.O. Box 3340, Road Town, Tortola, British Virgin Islands, and the phone number of our registered office is +1 (284) 393-6004. We maintain a corporate website at www.ir.cneny.com. The information contained in, or accessible from, our website or any other website does not constitute a part of this annual report. Our agent for service of process in the United States is CN Energy USA Inc., located at 900 19th Street NW, Floor 5, Squad 23, Washington, DC 20006.

The SEC maintains a website at www.sec.gov that contains reports, proxy, and information statements, and other information regarding issuers that file electronically with the SEC using its EDGAR system.

For information regarding our principal capital expenditures, see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Capital Expenditures.”

B. Business Overview

Overview

The operating entities manufacture and supply wood-based activated carbon that is primarily used in pharmaceutical manufacturing, industrial manufacturing, water purification, environmental protection, and food and beverage production (“Activated Carbon Production”), and produce biomass electricity generated in the process of producing activated carbon (“Biomass Electricity Production”).

As a manufacturer of wood-based activated carbon, the operating entities’ primary raw materials are forestry residues, little fuelwood, and wood wastes, which the operating entities source from their suppliers. The operating entities’ current facility is located in Tahe County, Heilongjiang Province, in close proximity to the Greater Khingan Range, where their suppliers are primarily located. The operating entities also source raw materials from Inner Mongolia Autonomous Region.

The operating entities produce wood-based activated carbon that is conformed to their customers’ specifications. The operating entities’ activated carbon customers are mainly activated carbon wholesalers and companies engaged in the activated carbon deep processing business. The operating entities’ activated carbon customers are all based in the PRC and currently mainly located in Anhui Province, Fujian Province, Zhejiang Province, and Shanghai. The primary end users of the operating entities’ activated carbon are mainly food and beverage producers, industrial manufacturers, pharmaceutical manufacturers, and companies engaged in environmental protection. In addition, the operating entities have provided activated carbon related technical services to Hangzhou Lianmu Technology Co., Ltd. (“Lianmu Technology”) from time to time since January 1, 2017. Their technical services included activated carbon mixing ratio adjustments, activated carbon component indicator analyses, absorptive capacity tests, and other technical support. The operating entities expect to provide similar technical services to Lianmu Technology and other customers if requested.

The biomass electricity generated during the process of producing activated carbon is supplied to State Grid Heilongjiang Electric Power Company Limited, a subsidiary of State Grid Corporation of China in Heilongjiang Province. The operating entities do not supply biomass electricity to any other state-owned or other entity.

The operating entities generate revenue primarily from selling activated carbon.

For the fiscal years ended September 30, 2022, 2021, and 2020, the operating entities sold 28,911, 15,018, and 9,525 tons of activated carbon and 2,721,000, 2,817,600, and 2,641,964 kWh of biomass electricity, respectively. For the same years, the total revenue was approximately \$40.2 million, \$19.8 million, and \$12.5 million, and the net income was approximately \$2.4 million, \$1.3 million, and \$2.3 million, respectively. For the same years, the revenue derived from Activated Carbon Production accounted for 99.3%, 98.62%, and 96.99% of the total revenue, respectively; the revenue derived from Biomass Electricity Production accounted for 0.4%, 0.72%, and 2.05% of the total revenue, respectively; and the revenue derived from technical services accounted for 0.3%, 0.66%, and 0.96% of the total revenue, respectively.

Competition

All of the operating entities' activated carbon sales are in the PRC market. The operating entities' major competitors are companies that manufacture and sell activated carbon in the PRC market. The operating entities' main competitors in Activated Carbon Production include wood-based activated carbon manufacturers, such as Fujian Xinsen Carbon Industry Co., Ltd., and coal-based activated carbon manufacturers, such as Shanxi Xinhua Activated Carbon Co., Ltd., Ningxia Huahui Activated Carbon Company Limited, Shenhua Ningxia Coal Industry Group Co., Ltd., and Xingtai Coal Chemical Co., Ltd. The operating entities compete for customers primarily on the basis of activated carbon prices, activated carbon quality and characteristics, transportation costs, customer relationships, and the reliability of supply. The demand for the operating entities' activated carbon is significantly dependent on the general economy in the PRC.

Since State Grid Corporation of China is the only purchaser of biomass electricity in the PRC and the electricity purchase price is determined by the National Development and Reform Commission of the PRC (the "NDRC"), there is no competition in terms of the customer or price in the PRC biomass electricity market. The operating entities instead focus on reducing their production cost and increasing their production capacity of the biomass electricity. Some other major producers of biomass electricity in the PRC are Sunshine Kaidi New Energy Group Co., Ltd. and National Biological Energy Co., Ltd.

Competitive Strengths

We believe the operating entities have the following competitive strengths:

Advanced Technology and Established Relationship with a Research Center

Activated carbon is typically produced using either of the following two processes: (i) steam activation, in which raw materials are carbonized and then activated with steam, and (ii) chemical activation, which involves mixing raw materials with an activating agent, usually phosphoric acid, to swell the raw materials and open up the cellulose structure. The operating entities produce wood-based activated carbon and biomass electricity from forestry residues, little fuelwood, and wood wastes through an activated carbon and electricity cogeneration process (the "Cogeneration Process") they have developed over the years. The operating entities' Cogeneration Process is based on steam activation, instead of chemical activation, and does not involve mixing raw materials with phosphoric acid. As a result, the activated carbon the operating entities produce does not contain residual phosphate and, unlike activated carbon produced through chemical activation, may be used in industries that require activated carbon with higher purity, such as pharmaceutical manufacturing and food and beverage production. In addition, compared with the traditional steam activation process, which only produces activated carbon and makes no use of the synthesis gas from raw materials being carbonized, the operating entities' Cogeneration Process uses the synthesis gas to generate biomass electricity. Therefore, we believe the operating entities' production process is more efficient, results in less pollution, and yields higher profits after selling both activated carbon and biomass electricity when compared with the traditional steam activation process. For details of the production process, please see "—Production Process."

As of the date of this annual report, the operating entities own 32 patents in the PRC and claim ownership of certain trade secrets and proprietary know-how developed by and used in their business. The operating entities cooperate with Huadian Electric Power Science Academy (“Huadian”) pursuant to a Strategic Cooperation Agreement dated April 3, 2014, to research, develop, and share technologies related to activated carbon and biomass energy, which include improvements to the ignition system and speed control system of electric generators. See “—R&D” for more information. The operating entities are also constantly looking for new cooperative opportunities with additional research centers to further improve their method.

Strategically Placed Facilities and Lower Costs

The operating entities strategically placed their current Tahe County facility in the middle of the Greater Khingan Range, where most of their suppliers are located and where there is abundant supply of forestry residues, little fuelwood, and wood wastes. The operating entities’ Tahe County facility is close to multiple roads and only 1.24 miles from the nearest train station, thereby facilitating the transportation of our activated carbon products to customers in East China and South China. Their new facility under construction, in which the operating entities expect to manufacture activated carbon and generate steam for heating upon completing the first stage of construction in December 2023, is located in Manzhouli City, Inner Mongolia, where there are over 100 woodworking factories that could potentially supply the operating entities with a large number of wood wastes and which has similarly good transportation infrastructure. For detailed information of the new facility under construction in Manzhouli City, please refer to “—Facilities” below. The operating entities’ stable feedstock supply and low transportation cost help them maintain lower general costs than those of our competitors.

High-Quality Wood-Based Activated Carbon Products and Biomass Electricity

The chemical activation process of activated carbon production uses coal as raw material. Coal often contains impurities, metal salt, and ash, and chemicals used in the chemical activation process may cause secondary pollution to the activated carbon products. Therefore, activated carbon products manufactured through the chemical activation process often are of low quality and can only be used in industrial manufacturing. In contrast, the operating entities’ wood-based activated carbon products, manufactured from forestry residues, little fuelwood, and wood wastes and through the physical activation process, are of higher quality than carbon activated products manufactured through the chemical activation process and therefore have a wide range of uses in industries such as pharmaceutical manufacturing, industrial manufacturing, water purification, food and beverage production, and environment protection. The biomass electricity generated in the operating entities activated carbon production process offers them an additional revenue source.

Strong Management and Professional Team with Extensive Industry Experience

Our senior management team, led by Mr. Kangbin Zheng, our chief executive officer and chairman, has significant experience in the activated carbon and biomass energy industries. Our management team is comprised of highly-skilled and dedicated professionals with wide ranging experience in research, services, product development, business development, and marketing. We believe that our management and professional team will be able to effectively grow our business through continued operating improvement and research.

Growth Strategies

The operating entities’ goal is to become one of China’s leading wood-based activated carbon and biomass energy producers. Accomplishing this goal requires the successful implementation of the following strategies:

Increase the Capacity of Activated Carbon Production

Since the demand for activated carbon in general and orders for the operating entities’ activated carbon products more particularly have been increasing in recent years, the operating entities’ facility at their Tahe Biopower Plant almost reached its full operating capacity in recent years and the operating entities had to outsource some of their orders to third-party producers to keep up with the demand for the operating entities’ products. These third-party producers do not have the same manufacturing processes or quality control as the operating entities do, nor do the operating entities share technology with them. The operating entities mainly purchase activated carbon from these third-party producers to fulfill orders from customers who do not require the wood-based activated carbon the operating entities produce. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—The operating entities rely on third-party manufacturers to produce some of their activated carbon products and problems with, or loss of, these manufacturers could harm the operating entities’ business and operating results.” The operating entities are currently constructing a new manufacturing facility in Manzhouli City, Inner Mongolia, to increase their capacity of activated carbon production. As of January 2023, the operating entities had completed the construction of the groundwork of the factory workshop, most of the auxiliary buildings, and the pipe networks.

Expand Customer Base

We plan to explore new markets for the operating entities' activated carbon products while maintaining the operating entities' current customer base. The operating entities are considering establishing branch offices in various strategic areas, including Beijing, Shanghai, Hebei Province, Jiangsu Province, and Fujian Province. These branch offices will focus on increasing activated carbon product sales to existing customers, providing customer support in those areas, and acquiring potential new customers. By increasing the number of customers and optimizing the operating entities' transportation and sales network, the operating entities aim to reduce the marginal cost of their activated carbon products and increase their profits.

Focus on Products with Growing Demand

Due to the rapid development of industrial technology, stricter environmental protection regulations, and increased attention to food safety, there has been increased demand for activated carbon used in the water, food, and beverage industries, and activated carbon for pharmaceutical raw materials, intermediates, and finished products. We believe the operating entities are well positioned to meet each of these growing areas of demand. The operating entities will seek to continue their innovative approach, while ensuring reliability and efficiency in the delivery supply chain, to the extent the operating entities are able to continue to access a consistent supply of raw materials, by designing and manufacturing activated carbon products for use in a broad range of applications. While maintaining a diversified customer base and product line, the operating entities will seek to focus on their products with growing demand and capitalize opportunities for increasing their sales.

Increase Research and Development Efforts

The operating entities plan to increase their research and development efforts by seeking partnerships with well-established research institutes to develop more efficient methods for producing activated carbon and generating biomass energy. The operating entities have been working on applying their activated carbon production technology currently used with forestry residues, little fuelwood, and wood wastes to crop residues as well. The operating entities are seeking to reduce their reliance on forest resources and therefore expand their network of suppliers to other provinces in the PRC.

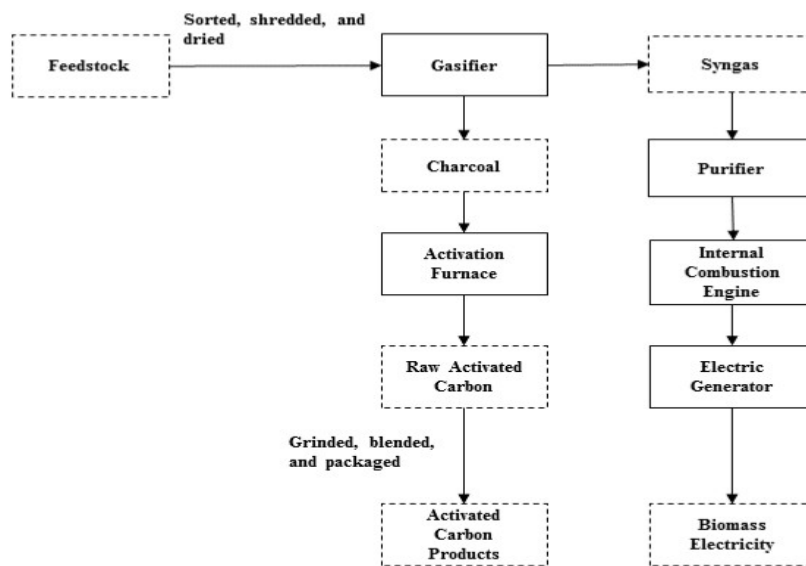
Explore New Business Opportunities

The operating entities have been monitoring possible business opportunities in the downstream sectors of the activated carbon industry, such as environment restoration, water purification, and air cleaning. In the long term, the operating entities plan to strategically establish or acquire companies that use activated carbon as raw materials. In November 2022, we completed the acquisition of Yunnan Honghao. See “—A. History and Development of the Company.” By expanding our business vertically in the activated carbon industry, we hope to increase the operating entities' pricing power and minimize risks in their Activated Carbon Production business.

Production Process

The operating entities' activated carbon is produced through the Cogeneration Process. In the Cogeneration Process, feedstock is sorted and shredded into wood pieces that are 0.4 to 2.4 inches thick, which are dried in a drying oven until the moisture content of the wood pieces is less than 15%. The wood pieces are then loaded into the gasifier, where they are pyrolyzed into charcoal and synthesis gas (or “syngas”). The charcoal is then exposed to oxidizing atmospheres at temperatures above 250°C in the activation furnace and converted into raw activated carbon. Depending on the specifications of activated carbon products in our customers' orders, we change different elements of the process, such as the type of wood, spinning speed of the activation furnace, and length of the activation time, in order to produce different types of raw activated carbon. The raw activated carbon is grinded, blended, and packaged into different activated carbon products to be sold to the operating entities' customers. The syngas is purified and burned in an internal combustion engine, which powers an electric generator that generates biomass electricity. The biomass electricity generated is then transmitted to the power network of State Grid Heilongjiang.

The simplified Cogeneration Process is shown below:



Products

Activated Carbon



Powdered Activated Carbon



Granular Activated Carbon

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Activated carbon, also called activated charcoal, is a carbonaceous, highly porous adsorptive medium that has a complex structure composed primarily of carbon atoms. The networks of pores in activated carbons are channels created within a rigid skeleton of disordered layers of carbon atoms, linked together by chemical bonds, stacked unevenly, creating a highly porous structure of nooks, crannies, cracks and crevices between the carbon layers. Activated carbon is used in methane and hydrogen storage, air purification, decaffeination, gold purification, metal extraction, water purification, medicine, sewage treatment, air filters in gas masks and respirators, filters in compressed air, teeth whitening, and many other applications.

We derived 99.34%, 98.62%, and 96.99% of our revenue from the sale of activated carbon products during the fiscal years ended September 30, 2022, 2021, and 2020, respectively.

Methylene blue number is often used as an indicator to evaluate the absorptive capacity of activated carbon. Activated carbon with a higher Methylene blue number usually has a higher absorptive capacity. The operating entities currently mainly produce the following four categories of activated carbon with different Methylene blue number ranges from forestry residues, little fuelwood, and wood wastes through physical activation process:

- medium-quality activated carbon, which has a Methylene blue number of less than 11;
- high-quality activated carbon, which has a Methylene blue number of between 11 and 12;
- superior-quality activated carbon, which has a Methylene blue number of between 12 and 13; and
- customized-quality activated carbon, which has a Methylene blue number of more than 13 and meets other special requirements of the operating entities' customers.

The operating entities' medium-quality and high-quality activated carbon are usually used in industrial manufacturing, water purification, and environmental protection. Their superior-quality and customized-quality activated carbon are usually used in pharmaceutical manufacturing and food and beverage production, where higher absorptive capacity is required.

The following table shows the sales for the operating entities' four categories of activated carbon in the fiscal years ended September 30, 2022, 2021, and 2020:

Category of Activated Carbon	Fiscal year ended September 30, 2022			Fiscal year ended September 30, 2021			Fiscal year ended September 30, 2020		
	Amount Sold (Ton)	Revenue (\$)	Revenue Percentage (%)	Amount Sold (Ton)	Revenue (\$)	Revenue Percentage (%)	Amount Sold (Ton)	Revenue (\$)	Revenue Percentage (%)
Medium-Quality	5,789	7,599,448	19.03	3,861	4,607,045	23.54	—	—	—
High-Quality	13,854	18,891,958	47.32	5,173	6,507,040	33.24	5,011	5,989,962	49.51
Superior-Quality	6,185	8,788,069	22.01	1,371	1,800,524	9.02	3,782	5,097,403	42.13
Customized-Quality	3,083	4,646,218	11.64	4,613	6,658,657	34.02	732	1,012,092	8.36

Biomass Electricity

Biomass electricity is electricity generated from biomass. Biomass is organic material that comes from plants and animals, and it is a renewable source of energy. Biomass contains stored energy from the sun. Plants absorb the sun's energy in a process called photosynthesis. When biomass is burned, the chemical energy in biomass is released as heat. Biomass can be burned directly or converted to liquid biofuels or biogas that can be burned as fuels.

The operating entities generate biomass electricity in the process of manufacturing activated carbon as described above.

Feedstock

The primary restriction on production and growth in the activated carbon industry is the availability and pricing of feedstock, which is the raw material used to produce activated carbon. A wide range of feedstock may be used to produce activated carbon, including:

- coal, such as lignite, brown coal, bituminous coal, and anthracite coal;
- forestry residues and little fuelwood, generated by operations such as thinning of plantations, clearing for logging roads, extracting stem-wood for pulp and timber, and natural attrition;
- wood wastes, such as sawdust, off-cuts, trims, and shavings from wood industries including saw millings and plywood;
- crop residues, such as straw, stem, stalk, leaves, husk, shell, peel, pulp, and stubble from cereals, cotton, groundnut, jute, legumes, coffee, tea, and fruits; and
- peat.

The operating entities currently use forestry residues, little fuelwood, and wood wastes as feedstock. The operating entities used 66,765.97, 55,906.49, and 53,015.93 tons of forestry residues, little fuelwood, and wood wastes in the fiscal years ended September 30, 2022, 2021, and 2020, respectively. In response to high demand for activated carbon, the operating entities have been experimenting with alternative feedstock as raw materials in the Cogeneration Process.

In order to meet orders from their customers, sometimes the operating entities also purchase activated carbon from other producers before shipping it to customers. In the fiscal year ended September 30, 2022, the operating entities purchased 8,596, 3,511, and 2,869 tons of activated carbon from Zhongjin Boda (Hangzhou) Industrial Co., Ltd., Yiwu Dongding Technology Co., Ltd., and Shanghai Jiabole Commercial and Trading Co., Ltd., respectively. In the fiscal year ended September 30, 2021, the operating entities purchased 4,190, 3,465, and 2,696 tons of activated carbon from Zhongjin Boda (Hangzhou) Industrial Co., Ltd., Shanghai Jiabole Commercial and Trading Co., Ltd., and Lishui Zhelin Trading Co., Ltd., respectively. In the fiscal year ended September 30, 2020, the operating entities purchased 2,090, 1,210, and 700 tons of activated carbon from Zhejiang Qianhang Trading Co., Ltd., Lishui Zhelin Trading Co., Ltd., and Wenzhou Xinghuang Trading Co., Ltd., respectively. These third-party producers do not have the same manufacturing processes or quality control as the operating entities do, nor do the operating entities share technology with them. The operating entities mainly purchase activated carbon from these third-party producers to fulfill orders from customers who do not require the wood-based activated carbon the operating entities produce. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—The operating entities rely on third-party manufacturers to produce some of their activated carbon products and problems with, or loss of, these manufacturers could harm the operating entities’ business and operating results.”

Suppliers

Most of the operating entities’ current forestry residues, little fuelwood, and wood wastes suppliers are individuals who collect or purchase these materials from woodworking factories and tree plantations. The operating entities also source forestry residues, little fuelwood, and wood wastes from Tahe Forestry Bureau and wood processing factories in Manzhouli City. In order to meet orders from our customers, sometimes the operating entities also purchase activated carbon from other producers before shipping it to customers. For the fiscal year ended September 30, 2022, the operating entities’ top 10 suppliers in terms of purchasing value contributed 88% of their raw materials sourced, with the top five suppliers providing 35%, 14%, 10%, 8%, and 6% of their raw materials, respectively. For the fiscal year ended September 30, 2021, the operating entities’ top 10 suppliers in terms of purchasing value contributed 92% of their raw materials and activated carbon sourced, with the top five suppliers providing 26%, 25%, 16%, 8%, and 4% of their raw materials and activated carbon, respectively. For the fiscal year ended September 30, 2020, the operating entities’ top 10 suppliers in terms of purchasing value contributed 93% of their raw materials and activated carbon sourced, with the top five suppliers providing 29%, 17%, 10%, 9%, and 6% of their raw materials and activated carbon, respectively. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—The operating entities have sourced our raw materials primarily from a limited number of suppliers. If they lose one or more of the suppliers, their operation may be disrupted, and their results of operations may be adversely and materially impacted.”

The operating entities enter into supply orders in the ordinary course of business with their forestry residues, little fuelwood, and wood wastes suppliers, pursuant to a form of long-term supply order. Pursuant to the operating entities' supply orders, which usually do not have an expiration date, their suppliers provide the operating entities with a certain quantity of forestry residues, little fuelwood, and wood wastes for a fixed price until the supply orders are amended or terminated. The price is negotiated with the operating entities' suppliers on an order-by-order basis and depends on the moisture content and type of wood, and the number of impurities. While the fixed price of short-term orders does not entirely protect us against volatility in feedstock prices, typically the operating entities have been able to and believe that they will continue to be able to transfer the volatility to their customers by renegotiating the prices of their finished products. The operating entities also continue to search for additional suppliers to maintain the consistency of their supply and control the costs of their raw materials.

For information about the operating entities' suppliers of raw activated carbon, please see “—Feedstock.”

Customers

The operating entities' activated carbon products customers primarily include activated carbon wholesalers and companies engaging in the activated carbon deep processing business. Their top activated carbon customers for the fiscal year ended September 30, 2022 included Ningbo Juming Youjia Commercial and Trading Co., Ltd. (“Ningbo Juming Youjia”), Ningbo Caixiang Trading Co., Ltd., Ningbo Wanshitong Supply Chain Management Co., Ltd., Huainan Jiahe New Material Co., Ltd. (“Huainan Jiahe”), Zhejiang Rongsheng Holding Group Co., Ltd., and Zhoushan Yilong Information Technology Co., Ltd., which collectively accounted for 92% of their total activated carbon sales for that period. Ningbo Juming Youjia accounted for 59% and Huainan Jiahe accounted for 8% of their total activated carbon sales for the fiscal year ended September 30, 2022, respectively. Their top activated carbon customers for the fiscal year ended September 30, 2021 included Ningbo Juming Youjia, Huainan Jiahe, Ningbo Senjiayamei, Fujian Yuanli Active Carbon Co., Ltd. (“Fujian Yuanli”), Shandong Beiqihuancheng Trading Co., Ltd., Anhui Huifengyonghui International Commercial and Trading Co., Ltd., and Ningguo Zhewanzhenhua Activated Carbon Co., Ltd., which collectively accounted for 100% of their total activated carbon sales for that period. Ningbo Juming Youjia accounted for 44% and Huainan Jiahe accounted for 34% of their total activated carbon sales for the fiscal year ended September 30, 2021, respectively. Their top activated carbon customers for the fiscal year ended September 30, 2020 included Ningbo Juming Youjia, Shanghai Huanguan New Material Co., Ltd. (“Shanghai Huanguan”), Huainan Jiahe, Fujian Yuanli, Shandong Beiqihuancheng Trading Co., Ltd., and Anhui Huifengyonghui International Commercial and Trading Co., Ltd., which collectively accounted for 100% of their total activated carbon sales for that period. Ningbo Juming Youjia accounted for 36% of their total activated carbon sales for the fiscal year ended September 30, 2020.

From the commencement of their operations in December 2012 to September 30, 2022, a total of 62 activated carbon customers have purchased activated carbon products from the operating entities. The total number of the operating entities' activated carbon customers was 14, seven, and six for the fiscal years ended September 30, 2022, 2021, and 2020, respectively. The operating entities chose to focus on customers with consistent orders and large activated carbon purchases, reducing the costs of customer maintenance and making it easier to manage their customer relations. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—A majority of the operating entities' activated carbon sales are currently derived from a small number of customers. If any of these customers experiences a material business disruption, the operating entities would likely incur substantial losses of revenue.”

On October 1, 2019, the operating entities entered into a Technical Consulting Services Agreement with Lianmu Technology, pursuant to which the operating entities agreed to provide activated carbon related technical services to Lianmu Technology from October 1, 2019 to September 30, 2020 for a service fee of RMB900,000 (approximately \$128,340). The technical services the operating entities provided included activated carbon mixing ratio adjustments, activated carbon component indicator analyses, absorptive capacity tests, and other technical support. On October 1, 2020, the operating entities entered into a Technical Consulting Services Agreement, pursuant to which they agreed to provide similar services to Lianmu Technology from October 1, 2020 to September 30, 2021 for a service fee of RMB900,000 (approximately \$138,240). On October 1, 2021, the operating entities entered into a Technical Consulting Services Agreement, pursuant to which they agreed to provide similar services to Lianmu Technology from October 1, 2021 to September 30, 2022 for a service fee of RMB900,000 (approximately \$136,930). The operating entities expect to continue to provide similar technical services to Lianmu Technology and their other customers if requested.

The only purchaser of the operating entities' biomass electricity is State Grid Heilongjiang, a subsidiary of State Grid Corporation of China in Heilongjiang Province, and, as the electric generators of Tahe Biopower Plant are connected to the electrical grid of State Grid Heilongjiang, the operating entities cannot sell biomass electricity to any other electricity distribution company. The operating entities enter into a biomass electricity sales agreement with State Grid Heilongjiang, and the agreement is renewed annually. State Grid Heilongjiang purchased 2,721,000 KWh, 2,817,600 KWh, and 2,641,964 KWh biomass electricity from the operating entities in the fiscal years ended September 30, 2022, 2021, and 2020, respectively.

Marketing and Sales

The operating entities maintain our activated carbon marketing and sales forces in-house in their corporate office with two employees, who are responsible for sales, transportation and distribution, as well as quality control and contract administration. Through market analyses, the operating entities identified potential customers that had high demand for activated carbon but were having difficulties finding suppliers, such as Huainan Jiahe and Liyang Zhuojun. By focusing on these potential customers and tailoring their activated carbon products to their specific needs, the operating entities were able to increase the number of their activated carbon customers. By offering customized activated carbon of specific iodine adsorption number, Methylene blue number, and other characteristics relevant to their customers, the operating entities are able to serve a diverse customer base. The operating entities' marketing and sales personnel are hard-working, full of passion, and responsive, and the operating entities offer them trainings in marketing and sales, management, and activated carbon products and technology.

The operating entities do not devote marketing and sales effort to their biomass electricity business since State Grid Corporation of China is the only purchaser of biomass electricity in the PRC.

Pricing & Backlog

To date, the operating entities price their activated carbon products on an order-to-order basis, primarily based on the Methylene blue number of the activated carbon product, adjusted for its other characteristics. The prices of their activated carbon products range from \$1,114.43 to \$2,087.69 per ton.

For their activated carbon products, the operating entities usually enter into sales agreements with a customer after agreeing on the specific product characteristics of the activated carbon such as iodine adsorption number and Methylene blue number and making sure that the operating entities have sufficient raw materials and different grades of activated carbon. The operating entities typically enter into separate activated carbon sales agreements, instead of a long-term supply agreement, for orders they receive from their activated carbon customers. This allows the operating entities to be flexible in pricing and adjust prices of their activated carbon products as the prices of their raw materials and the market demand for activated carbon change. The sales agreements typically lay out the quantity, price, specifics, packaging requirements, shipping method and delivery date, and other agreed-upon provisions of the order.

It usually takes us approximately 22 hours to produce the activated carbon product specified in an order, depending on the amount of activated carbon ordered, the supply of raw materials, and the specific product characteristics, among other factors. The operating entities typically begin shipping activated carbon products after they have produced approximately 30 tons, enough to fill up a railway wagon. It usually takes the operating entities three to five days to transport the activated carbon products by rail and by road to the sites of their customers; the transportation time could be delayed by two to three days if there is bad weather. During the fiscal year ended September 30, 2022, 98.76% of the operating entities' customers chose to pick up activated carbon products by themselves due to cost control reasons. The balance is due within 15 days to 90 days after the date when the customer accepts the shipment. If a customer fails to make payment on time, late interest of 3% per day is levied on the outstanding balance until payment is received in full. The operating entities rely on their long-term business relationships with their customers when collecting payments and do not currently encounter any difficulties in collecting payments.

The price of our biomass electricity is determined by the NDRC and the current purchase price is RMB0.75 (approximately \$0.11) per kWh. The operating entities enter into an annual supply agreement with State Grid Heilongjiang and the agreement specifies, among other things, the amount of electricity the operating entities need to produce in each month and price of the electricity.

Awards and Recognition

The operating entities have received the following honors, awards, and certifications for their quality products and scientific research efforts:

2012

- Chinese Scientific and Technological Innovation Middle and Small-Sized Enterprises Top 100

2014

- Catalogue of Advanced and Applicable Technologies for Comprehensive Utilization of Renewable Resources (Second Class)
- Electric Power Business License for Power Generation (this license enables us to conduct power generation business)

2016

- China High and New Technology Enterprise Certificate (this certificate entitles us to preferential enterprise income tax rates of 15% rather than 25%)

2019

- Growth Group Excellence Award and Innovation Star Award in China Innovation & Entrepreneurship Competition (Heilongjiang Division)
- Second Prize in Heilongjiang Province Innovation & Entrepreneurship Competition (Daxing'anling Division)
- China High and New Technology Enterprise Certificate (this certificate entitles us to preferential enterprise income tax rates of 15% rather than 25%)

2020

- Model Project for Comprehensive Utilization of Forestry Resources

2021

- China High and New Technology Enterprise Certificate (this certificate entitles us to preferential enterprise income tax rates of 15% rather than 25%)

Facilities

The operating entities' current manufacturing facility is located in Tahe Biopower Plant in Tahe County, Heilongjiang Province. The operating entities have the rights to use the land and factory buildings from July 1, 2020, to March 31, 2025, with an annual rent of RMB126,440 (approximately \$18,046) pursuant to a lease agreement entered into with Tahe Forestry Bureau on July 1, 2020. According to the lease agreement, the operating entities can only use the land and factory buildings for the operations of Tahe Biopower Plant and cannot transfer the lease to a third person without the prior consent of the landlord; otherwise, the lease agreement will be terminated. The operating entities are required to notify the landlord at least two months in advance if they would like to renew the lease agreement. Tahe Biopower Plant has a building area of 199,199 square feet and one production line, which runs 24 hours per day and 300 days per year. Its annual operating capacity for manufacturing activated carbon is approximately 7,800 tons. The operating entities produced 6,594 tons, 5,776 tons, and 5,169 tons of activated carbon and were at about 85%, 74%, and 66% capacity during the fiscal years ended September 30, 2022, 2021, and 2020, respectively. The amount of activated carbon produced was impacted by an upgrade of the machines for 30 days in 2022, a scheduled maintenance of the machines for 40 days in 2021, and the unscheduled close of facility due to the COVID-19 pandemic for 60 days in 2020.



Facilities of Tahe Biopower Plant

The operating entities are currently constructing a new facility in Manzhouli City, Inner Mongolia, to expand their production capacity. The operating entities plan to construct the new facility in two stages, the first of which is expected to be completed by December 2023. The planned investment for the first stage of construction is approximately RMB140 million (approximately \$20.21 million). Upon the completion of the first stage, the operating entities will commence manufacture and the facility is designed to have an annual capacity for manufacturing approximately 5,000 tons of activated carbon and generate 115,200 tons of steam for heating during the manufacturing process. Subject to a review of the operating results of the facility, the operating entities plan to invest an additional RMB190 million (approximately \$28.21 million) in the second stage of construction and increase the annual capacity to 10,000 tons of activated carbon and 230,400 tons of steam for heating. The second stage is expected to be completed by the end of 2024. In November 2018, the operating entities purchased a tract of land that is 279,861 square feet for the first stage of construction. As of January 2023, the operating entities had completed the construction of the groundwork of the factory workshop, the auxiliary buildings, and the pipe networks, and their total capital expenditure on the new facility was approximately RMB64 million (approximately \$9.8 million).

The operating entities are currently constructing a new facility in Lishui, to focus on the R&D, processing, marketing, and sale of activated carbon for water purification. The operating entities lease about 27,152 square feet of office and production space in Lishui for such new facility pursuant to a lease agreement they entered into with Zhejiang Forasen Energy Technology Co., Ltd. on October 8, 2021, with a lease term of five years from October 8, 2021 to October 7, 2026 (unless otherwise terminated by either party) and an annual rent of RMB454,042.8 (approximately \$69,741), payable semi-annually. The operating entities are required to notify the landlord at least three months in advance if they would like to renew the lease agreement. The planned investment for the renovation of factory building and construction of product line is RMB30 Million (approximately \$4.61 million). The factory has an inspection and quality control laboratory, and a high-efficiency charcoal separation processing production line, which is expected to run 24 hours per day and 300 days per year with a targeted annual output capacity of 36,000 tons of activated carbon. As of January 2023, the operating entities had completed the renovation of factory building and installation of most of the equipment. The operating entities expect to begin operation by August 2023 after obtaining necessary government safety and environmental permits.

Zhejiang CN Energy and CN Energy Development lease approximately 646 square feet of office space in Lishui for free pursuant to two lease agreements entered into with Lishui Yonglian Startup Services Co., Ltd. on September 1, 2022. The lease period is from September 1, 2022 to August 31, 2023. Zhejiang CN Energy and CN Energy Development are required to notify the landlord at least one month in advance if they would like to renew the lease agreements.

Hangzhou Forasen leases approximately 1,006 square feet of office space in Hangzhou pursuant to a lease agreement entered into with Sigma Holdings (Hangzhou) Co., Ltd. on February 10, 2022. The lease period is from February 15, 2022 to August 4, 2023. Hangzhou Forasen is required to notify the landlord at least two months in advance if it would like to renew the lease agreement.

We believe the operating entities' facilities are sufficient for their business operation.

R&D

Research and Development (“R&D”) expenses include salaries, material, contract, and other outside service fees, facilities, and overhead costs. In accordance to the FASB’s accounting standards for R&D costs, we expense the costs associated with the R&D activities when incurred. The R&D expenses totaled \$1,032,378, \$385,525 and \$287,299 for the fiscal years ended September 30, 2022, 2021, and 2020, respectively. The operating entities currently have 10 employees in their R&D department.

On April 3, 2014, the operating entities, through Hangzhou Forasen, entered into a Strategic Cooperation Agreement with Huadian. Pursuant to that agreement, Huadian and Hangzhou Forasen agreed to (i) research, develop, and share technologies related to activated carbon and biomass energy, (ii) share research facilities such as laboratories, equipment, and test bases, and (iii) regularly hold meetings to discuss development in the related industries. The agreement does not create any payment obligations to the parties, nor does it have an expiration date or a termination provision. In general, any intellectual property jointly developed under the agreement is jointly owned by Hangzhou Forasen and Huadian, unless otherwise agreed upon by the two parties for specific intellectual property.

The operating entities expect to work closely with leading universities and R&D institutes that specialize in activated carbon and biomass energy to develop new technologies for more efficient and cost-effective activated carbon and biomass energy production. The operating entities will also continue to search for alternative feedstock to enhance the availability of raw materials and reduce costs of feedstock for activated carbon production.

Intellectual Property

The operating entities evaluate on a case-by-case basis how best to use patents, trademarks, copyrights, trade secrets, and other available intellectual property protection in order to protect their products and our critical investments in R&D, manufacturing, and marketing. The operating entities focus on securing and maintaining patents for certain inventions such as equipment used in the production of activated carbon and generation of biomass electricity, while maintaining other inventions such as process improvements as trade secrets, derived from their market-based business model, in an effort to maximize the value of their product portfolio and manufacturing capabilities and reinforce their competitive advantage. The operating entities’ policy is to seek appropriate intellectual property protection for significant product and process developments in the major areas where the relevant products are manufactured or sold. Patents may cover products, processes, intermediate products and product uses. Patents extend for varying periods in accordance with the date of patent application filing and the legal life of patents in the various countries in which the patents are registered. The protection afforded, which may also vary from country to country, depends upon the type of subject matter covered by the patent and the scope of the claims of the patent. The operating entities maintain appropriate information security policies and procedures reasonably designed to ensure the safeguarding of confidential information including, where appropriate, data encryption, access controls, and employee awareness training.

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As of the date of this annual report, the operating entities own 32 patents in the PRC:

No.	Patent Description	Holder	Patent Type	Approval	Expiration	Patent Number
1	Methods and equipment for internal combustion self-heating mobile bed dry distillation carbonization	Khingang Forasen	Invention	March 22, 2006	August 24, 2024	200410075047.0
2	Methods and equipment for continuously gasifying biomass moving bed while removing tar	Khingang Forasen	Invention	February 12, 2014	February 12, 2031	201110041890.7
3	Feeding equipment for biomass gasifier	Hangzhou Forasen	Utility Model	October 8, 2014	May 19, 2024	201420261667.2
4	A gas processing device for biomass gasifier	Hangzhou Forasen	Utility Model	December 3, 2014	June 15, 2024	201420320604.X
5	Equipment for continuously carbonizing and gasifying wood	Hangzhou Darwo Software Co., Ltd., Hangzhou Forasen	Utility Model	January 14, 2015	June 18, 2024	201420350213.2
6	A dust-removing and explosion-preventing device for activated-carbon rotary furnace	Hangzhou Forasen	Utility Model	August 31, 2016	November 22, 2025	201520936930.8
7	A speed-adjustable cracker feeding device	Khingang Forasen	Utility Model	November 23, 2018	January 21, 2028	201820098769.5
8	An activation boiling furnace for producing activated carbon	Khingang Forasen	Utility Model	February 12, 2019	April 27, 2028	201820630290.1
9	A vacuum melting furnace	Khingang Forasen	Utility Model	November 05, 2019	November 26, 2028	201821964716.3
10	A system and methods for drying and processing of activated carbon	Hangzhou Forasen	Invention	September 25, 2020	September 19, 2038	201811099264.1
11	Equipment for internal combustion autothermal moving bed distillation carbonization	Khingang Forasen	Utility Model	August 7, 2020	September 22, 2029	201921583018.3
12	An activated carbon grinder	Khingang Forasen	Utility Model	July 24, 2020	September 22, 2029	201921583029.1

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13	A safety activated carbon production gasification furnace with explosion-proof structure	Hangzhou Forasen	Utility Model	June 8, 2021	October 18, 2030	202022320184.3
14	A feeder convenient to install for the production of chemical decolorizing activated carbon	Hangzhou Forasen	Utility Model	June 8, 2021	October 18, 2030	202022320202.8
15	A drying device with dehumidification structure for production of doxycycline professional activated carbon	Hangzhou Forasen	Utility Model	June 8, 2021	October 18, 2030	2020022320172.0
16	An activation furnace with tail gas treatment device for production of environmental protection activated carbon	Hangzhou Forasen	Utility Model	June 8, 2021	October 18, 2030	202022320374.5
17	A collection device with separation structure for production of nutshell activated carbon	Hangzhou Forasen	Utility Model	June 8, 2021	October 18, 2030	202002230544.X
18	An activated carbon production gasification furnace with feed anti-clogging structure	Hangzhou Forasen	Utility Model	June 8, 2021	October 18, 2030	202022320476.7
19	An activating furnace for production of activated carbon with convenient sewage discharge structure	Hangzhou Forasen	Utility Model	July 2, 2021	October 18, 2030	202022320271.9
20	A food additive activated carbon production visual wastewater treatment device	Hangzhou Forasen	Utility Model	July 2, 2021	October 18, 2030	202022320201.3
21	A screening equipment with anti-blocking structure for production of medicinal activated carbon	Hangzhou Forasen	Utility Model	July 2, 2021	October 18, 2030	202022320510.0
22	A storage device with moisture-proof function for electroplating chemical reagent type activated carbon production	Hangzhou Forasen	Utility Model	July 2, 2021	October 18, 2030	202022320185.8
23	Waste heat power generation plant based on activated carbon production line	Khingang Forasen	Utility Model	March 22, 2022	March 21, 2032	202122825657X
24	An intelligent temperature control device for activation furnace	Khingang Forasen	Utility Model	March 22, 2022	March 21, 2032	2021228256565
25	A Sleip activation furnace transverse discharge cooling device	Khingang Forasen	Utility Model	March 22, 2022	March 21, 2032	2021228256442

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26	An automatic pulse dust removal device for activated carbon production	Khingan Forasen	Utility Model	April 5, 2022	April 4, 2032	2021227855244
27	A drum type wood activated carbon cleaning and sieving device	Khingan Forasen	Utility Model	April 8, 2022	April 7, 2032	2021227859993
28	A corrosion-resistant activated carbon acid washing tank	Khingan Forasen	Utility Model	April 8, 2022	April 7, 2032	2021227859989
29	Low-temperature type industrial furnace flue gas waste heat power generation device	Khingan Forasen	Utility Model	April 8, 2022	April 7, 2032	2021228258448
30	An activated carbon sintering furnace cleaning device	Khingan Forasen	Utility Model	April 12, 2022	April 11, 2032	2021229472237
31	Coal activated carbon physical property testing device	Khingan Forasen	Utility Model	May 24, 2022	May 23, 2032	2021228258433
32	A saturated activated carbon re-living device	Khingan Forasen	Utility Model	May 24, 2022	May 23, 2032	2021228258715

The operating entities currently own two trademarks, “CNENY” and “中北能” (China North Energy), in the PRC.



In addition to their registered intellectual property portfolio, the operating entities also claim ownership of certain trade secrets and proprietary know-how developed by and used in their business.

The operating entities own the internet domain name “cneny.com.”

Employees

As of September 30, 2022, 2021, and 2020, we had 150, 160, and 161 employees. The following table sets forth the number of our employees by area of business as of September 30, 2022:

	Number of Employees
Management	4
Finance	6
R&D	10
Administration	16
Marketing and Sales	3
Quality Control and Statistics	5
Production	106
Total	150

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Generally, we enter into standard employment contracts with our officers, managers, and other employees. According to these contracts, all of our employees are prohibited from engaging in any other employment during the period of their employment with us. The employment contracts with officers, managers, and employees are subject to renewal in three years and, if renewed, will last another five years before becoming at-will employment contracts. We also enter into non-compete agreements with our employees to protect our trade secrets; the non-compete agreements prohibit competition with us during the employees' employment and within two years after leaving our Company. None of our employees is a member of a labor union and we consider our relationship with our employees to be good.

Seasonality

The operating entities' operating results and operating cash flows historically have been subject to seasonal variations. Since the demand from their customers is usually weaker around the Chinese New Year, which usually falls in January or February, the operating entities' sales in the second fiscal quarter (January to March) are often lower than those of other quarters.

Environmental Matters

The operating entities have taken measures to reduce pollution caused by their activated carbon production and biomass electricity generation, such as installing dust collectors to collect dust created in their activation process. Further, the operating entities have obtained the License of Pollutant Discharges on February 27, 2020, with a term of three years. The operating entities are in the process of renewing the license. The operating entities have been in compliance with state and local laws and regulations relating to the environment to date and these laws and regulations have not had a material adverse effect upon their capital expenditures, earnings, or competitive position and we do not anticipate any material adverse effects in the future based on the nature of the operating entities' future operations.

Industry Development

By attending local and national industry associations, the operating entities take the responsibility of helping develop our industry. Some of the operating entities' involvement with industry associations are listed below:

Association	Position	Period	Activities
All-China Environment Federation	Member Entity	November 2018 to November 2023	Attend various industry meetings and share and communicate industry information of activated carbon and biomass electricity industries.
China Association of Circular Economy	Committee Member Entity	April 2013 to present	Attend meetings and discuss experience in renewable resource project development

Legal Proceedings

We are currently not a party to any material legal proceeding. From time to time, however, we may be subject to various claims and legal actions arising in the ordinary course of business.

Regulations

This section sets forth a summary of the principal PRC laws, regulations, and rules relevant to the operating entities' business and operations in China.

PRC Regulations Encouraging Our Businesses

Production of activated carbon and production of biomass electricity by using forestry residues are activities supported by various policies of the PRC government. For example, under the 12th Five-Year Plan for Circular Economy Development issued by the State Council in February 2012, all industries are encouraged to attach importance to the reuse of wastes generated in production and daily life. Pursuant to the Catalogue for Guiding Industry Restructuring (2019 Version), promulgated by the State Development and Reform Commission (“SDRC”), last amended on December 27, 2021, and effective on December 30, 2021, the deep processing and product development of forestry residues and wood wastes, and technology development and machinery manufacturing for biomass power generation are both listed in the “Encouraged” category. Also, the Law of the PRC on Promoting Circular Economy promulgated by the SCNPC on August 29, 2008, effective on January 1, 2009, and amended on October 26, 2018, encourages enterprises to utilize forestry residues and wood wastes, and to develop and produce biomass energy. Further, our activated carbon and electricity cogeneration machinery and core technology have been listed as one of the advanced applicable technology in the Catalogue of Advanced Applicable Technology for the Comprehensive Utilization of Renewable Resources (Second), issued by the Ministry of Industry and Information Technology of the PRC on January 22, 2014, and effective on the same day.

PRC Regulations Relating to Biomass Electricity Production

Power Generation

Pursuant to the Electric Power Law of the PRC, promulgated by SCNPC on August 27, 2009, and last amended on December 29, 2018, the Regulation on Electric Power Supervision promulgated by the State Council on May 1, 2005, and the Provisions on the Administration of Electric Power Business Licenses, promulgated by the State Electricity Regulatory Commission (“SERC”) (now reorganized as the National Energy Administration (“NEA”)) on December 1, 2005, and amended on May 30, 2015, any individual or entity engaging in the business of electric power is required to obtain an electric power business license, which can be further categorized into three types of license, namely power generation, power distribution, and power supply. Any public power plant, any self-prepared power plant as incorporated into a power network, such as our PRC subsidiary Khingan Forasen, and any other enterprises as prescribed by SERC is required to obtain an electric power business license for power generation. Khingan Forasen obtained its electric power business license for power generation on September 9, 2014, for a term of 20 years, through which its branch office Tahe Biopower Plant is able to conduct our power generation business.

Grid Connection

Biomass electricity that we generate during the process of producing activated carbon is partially used by our facility and also supplied to electric power companies. The supply of biomass electricity is subject to the Rules on Operation of Power Grids (for Trial Implementation), promulgated by SERC on November 3, 2006 and effective on January 1, 2007, and other local rules promulgated by the Northeast China Energy Regulatory Bureau of NEA, including the Detailed Implementation Rules on Power Plant Grid-Connection Administration in the Northeast Area, which became effective on October 1, 2020, and the Detailed Implementation Rules on the Grid-Connection Power Plant Assistance Services Administration in Northeast Area, which became effective on October 1, 2020. In addition, pursuant to the Renewable Energy Law of the PRC (the “Renewable Energy Law”), promulgated by SCNPC on February 28, 2005, amended on December 26, 2009, and effective on April 1, 2010, biomass energy is a type of renewable energy, the development and usage of which is a priority in energy development for China. Further, under the Renewable Energy Law, power companies shall enter into grid-connection agreements to purchase the electricity at full price from renewable energy power plants that have been constructed according to the renewable energy development and usage plan, and that have obtained administrative approval or have registered their records with electricity authorities. As of the date of this annual report, we have completed filings with local electricity authority for information of our Tahe Biopower Plant construction project, and we have entered into a grid-connection agreement and electricity purchase agreements with State Grid Heilongjiang Electric Power Company Limited.

Pursuant to the Trial Rules of the Administration for the Price and Allocation of Cost of Renewable Energy Generation which was promulgated by SDRC on January 4, 2006, and became effective retrospectively on January 1, 2006, the price of biomass electricity is determined by the government. Renewable energy generation projects enjoy certain subsidy for 15 years starting from the date of operation. The manufacturing facility of Tahe Biopower Plant has been in operation since April 2014 and enjoyed a subsidy of RMB0.376 (approximately \$0.054) per kWh.

PRC Regulations Relating to Environmental Protection

Currently there are no industrial standards in the PRC specifying the emission of pollutants for activated carbon production in effect. We are subject to the PRC environmental protection laws and regulations in general.

Pursuant to the Environmental Protection Law of the PRC (the “Environmental Protection Law”) promulgated by SCNPC on December 26, 1989, amended on April 24, 2014, and effective on January 1, 2015, any entity which discharges or will discharge pollutants during its course of operations or other activities must implement effective environmental protection safeguards and procedures to control and properly treat waste gases, waste water, waste residues, dust, malodorous gases, radioactive substances, noise and vibrations, electromagnetic radiation, and other hazards produced during such activities. Further, the PRC government also enacted various laws and regulations regarding various pollution prevention, including the Air Pollution Prevention and Control Law of the PRC promulgated by SCNPC on August 29, 1995, and last amended and effective on October 26, 2018, and the Water Pollution Prevention and Control Law of the PRC promulgated by SCNPC on May 11, 1984, last amended on June 27, 2017, and effective on January 1, 2018, together with the Environmental Protection Law, the “Environment Laws.” Environmental protection authorities impose various administrative penalties on persons or enterprises in violation of the Environment Laws. Such penalties include warnings, fines, orders to rectify within the prescribed period, orders to cease construction, orders to restrict or suspend production, orders to make recovery, orders to disclose relevant information or make an announcement, imposition of administrative action against relevant responsible persons, and orders to shut down enterprises. Any person or entity that pollutes the environment resulting in damage could also be held liable under the Civil Code of the PRC. In addition, environmental organizations may also bring lawsuits against any entity that discharges pollutants detrimental to the public welfare. Khingan Forasen obtained the License of Pollutant Discharges on February 27, 2020, which will be valid through February 26, 2023. Khingan Forasen is in the process of renewing this license.

On March 11, 2021, the State Council circulated the Work Plan, which set out the key objectives to reduce, by 2025, energy consumption per GDP unit by 13.5% and carbon dioxide emissions per GDP unit by 18% of the 2020 emission level. The Work Plan also requires the continuous decrease of the emissions of major pollutants and an increase of the forest coverage rate to 24.1%.

On March 2, 2018, the Ministry of Ecology and Environment of the PRC circulated the Draft Emission Standards of Activated Carbon Industrial Pollutants (the “Standards”) for public comments, the commenting period of which ended on April 8, 2018. While the Standards have not been passed, once it is enacted, our production of activated carbon will be subject to high standards on pollution emissions. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—Compliance with environmental and other laws and regulations could result in significant costs and liabilities.”

PRC Regulations Relating to Work Safety and Fire Control

Work Safety

Under relevant construction safety laws and regulations, including the Work Safety Law of the PRC which was promulgated by the SCNPC on June 29, 2002, last amended on June 10, 2021, and effective as of September 1, 2021, production and operating business entities must establish objectives and measures for work safety and improve the working environment and conditions for workers in a planned and systematic way. A work safety protection scheme must also be set up to implement the work safety job responsibility system. In addition, production and operating business entities must arrange work safety training and provide the employees with protective equipment that meets the national standards or industrial standards. As of the date of this annual report, we have established internal work safety procedures to ensure the work environment and conditions for our workers in the PRC.

Fire Control

Pursuant to the Fire Protection Law of the PRC, which was promulgated by the SCNPC on April 29, 1998 and last amended on April 29, 2021, the construction entity of a large-scale crowded venue (including the construction of a manufacturing factory that is over 2,500 square meters) and other special construction projects must apply for fire prevention design review with fire control authorities, and complete fire assessment inspection and acceptance procedures after the construction project is completed. The construction entity of other construction projects must complete the filing for fire prevention design and the fire safety completion inspection and acceptance procedures within seven business days after obtaining the construction work permit and passing the construction completion inspection and acceptance. If the construction entity fails to pass the fire safety inspection before such venue is put into use, or fails to conform to the fire safety requirements after such inspection, it shall be subject to (i) orders to suspend the construction of the projects, use of such projects, or operation of relevant business; and (ii) a fine ranging between RMB30,000 and RMB300,000.

PRC Regulations Relating to Land and the Development of Construction Projects

Land Use Rights

Under the Interim Regulations on Assignment and Transfer of the Rights to Use the State-owned Urban Land, promulgated by the State Council on May 19, 1990, and amended on November 29, 2020, a system of assignment and transfer of the right to use state-owned land was adopted. A land user must pay land premiums to the state as consideration for the assignment of the right to use a land site within a certain term, and the land user who obtained the right to use the land may transfer, lease out, mortgage, or otherwise commercially exploit the land within the term of use. Under the Interim Regulations on Assignment and Transfer of the Rights to the Use of the State-Owned Urban Land and the Law of the PRC on Urban Real Estate Administration, the local land administration authority may enter into an assignment contract with the land user for the assignment of land use rights. The land user is required to pay the land premium as provided in the assignment contract. After the full payment of the land premium, the land user must register with the land administration authority and obtain a land use rights certificate which evidences the acquisition of land use rights. In December 2018, we made full payment of the land premium for the assignment of the use rights of the land where our Manzhouli facility will be located, and obtained the land use rights certificate for a term starting on November 16, 2018, and ending on November 16, 2068.

Planning of a Construction Project

For the construction of our Manzhouli facility, pursuant to the Regulations on Planning Administration regarding Assignment and Transfer of the Rights to Use the State-Owned Land in Urban Areas promulgated by the Ministry of Construction in December 1992 and amended in January 2011, a construction land planning permit shall be obtained from the municipal planning authority with respect to the planning and use of land. According to the Urban and Rural Planning Law of PRC promulgated by the SCNPC on October 28, 2007, and last amended on April 23, 2019, a construction work planning permit must be obtained from the competent urban and rural planning government authority for the construction of any structure, fixture, road, pipeline, or other engineering projects within an urban or rural planning area. After obtaining a construction work planning permit, subject to certain exceptions, a construction enterprise must apply for a construction work commencement permit from the construction authority under the local government at the county level or above in accordance with the Administrative Provisions on Construction Permit of Construction Projects promulgated by the Ministry of Housing and Urban-Rural Development (the “MOHURD”) on June 25, 2014, last amended on March 10, 2021. Failure to obtain such permits will subject the construction enterprise to penalties including suspension or termination of the construction and demolition of the constructed structures, as well as fines up to 10% of costs of the construction project.

Pursuant to the Administrative Measures for Reporting Details Regarding Acceptance Examination upon Completion of Buildings and Municipal Infrastructure promulgated by the Ministry of Construction on April 4, 2000, and amended on October 19, 2009, and the Provisions on Acceptance Examination upon Completion of Buildings and Municipal Infrastructure promulgated and implemented by the MOHURD on December 2, 2013, upon the completion of a construction project, the construction enterprise must submit an application to the competent department in the local government at the county level or above where the project is located, for examination upon completion of building and for filing purpose, and to obtain the filing form for acceptance and examination upon completion of construction project. Failure to apply for examination may be subject to fines between RMB200,000 to RMB500,000; and failure to submit its filing form for acceptance may be subject to fines between RMB10,000 to RMB50,000.

As of the date of this annual report, we have obtained the construction planning permit and the construction work commencement permit. Our Manzhouli facility is currently under construction. Because the constructible season during a year is usually very short in Manzhouli City for the reason of cold weather, we may not be able to complete the construction of the Manzhouli facility within the terms specified by the construction planning permit and/or the construction work commencement permit, in which case we cannot guarantee that we will be able to successfully extend the terms of such permits or renew such permits. Further, upon the completion of the construction, we are required to apply for the construction acceptance examination. Any failures in obtaining such required licenses, permits, or certificates at various phases of the construction could subject us to fines and penalties including suspension of our construction, which may have a material effect on our financial and operational conditions. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We may incur delays and budget overruns with respect to a facility under construction. Any such delays or cost overruns may have a material adverse effect on our operating results.”

PRC Regulations Relating to Foreign Investment

Investment activities in the PRC by foreign investors were principally governed by the Guidance Catalogue of Industries for Foreign Investment, promulgated and as amended from time to time by MOFCOM and the NDRC, which was later divided into two legal documents, including the Catalog of Industries for Encouraged Foreign Investment, or the “Encouraged Catalog,” and the Special Administrative Measures for Access of Foreign Investment (Negative List), or the “Negative List.” The current Encouraged Catalog and Negative List were promulgated by MOFCOM and the NDRC on October 26, 2022 and December 27, 2021, respectively, and as amended from time to time. Industries listed in the Negative List are divided into two categories: restricted and prohibited. Industries not listed in the Negative List are generally constituted “permitted,” and are open to foreign investment unless specifically restricted by other PRC regulations. For restricted industries, some are limited to equity or contractual joint ventures, while in some cases Chinese partners are required to hold the majority interests in such joint ventures. In addition, restricted category projects are subject to higher-level government approvals. Foreign investors are not allowed to invest in industries in the prohibited category. The latest Negative List was released by MOFCOM and the NDRC on December 27, 2021 and became effective on January 1, 2021. Pursuant to the current and the updated Negative Lists, the production and sale of activated carbon as well as the production of biomass electricity are permitted industries.

The establishment, operation, and management of corporate entities in the PRC is governed by the PRC Company Law, which was initially promulgated by the SCNPC on December 29, 1993, and came into effect on July 1, 1994, and was last amended on October 26, 2018, and became effective on the same day. The PRC Company Law generally governs two types of companies—limited liability companies and joint stock limited companies. The PRC Company Law shall also apply to foreign-invested companies. Where laws on foreign investment have other stipulations, such stipulations shall prevail. The establishment procedures, approval or record-filing procedures, registered capital requirements, foreign exchange matters, accounting practices, taxation and labor matters of a wholly foreign-owned enterprise are regulated by the Wholly Foreign-Owned Enterprise Law of the PRC, or the “WFOE Law,” promulgated on April 12, 1986, and amended on October 31, 2000, and September 3, 2016, and the Rules for the Implementation of the WFOE Law, promulgated on December 12, 1990, and amended on April 12, 2001, and February 19, 2014. According to the amendments to the WFOE law in 2016, for a wholly foreign-owned enterprise which the special entry management system does not apply to, its establishment, operation duration and extension, separation, merger or other major changes shall be reported for record. Pursuant to the Provisional Administrative Measures for Record-filing Administration of the Establishment and Change of Foreign-Invested Enterprises, or the “Provisional Measures,” promulgated by MOFCOM on October 8, 2016 (as amended), establishment and modifications of foreign invested enterprises which are not subject to the approval under the special entry management measures shall be filed with the delegated commercial authorities.

On March 15, 2019, NPC passed the new Foreign Investment Law of the PRC and, on December 26, 2019, the State Council passed the new Implementation Regulations for the Foreign Investment Law of the PRC (collectively with the Foreign Investment Law of the PRC, the “FIL”), both of which became effective on January 1, 2020. The FIL sets out the definitions of foreign investment and the framework for promotion, protection and administration of foreign investment activities. Since its effectiveness in January 2020, the FIL has replaced the three existing PRC laws on foreign investment, namely the Law on Sino-Foreign Equity Joint Ventures (the “EJV Law”), the Law on Sino-Foreign Contractual Joint Ventures (the “CJV Law”), and the WFOE Law (together with the EJV Law and the CJV Law, the “Three FDI Laws”). Pursuant to the FIL, starting on January 1, 2020, the organization form, corporate structure, and operating rules of newly established FIEs are subject to the PRC Company Law and the PRC Partnership Enterprise Law, depending on their form of business organization. For existing FIEs established under the Three FDI Laws, such as our WFOEs including Zhejiang CN Energy and Manzhouli CN Energy, their corporate structure may remain unchanged for five years. Upon the expiration of the five-year transition period, all FIEs will be governed by the PRC Company Law or the PRC Partnership Enterprise Law. We believe that the FIL will have very limited impact on our WFOEs’ corporate governance, as the organizational form and corporate structure of WFOEs have been governed by the PRC Company Law since 2006.

PRC Regulations Relating to Foreign Exchange

General Administration of Foreign Exchange

The principal regulations governing foreign currency exchange in China are the PRC Foreign Exchange Administration Regulations, which were promulgated on January 29, 1996, and most recently amended on August 5, 2008, issued by SAFE and other relevant PRC government authorities. Pursuant to the PRC Foreign Exchange Administration Regulations, RMB is convertible into other currencies for current account items, such as trade-related receipts and payments and payment of interest and dividends. The conversion of RMB into other currencies and remittance of the converted foreign currency outside the PRC for capital account items, such as direct equity investments, loans, and repatriation of investment, requires the prior approval from SAFE or its local office.

Payments for transactions that take place within the PRC must be made in RMB. Unless otherwise approved, PRC companies may not repatriate foreign currency payments received from abroad or retain the same abroad. FIEs may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a cap set by SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaged in settlement and sale of foreign exchange pursuant to relevant SAFE rules and regulations. For foreign exchange proceeds under the capital accounts, approval from SAFE is generally required for the retention or sale of such proceeds to a financial institution engaged in settlement and sale of foreign exchange.

Since 2012, SAFE has promulgated several circulars to substantially amend and simplify the current foreign exchange procedure. Pursuant to the Circular of SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment, or “SAFE Circular 59,” promulgated by SAFE on November 19, 2012, which became effective on December 17, 2012, and was further amended on May 4, 2015 and December 30, 2019, approval of SAFE is not required for opening a foreign exchange account and depositing foreign exchange into the accounts relating to direct investments. SAFE Circular 59 also simplified foreign exchange-related registration required for foreign investors to acquire the equity interests of Chinese companies and further improve the administration on foreign exchange settlement for FIEs. The Circular on Further Simplifying and Improving the Foreign Currency Management Policy on Direct Investment, or “SAFE Circular 13,” effective from June 1, 2015, canceled the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment and simplified the procedure of foreign exchange-related registration. Pursuant to SAFE Circular 13, the investors shall register with banks for direct domestic investment and direct overseas investment.

The Circular on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise, or “SAFE Circular 19,” which was promulgated by SAFE on March 30, 2015, and became effective on June 1, 2015, provides that an FIE may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange administration has confirmed monetary capital contribution rights and interests (or for which the bank has registered the injection of the monetary capital contribution into the account). Pursuant to SAFE Circular 19, for the time being, FIEs are allowed to settle 100% of their foreign exchange capital on a discretionary basis; an FIE shall truthfully use its capital for its own operational purposes within the scope of business; where an ordinary FIE makes domestic equity investment with the amount of foreign exchanges settled, the invested enterprise must first go through domestic re-investment registration and open a corresponding account for foreign exchange settlement pending payment with the foreign exchange administration or the bank at the place where it is registered. SAFE later promulgated the Circular on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or “SAFE Circular 16,” effective on June 9, 2016, which reiterates some of the rules set forth in SAFE Circular 19, but changes the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular 19 or Circular 16 could result in administrative penalties such as restrictions on foreign exchange activities of such enterprises.

Pursuant to SAFE Circular 13 and other laws and regulations relating to foreign exchange, when setting up a new foreign invested enterprise, the foreign invested enterprise shall register with the bank located at its registered place after obtaining the business license, and if there is any change in capital or other changes relating to the basic information of the FIE, including without limitation any increase in its registered capital or total investment, the foreign invested enterprise must register such changes with the bank located at its registered place after completing the filing with competent authorities. Pursuant to the relevant foreign exchange laws and regulations, the above-mentioned foreign exchange registration with the banks will typically take less than four weeks upon acceptance of the registration application.

Based on the foregoing, if we intend to provide funding to our wholly foreign owned subsidiaries through capital injection at or after their establishment, we must register the establishment of and any subsequent capital increase in our wholly foreign owned subsidiaries with the State Administration for Market Regulation or its local counterparts, file such via the foreign investment comprehensive administrative system, and register such with the local banks for the foreign exchange related matters. Once the FIL becomes effective, pursuant to Article 21 of the FIL, foreign investors will be free to remit profits, capital gains, income from asset disposal, or intellectual property royalties into and out of China in accordance with PRC laws. While there have not been any detailed rules issued on this regard, we do not expect that foreign investors will be able to freely remit funds into or out of China without any limitation. However, we do expect that foreign investors will enjoy more convenience when remitting their profits out of China.

Loans by Foreign Companies to their PRC Subsidiaries

A loan made by foreign investors as shareholders in a foreign invested enterprise is considered to be a foreign debt in China and is regulated by various laws and regulations, including the PRC Foreign Exchange Administration Regulations, the Interim Provisions on the Management of Foreign Debts, the Statistical Monitoring of Foreign Debts Tentative Provisions, the Detailed Rules for the Implementation of Provisional Regulations on Statistics and Supervision of External Debt, and the Administrative Measures for Registration of Foreign Debts, together, the “Foreign Debts Provisions.” Under the Foreign Debts Provisions, a shareholder loan in the form of a foreign debt made to its PRC subsidiary does not require the prior approval of SAFE. However, such a foreign debt must be registered with and recorded by SAFE or its local branches within 15 business days after entering into the foreign debt contract. Further, the balance of the foreign debts of a foreign invested enterprise shall not exceed the difference between the total investment and the registered capital of the foreign invested enterprise, or the “Total Investment and Registered Capital Balance.”

On January 12, 2017, PBOC issued PBOC Notice No. 9, which sets out the statutory upper limit on the foreign debts for PRC non-financial entities, including both FIEs and domestic-invested enterprises. Pursuant to PBOC Notice No. 9, the foreign debt upper limit for both foreign-invested and domestic-invested enterprise is calculated as twice the amount of the net asset of such enterprises. As to net assets, the companies shall take the net assets value stated in their latest audited financial statement. PBOC Notice No. 9 does not supersede the Foreign Debts Provisions. Pursuant to PBOC Notice No. 9, PBOC and SAFE shall reevaluate the calculation method for FIEs and determine what the applicable calculation method would be. As of the date of this annual report, neither PBOC nor SAFE has issued and made public any further rules, regulations, notices, or circulars in this regard. It is uncertain which mechanism will be adopted by PBOC and SAFE in the future and what statutory limits will be imposed on us when providing loans to our PRC subsidiaries. Under current practice, the relevant authorities are likely to allow FIEs, such as our PRC subsidiaries, to choose the calculation method either under the Foreign Debts Provisions or PBOC Notice No. 9 until any new regulation is issued. After the FIL becomes effective, however, it is uncertain whether the concept of “total investment” will still exist and whether the foreign debt quota will still be subject to the total Investment and Registered Capital Balance of an FIE or it will be replaced by the new mode introduced under PBOC Notice No. 9. As of the date of this annual report, our PRC subsidiaries do not have any foreign debts owed to their foreign investor Energy Holdings.

Dividend Distribution

The principal laws and regulations regulating the distribution of dividends by FIEs in the PRC include the FIL and PRC Company Law and their implementation regulations. Under the current regulatory regime in the PRC, FIEs in the PRC may pay dividends only out of their retained earnings, if any, determined in accordance with the PRC accounting standards and regulations. A PRC company is required to set aside at least 10% of its after-tax profits as statutory reserve funds, until the cumulative amount of such reserve funds reaches 50% of its registered capital, unless laws regarding foreign investment provide otherwise. A PRC company shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

PRC Regulations Relating to Offshore Investments by PRC Residents

SAFE promulgated the SAFE Circular 37 in July 2014 that requires PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore SPV undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions.

The SAFE Circular 37 was issued to replace Circular 75 (the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Round-trip Investments via Overseas Special Purpose Vehicles). SAFE further enacted the Notice on Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment effective from June 1, 2015, which allows PRC residents or entities to register with qualified banks in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. However, remedial registration applications made by PRC residents that previously failed to comply with the SAFE Circular 37 continue to fall under the jurisdiction of the relevant local branch of SAFE. In the event that a PRC shareholder holding interests in a SPV fails to fulfill the required SAFE registration, the PRC subsidiaries of that SPV may be prohibited from distributing profits to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the SPV may be restricted in its ability to contribute additional capital into its PRC subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. As of the date of this annual report, four of our beneficial owners who are PRC residents have completed the registrations required by the SAFE Circular 37.

PRC Regulations on Mergers and Acquisitions and Overseas Listing

On August 8, 2006, six PRC governmental and regulatory agencies, including the MOFCOM and the CSRC, promulgated the M&A Rules governing the mergers and acquisitions of domestic enterprises by foreign investors, which became effective on September 8, 2006, and was revised on June 22, 2009. The M&A Rules, among other things, require that if an overseas company established or controlled by PRC companies or individuals, or “PRC Citizens,” intends to acquire equity interests or assets of any other PRC domestic company affiliated with PRC Citizens, such acquisition must be submitted to the MOFCOM for approval. The M&A Rules also requires that an offshore special vehicle, or a SPV formed for overseas listing purposes and controlled directly or indirectly by the PRC companies or individuals, shall obtain the approval of the CSRC prior to overseas listing and trading of such SPV’s securities on an overseas stock exchange.

PRC Regulations Relating to Taxation

Enterprise Income Tax

On March 16, 2007, the SCNPC promulgated the EIT Law which came into effect on January 1, 2008, and was later amended on February 24, 2017, and December 29, 2018, and on December 6, 2007, the State Council enacted the Regulations for the Implementation of the EIT Law which was amended and became effective on April 23, 2019. Under the EIT Law, both resident enterprises and non-resident enterprises are subject to tax in the PRC. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but are actually or in effect controlled from within the PRC. Non-resident enterprises are defined as enterprises that are organized under the laws of foreign countries and whose actual management is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applied. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishment or premises in the PRC but there is no actual relationship between the relevant income derived in the PRC and the established institutions or premises set up by them, enterprise income tax is set at the rate of 20% with respect to their income sourced from inside the PRC.

Value-Added Tax

The Provisional Regulations of the PRC on Value-Added Tax were promulgated by the State Council on December 13, 1993, came into effect on January 1, 1994, and were last amended on November 19, 2017, and the Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-Added Tax was promulgated by the Ministry of Finance on December 15, 2008, effective on January 1, 2009, and amended on October 28, 2011 (collectively, the “VAT Laws”). On November 19, 2017, the State Council promulgated the Decisions on Abolishing the Provisional Regulations of the PRC on Business Tax and Amending the Provisional Regulations of the PRC on Value-Added Tax, or the “Order 691.” According to the VAT Laws and the Order 691, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, sales of services, intangible assets, real property, and the importation of goods within the territory of the PRC are the taxpayers of value-added taxes. The valued-added tax rates generally applicable are simplified as 13%, 9%, 6%, and 0%, and the value-added tax rate applicable to the small-scale taxpayers is 3%. In December 2020, the local tax authority notified us that beginning October 1, 2020, the VAT-in amount of our wood chip purchase would not be allowed to be deducted, which resulted in an increase in the purchasing cost of wood chips. The tax authority also required us to apply the change retrospectively beginning May 2018. As a result, we paid a full amount of approximately \$429,000 of prior-period non-deductible VAT-in, and recorded it as cost of revenue in the fiscal year ended September 30, 2021. We do not have prior-period non-deductible VAT-in in the fiscal year 2022.

Tax Incentives

On January 29, 2016, the PRC Ministry of Science and Technology, the Ministry of Finance, and the SAT jointly enacted the Administrative Measures for Certification of High and New Technology Enterprises (2016 Amendment) (the “Measures for High-Tech Enterprises”), which repealed the previous measures issued in 2008, and became effective retroactively on January 1, 2016. Under the EIT Law and the Measures for High-Tech Enterprises, certain qualified high-tech companies may benefit from a preferential tax rate of 15% if they own core intellectual properties and their business fall into certain industries that are strongly supported by the PRC government and recognized by certain departments of the State Council. Khingan Forasen was granted the HNTE qualification effective on November 15, 2016, for a three-year term, and enjoyed a preferential enterprise income tax rate of 15% during this period. Khingan Forasen’s HNTE qualification was re-approved on December 3, 2019 and Khingan Forasen continues to enjoy the reduced income tax rate for the next three years. There can be no assurance, however, that Khingan Forasen will continue to meet the qualifications and successfully renew its HNTE qualification upon its expiry. In addition, there can be no guaranty that relevant governmental authorities will not revoke Khingan Forasen’s HNTE status in the future.

Since the 1980s, the PRC has incentivized the “comprehensive utilization of resources,” which means using nonhazardous wastes as inputs to production, to create environmental benefits by avoiding disposal impacts, mitigating manufacturing impacts, and conserving undeveloped resources. Pursuant to the Notice on the Issues Concerning the Implementation of the Catalogue of Comprehensive Utilization of Resources Entitling Enterprises to Income Tax Preferences issued by the Ministry of Finance and the SAT on September 23, 2008, effective retrospectively on January 1, 2008, the EIT Law, and other relevant rules and regulations, incomes gained by an enterprise from producing products that are in compliance with the relevant national or industrial standards by using resources listed in the catalogue as main raw materials, are subject to a 10% reduction in calculating its taxable income. Khingan Forasen’s production of biomass electricity enjoys such a tax incentive. Further, according to the Notice of the Ministry of Finance and the SAT on Issuing the Catalogue of Value-Added Tax Preferences for Products and Labor Services for Comprehensive Utilization of Resources Incomes (the “Comprehensive Utilization of Resources Catalogue”) promulgated on June 12, 2015, and effective on the same day, taxpayers who are engaged in the sale of products made by themselves and the provision of services through comprehensive utilization of resources as listed in the Comprehensive Utilization of Resources Catalogue may enjoy the benefit of an immediate refund upon their payments of value-added taxes. Khingan Forasen’s use of forestry residues in the productions of activated carbon, which is listed in the Comprehensive Utilization of Resources Catalogue referred above, allows Khingan Forasen to enjoy a 70% refund upon its payment of value-added taxes each time.

Dividend Withholding Tax

The EIT Law provides that since January 1, 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC.

Pursuant to the Double Tax Avoidance Arrangement and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%.

However, based on the SAT Circular 81 promulgated on February 20, 2009, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such a reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. The SAT further released several circulars including the Notice on How to Understand and Recognize the “Beneficial Owner” in Tax Treaties (the “SAT Circular 601) which listed seven unfavorable factors for the determination of “beneficial owner,” and the Announcement on the Recognition of the “Beneficial Owner” in Tax Treaties (the “SAT Announcement 30”) which provided a safe harbor rule for qualified non-tax residents to enjoy treaty benefits on dividends. Nevertheless, taxpayers and local-level tax authorities in China encountered numerous technical and practical problems when dealing with beneficial owner related cases due to lack of clearer guidance.

The SAT Circular 601 and the SAT Announcement 30 were abolished by the Circular on Relevant Questions Regarding the “Beneficial Owner” in Tax Treaties, which was issued on February 3, 2018, by the SAT and became effective on April 1, 2018 (the “SAT Circular 9”). According to the SAT Circular 9, when determining the applicant’s status of the “beneficial owner” regarding tax treatments in connection with dividends, interests or royalties in the tax treaties, several factors will be taken into account and analyzed according to the actual circumstances of the specific cases, including without limitation, whether the applicant is obligated to pay more than 50% of his or her income in 12 months to residents in a third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties grants tax exemption on relevant incomes or levies tax at an extremely low rate. The SAT Circular 9 further provides that applicants who intend to prove their status of the “beneficial owner” shall submit the relevant documents to the relevant tax bureau according to the Announcement on Issuing the Measures for the Administration of Non-Resident Taxpayers’ Enjoyment of the Treatment under Tax Agreements.

Tax on Indirect Transfer

On February 3, 2015, the SAT issued the Circular on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, or “SAT Bulletin 7.” Pursuant to SAT Bulletin 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises, may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. When determining whether there is a “reasonable commercial purpose” of the transaction arrangement, features to be taken into consideration include, inter alia, whether the main value of the equity interest of the relevant offshore enterprise derives directly or indirectly from PRC taxable assets; whether the assets of the relevant offshore enterprise mainly consists of direct or indirect investment in China or if its income is mainly derived from China; and whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable assets have real commercial nature which is evidenced by their actual function and risk exposure. According to the SAT Bulletin 7, where the payer fails to withhold any or sufficient tax, the transferor shall declare and pay such tax to the tax authority by itself within the statutory time limit. Late payment of applicable taxes will subject the transferor to default interest. The SAT Bulletin 7 does not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired on a public stock exchange. On October 17, 2017, the SAT issued the Circular on Issues of Tax Withholding regarding Non-PRC Resident Enterprise Income Tax, or SAT Circular 37, which further elaborates the relevant implemental rules regarding the calculation, reporting and payment obligations of the withholding tax by the non-resident enterprises. Nonetheless, there remain uncertainties as to the interpretation and application of the SAT Bulletin 7. The SAT Bulletin 7 may be determined by the tax authorities to be applicable to our offshore transactions or sale of our shares or those of our offshore subsidiary where non-resident enterprises, being the transferors, were involved. See “Item 3. Key Information—D. Risk Factors— Risks Relating to Doing Business in the PRC— We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.”

PRC Regulations Relating to Intellectual Property Rights

Patent Law

According to the Patent Law of the PRC (2020 Amendment), the State Intellectual Property Office is responsible for administering patent law in the PRC. The patent administration departments of provincial, autonomous region, or municipal governments are responsible for administering patent law within their respective jurisdictions. The Chinese patent system adopts a first-to-file principle, which means that when more than one person files different patent applications for the same invention, only the person who files the application first is entitled to obtain a patent of the invention. To be patentable, an invention or a utility model must meet three criteria: novelty, inventiveness, and practicability. A patent is valid for 20 years in the case of an invention and 15 years in the case of designs.

Trademarks

Registered trademarks are protected under the Trademark Law of the PRC, promulgated by SCNPC on August 23, 1982, last amended on April 23, 2019, and effective on November 1, 2019, and the Implementation Regulations of the Trademark Law of the PRC, promulgated by the State Council on August 3, 2002, and amended on April 29, 2014. Trademarks are registered with the Trademark Office of the State Administration for Industry and Commerce. Where registration is sought for a trademark that is identical or similar to another trademark that has already been registered or given preliminary examination and approval for use in the same or similar category of commodities or services, the application for registration of the former trademark could be rejected. Trademark registrations are effective for a renewable ten-year period, unless otherwise revoked.

Domain Names

The Ministry of Industry and Information Technology (the “MIIT”) promulgated the Administration Measures of Internet Domain Names (the “Domain Name Measures”) on August 24, 2017, which came into force on November 1, 2017. The China Internet Network Information Center, or the CNNIC, issued the Implementation Rules for Country Code Top-Level Domain Name Registration, which set forth detailed rules for registration of domain names, and Country Code Top-Level Dispute Resolutions Rules on June 18, 2019. Pursuant to these laws, regulations, and administrative rules, domain names registrations are processed through domain names service agencies established under the relevant regulations, and applicants become domain name holders upon successful registration.

See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—Disclosure of our trade secrets and other proprietary information, or a failure to adequately protect these or our other intellectual property rights, could result in increased competition and have a material adverse effect on our business and financial results.”

PRC Regulations Relating to Labor and Social Welfare

Labor Protection

The Labor Contract Law, which was promulgated on January 1, 2008, amended on December 28, 2012, and became effective on July 1, 2013, is primarily aimed at regulating rights and obligations in employer and employee relationship, including the establishment, performance and termination of labor contracts. Pursuant to the Labor Contract Law, labor contracts shall be concluded in writing if labor relationships are to be or have been established between employers and the employees. Employers are prohibited from forcing employees to work above certain time limit and employers shall pay employees for overtime work in accordance to national regulations. In addition, employee wages shall be no lower than local standards on minimum wages and must be paid to employees in a timely manner. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in the PRC—Increases in labor costs in the PRC may adversely affect the operating entities’ business and the operating entities’ profitability.”

Social Insurance and Housing Fund

As required under the Regulation of Insurance for Labor Injury implemented on January 1, 2004, and amended in 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations implemented on January 1, 1995, the Decisions on the Establishment of a Unified Program for Old-Aged Pension Insurance of the State Council issued on July 16, 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council promulgated on December 14, 1998, the Unemployment Insurance Measures promulgated on January 22, 1999, and the Social Insurance Law of the PRC implemented on July 1, 2011, and last amended on December 29, 2018, employers are required to provide their employees in the PRC with welfare benefits covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance, and medical insurance. These payments are made to local administrative authorities. Any employer that fails to make social insurance contributions may be ordered to rectify the non-compliance and pay the required contributions within a prescribed time limit and be subject to a late fee. If the employer still fails to rectify the failure to make the relevant contributions within the prescribed time, it may be subject to a fine ranging from one to three times the amount overdue.

On July 20, 2018, the General Office of the CPC Central Committee and the General Office of the State Council jointly issued the Reform Plan of the State Tax and Local Tax System, which specified that starting January 1, 2019, local tax authorities would become the administration authority for social insurance, and such payments shall be made to the local tax authorities. On November 16, 2018, the State Administration of Taxation released the Notice of Certain Measures on Further Supporting and Serving the Development of Private Economy, which provided that the policy for social insurance shall remain stable and the State Administration of Taxation will pursue to lower the social insurance contribution rates with the relevant authorities, and ensure the overall burden of social insurance contribution on enterprises will be lowered. With regard to the arrearages of contributors, including private enterprises, for the previous years, centralized settlement shall not be organized or implemented without authorization. On November 22, 2018, the NDRC, PBOC, and 26 other regulatory departments jointly circulated the Notice of the Memorandum of Understanding Regarding the Implementation of Joint Discipline on Severe Discredited Enterprises and Relevant People in the of Social Insurance, which confirmed that the relevant authorities would publicize an enterprise’s severe discredit in social insurance payments through official website, limit its government financial support, and limit its opportunities in participation of government projects.

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In accordance with the Regulations on the Management of Housing Fund which was promulgated by the State Council in 1999, amended on March 24, 2019, and became effective on the same day, employers must register at the designated administrative centers and open bank accounts for depositing employees' housing funds. Employer and employee are also required to pay and deposit housing funds, with an amount no less than 5% of the monthly average salary of the employee in the preceding year in full and on time.

See "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in the PRC—The operating entities are not in compliance with the PRC's regulations relating to employee benefit plans, and as a result, they may be subject to penalties if they are not able to remediate the non-compliance."

C. Organizational Structure

See "—A. History and Development of the Company."

D. Property, Plants and Equipment

See "—B. Business Overview—Facilities."

Item 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included in this annual report. This annual report contains forward-looking statements. In evaluating our business, you should carefully consider the information provided under the caption "Item 3. Key Information—D. Risk Factors" in this annual report. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

A. Operating Results

Comparison of Results of Operations for the Fiscal Years Ended September 30, 2022 and 2021

The following table summarizes our results of operations for the fiscal years ended September 30, 2022 and 2021, respectively, and provides information regarding the dollar and percentage increase or (decrease) during such fiscal years.

	Fiscal year ended		Variance	
	2022	2021	Amount	%
Revenue	\$ 40,205,586	\$ 19,846,921	\$ 20,358,665	102.6 %
Cost of revenue	(36,563,945)	(17,230,306)	19,333,639	112.2 %
Gross profit	3,641,641	2,616,615	1,025,026	39.2 %
Selling expenses	(89,312)	(198,443)	(109,131)	(55.0)%
General and administrative expenses	(2,060,122)	(1,449,267)	468,532	32.3 %
Research and development expenses	(1,032,378)	(385,525)	646,853	167.8 %
Income from operations	459,829	583,380	18,772	3.2 %
Interest income	545,651	191,227	354,424	185.3 %
Government subsidy income	1,636,491	1,079,348	557,143	51.6 %
Other expenses	(97,990)	(120,246)	(22,298)	(18.5)%
Income before income taxes	2,543,981	1,733,709	952,637	54.9 %
Provision for income taxes	(314,273)	(437,349)	(101,721)	(23.3)%
Net income	\$ 2,229,708	\$ 1,296,360	\$ 1,054,358	81.3 %

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Revenue

Currently, the operating entities have three types of revenue streams derived from their three products and services: activated carbon, biomass electricity, and technical services. Total revenue for the fiscal year ended September 30, 2022 increased by \$20.4 million, or 102.6%, to \$40.2 million from \$19.8 million for the fiscal year ended September 30, 2021. The increase was mainly due to an increase in sales volume of activated carbon in fiscal year 2022.

The following table sets forth the breakdown of our revenue for the fiscal years ended September 30, 2022 and 2021, respectively:

	Fiscal year ended September 30,				Variance	
	2022	%	2021	%	Amount	%
Activated carbon	\$ 39,925,693	99.3 %	\$ 19,573,266	98.6 %	\$ 20,352,427	104.0 %
Biomass electricity	150,716	0.4 %	143,240	0.7 %	7,476	5.2 %
Technical services	129,177	0.3 %	130,415	0.7 %	(1,238)	(0.9)%
Total	<u>\$ 40,205,586</u>	100.0 %	<u>\$ 19,846,921</u>	100.0 %	<u>\$ 20,358,665</u>	102.6 %

Product/service type	Total revenue for fiscal years ended September 30,		QTY sold in 2022	QTY sold in 2021	Variance in QTY	% of QTY variance	Average unit price		Price Difference
	2022	2021					2022	2021	
Activated carbon	\$ 39,925,693	\$ 19,573,266	28,911 ton	15,018 ton	13,893 ton	92.5 %	\$ 1,380.99	\$ 1,303.32	\$ 77.67
Biomass electricity	150,716	143,240	2,721,000 kWh	2,817,600 kWh	96,600 kWh	(3.4)%	\$ 0.06	\$ 0.05	\$ 0.01
Technical services	129,177	130,415	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total	<u>\$ 40,205,586</u>	<u>\$ 19,846,921</u>							

Activated carbon

Revenue from activated carbon for the fiscal year ended September 30, 2022 increased by \$20.4 million, or 104.0%, to \$39.9 million from \$19.6 million for fiscal year 2021. The increase was mainly attributable to the higher sales volume in fiscal year 2022. The operating entities sold 28,911 tons of activated carbon in fiscal year 2022, an increase of 13,893 tons, or 92.5%, as compared with 15,018 tons in fiscal year 2021, which caused an increase in revenue by \$18.7 million. In the past, the operating entities produced zinc chloride carbon for the pharmaceutical industry and phosphoric acid carbon for the food industry. This year, they developed and produced activated carbon for sewage treatment and gas treatment in garbage incineration power plants. More than 50% of the activated carbon market comes from sewage treatment and waste incineration power plant gas (dioxin) treatment. Activated carbon for sewage treatment can be used for urban drinking water, advanced purification of urban drinking water, removal of residual chlorine, and deodorization.

Average selling price of activated carbon increased by \$78, or 6.0%, to \$1,381 per ton for fiscal year 2022, from \$1,303 per ton for fiscal year 2021, which caused an increase in revenue by \$1.7 million.

Biomass electricity

Revenue from biomass electricity for fiscal year 2022 increased by \$7,476, or 5.2%, to \$150,716 from \$143,240 for fiscal year 2021. The biomass electricity was generated in the process of producing activated carbon and supplied to State Grid Heilongjiang pursuant to a biomass electricity sales agreement, which is renewed annually. The increase was mainly attributable to the increase in average selling price for biomass electricity by \$0.01, or 10.8%, to \$0.06 for fiscal year 2022 from \$0.05 for fiscal year 2021, which caused an increase of \$13,746 in revenue from biomass electricity. The average selling price of biomass electricity is set by the NDRC. The selling price of biomass electricity comprises two parts, the standard rate and the biomass incentive rate. The biomass incentive rate portion will be paid when State Grid Heilongjiang receives the government subsidy. Due to the uncertainty of collection, revenue for biomass incentive rate is recognized upon cash receipt. For fiscal years 2022 and 2021, we did not receive and recognize any revenue for biomass incentive rate. The increase was partially offset by a decrease of 96,600 kWh, or 3.4%, to 2,721,000 kWh for fiscal 2022 from 2,817,600 kWh for fiscal 2021, which caused a decrease in revenue of \$6,270. Despite the increase in activated carbon production, we generated lower electricity. This was mainly attributable to the operating entities' newly commissioned equipment producing more activated carbon with less gas, which, in turn, reduces power generation.

Technical services

For the fiscal year ended September 30, 2022, revenue from technical services decreased by \$1,238, or 0.9%, to \$129,177 from \$130,415 for fiscal year 2021. The operating entities provided technical services related to their products during the fiscal years ended September 30, 2022 and 2021. The decrease was mainly due to the depreciation of RMB against USD in fiscal year 2022.

Cost of Revenue

The following table sets forth the breakdown of our cost of revenue for the fiscal years ended September 30, 2022 and 2021, respectively:

Product/service type	Total cost of revenue for fiscal years ended September 30,						Average unit cost		Variance	
	2022		2021		Variance		2022	2021	Unit cost	%
	Amount	%	Amount	%	Amount	%				
Activated carbon	\$ 36,288,728	99.2	\$ 16,935,849	98.3	\$ 19,352,879	114.3	\$ 1,262.66	\$ 1,127.70	\$ 134.96	12.0
Biomass electricity	275,217	0.8	289,175	1.7	(13,958)	(4.8)	\$ 0.10	\$ 0.10	\$ 0.00	1.1
Technical services	—	—	5,282	0.0	(5,282)	(100.0)	n/a	n/a	n/a	n/a
Total	<u>\$ 36,563,945</u>	<u>100.0</u>	<u>\$ 17,230,306</u>	<u>100.0</u>	<u>\$ 19,333,639</u>	<u>112.2</u>				

Cost of activated carbon increased by \$19.4 million, or 114.3%, to \$36.3 million for fiscal year 2022 from \$16.9 million for fiscal year 2021, which was mainly due to the increased sales volume of activated carbon and an increase in the average unit cost of activated carbon. Average unit cost of activated carbon increased by \$134.96, or 12.0%, to \$1,262.66 per ton in fiscal year 2022 from \$1,127.70 per ton in fiscal year 2021. The increase in the average unit cost was mainly due to: 1) the increased percentage of activated carbon the operating entities purchased from external suppliers. Historically, unit costs of activated carbon produced by the operating entities are lower than those purchased from external suppliers; 2) the higher cost for the main raw materials the operating entities used for the production of activated carbon, wood chips; and 3) due to the implementation of water and power restrictions policy in 2021 in the PRC, the cost of activated carbon industry, including the price of wood, water, and electricity, has increased.

Cost of biomass electricity decreased by \$13,958, or 4.8%, to \$275,217 for fiscal year 2022, from \$289,175 for fiscal year 2021. The average unit cost of biomass electricity for the fiscal year 2022 was \$0.10 per kWh, unchanged from the fiscal year 2021.

Gross Profit

Total gross profit was \$3.6 million for the fiscal year ended September 30, 2022, an increase by \$1.0 million, or 39.2%, from \$2.6 million in fiscal year 2021. Gross profit margin was 9.06% in fiscal year 2022, as compared with 13.18% in fiscal year 2021. The decrease by 4.12% points was primarily attributable to the increased average selling price being less than the increased average unit cost in fiscal year 2021.

Our gross profit and gross margin by product types were as follows:

	Fiscal year ended September 30,				Variance	
	2022		2021		Gross profit	Gross profit %
	Gross profit	Gross profit %	Gross profit	Gross profit %		
Activated carbon	\$ 3,636,965	9.11	\$ 2,637,417	13.47	\$ 999,548	37.9
Biomass electricity	(124,501)	(82.61)	(145,935)	(101.88)	21,434	(14.7)
Technical services	129,177	100.00	125,133	95.95	4,044	3.2
Total	<u>\$ 3,641,641</u>	<u>9.06</u>	<u>\$ 2,616,615</u>	<u>13.18</u>	<u>\$ 1,025,026</u>	<u>39.2</u>

Gross profit for activated carbon increased by \$1.0 million to \$3.6 million for the fiscal year ended September 30, 2022, as compared to \$2.6 million for fiscal year 2021. Gross profit margin decreased to 9.11% in fiscal year 2022, from 13.47% in fiscal year 2021. The decrease was mainly attributable to the increased average selling price being less than the increased average unit cost in the fiscal year 2022, as discussed above.

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Gross profit for biomass electricity increased by \$21,434 to a deficit of \$124,501 for the fiscal year ended September 30, 2022, as compared to a deficit of \$145,935 for fiscal year 2021. Gross profit margin decreased to negative 82.61% in fiscal year 2022, from negative 101.88% in fiscal year 2021. The fluctuation was mainly because the increased average selling price being more than the average unit cost in fiscal year 2022, as mentioned above.

Gross profit for technical services increased slightly by \$4,044 to \$129,177 for the fiscal year ended September 30, 2022, as compared to \$125,133 for the fiscal year 2021. The increase was immaterial.

Selling Expenses

Selling expenses were \$89,312 for the fiscal year ended September 30, 2022, a decrease of \$109,131, or 55.0%, from \$198,443 in the fiscal year 2021. The decrease was primarily due to a decrease of approximately \$98,349 in shipping expenses as majority of the customers chose to pick up the activated carbon products themselves instead of having the operating entities ship the products to them.

General and Administrative Expenses

Our general and administrative expenses were \$2.1 million for the fiscal year ended September 30, 2022, an increase by \$0.6 million, or 42.1%, from \$1.4 million for fiscal year 2021. The increase was primarily attributable to an increase in allowance for doubtful debts as certain accounts receivable and advances to suppliers were aged more than 12 months and more than 181 days, allowance for doubtful debts were fully provided for these accounts receivable and advances to suppliers aged more than 12 months and 20% allowance for doubtful debts were provided for aging more than 181 days.

Research and Development Expenses

Research and development expenses include costs directly attributable to the conduct of research and development projects, including raw materials, equipment parts, salaries, and other employee benefits. Research and development expenses increased by \$0.6 million, or 167.8%, to \$1.0 million for the fiscal year ended September 30, 2022, from \$0.4 million in fiscal year 2020. During the fiscal year ended September 30, 2022, the operating entities hired more professionals and conducted experiments to upgrade their production equipment to improve its productivity, and also used a significant amount of raw materials for testing.

Government Subsidy Income

The operating entities receive various government subsidies from time to time, such as the “VAT refund” and “Special Fund Subsidy.” Their government subsidies were all granted by local governments in recognition of their achievements. We cannot predict the likelihood or amount of any future subsidies.

Our subsidiary Khingan Forasen and its branch office, Tahe Biopower Plant, are entitled to obtain a 70% VAT refund as they meet the requirements of national comprehensive utilization of resources program. For more details, please see “Item 4. Information of the Company—B. Business Overview—Regulations—PRC Regulations Relating to Taxation—Tax Incentives.” For the fiscal years ended September 30, 2022 and 2021, a VAT refund in the amount of \$636,536 and \$968,909 was recorded in government subsidy income, respectively.

In January 2014, April 2014, and December 2019, the operating entities received government subsidies of approximately \$840,000, \$140,000 and \$140,000 for equipment of energy projects, respectively. These subsidies were one-time grants, and we recognize the income over the useful lives of the equipment. As of September 30, 2022 and 2021, the balance of unrecognized government grants was \$303,894 and \$600,740, respectively, which was recorded in deferred revenue. During the fiscal years ended September 30, 2022 and 2021, \$109,390 and \$110,439 was recorded in government subsidy income, respectively.

Provision for Income Taxes

Our income tax decreased by \$0.1 million, or 28.1%, from \$0.4 million for the fiscal year ended September 30, 2021, to \$0.3 million for the fiscal year ended September 30, 2022. The effective tax rate decreased by 12.4% from 25.2% for the fiscal year ended September 30, 2021 to 12.8% for the fiscal year ended September 30, 2022. The decrease was mainly due to certain products are exempt from income tax and a subsidiary, Khingan Forasen, is entitled to a reduced income tax rate of 15%. According to the national comprehensive utilization of resources program, 10% of the revenue generated from selling certain products were exempt from income tax, upon approval by the tax authority. In fiscal year 2021, the local tax authority notified us that our revenue generated from activated carbon did not qualify for the tax exemption from 2018 to 2020 because activated carbon was not included in the program, and we paid approximately \$135,000 income tax as assessed by the tax authority. Starting January 1, 2021, activated carbon has been included in the program, and we expect to be able to enjoy the income tax exemption going forward.

In November 2016, Khingan Forasen was approved as a High and New Technology Enterprise (“HNTE”), and as a result, Khingan Forasen and its branch office, Tahe Biopower Plant, have been entitled to a reduced income tax rate of 15% beginning November 2016, subject to a requirement that they re-apply for HNTE status every three years. Khingan Forasen successfully renewed its HNTE status on December 3, 2019 and December 16, 2021 and will continue to enjoy the reduced income tax rate for the next three years.

Net Income

As a result of the foregoing, our net income for the fiscal years ended September 30, 2022 and 2021 was \$2.2 million and \$1.3 million, respectively.

Other comprehensive income

Foreign currency translation adjustments amounted to a loss of \$6.7 million and a gain of \$1.1 million for the fiscal years ended September 30, 2022 and 2021, respectively. The balance sheet amounts with the exception of equity as of September 30, 2022 were translated at RMB1.00 to \$0.1406 as compared to RMB1.00 to \$0.1548 as of September 30, 2021. The equity accounts were stated at their historical rates. The average translation rates applied to the income statements accounts for the fiscal years ended September 30, 2022 and 2021, were RMB1.00 to \$0.1521 and RMB1.00 to \$0.1536, respectively. The changes in the value of RMB relative to the U.S. dollar may affect our financial results reported in the U.S. dollar terms without giving effect to any underlying change in our business or results of operation.

The impact attributable to changes in revenue and expenses due to foreign currency translation are summarized as follows.

	2022	2021
Impact on revenue	\$ (3,039,870)	\$ 155,054
Impact on operating expenses	\$ (229,810)	\$ 11,166
Impact on net income	\$ (177,733)	\$ 14,854

For the fiscal year ended September 30, 2022, if using RMB1.00 to \$0.1406 (the foreign exchange rate as of September 30, 2021) to translate our revenue, operating expenses, and net income, our reported revenue, operating expenses, and net income would have decreased by \$3,039,870, \$229,810, and \$177,733, respectively.

For the fiscal year ended September 30, 2021, if using RMB1.00 to \$0.1548 (the foreign exchange rate as of September 30, 2021) to translate our revenue, operating expenses, and net income, our reported revenue, operating expenses, and net income would have increased by \$155,054, \$11,166, and \$14,854, respectively.

Comparison of Results of Operations for the Fiscal Years Ended September 30, 2021 and 2020

The following table summarizes our results of operations for the fiscal years ended September 30, 2021 and 2020, respectively, and provides information regarding the dollar and percentage increase or (decrease) during such fiscal years.

	Fiscal Years Ended September 30,		Variance	
	2021	2020	Amount	%
Revenue	\$ 19,846,921	\$ 12,476,314	\$ 7,370,607	59.08 %
Cost of revenue	17,230,306	9,117,125	8,113,181	88.99 %
Gross profit	2,616,615	3,359,189	(742,574)	(22.11)%
Selling expenses	198,443	148,137	50,306	33.96 %
General and administrative expenses	1,449,267	920,062	529,205	57.52 %
Research and development expenses	385,525	287,299	98,226	34.19 %
Income from operations	583,380	2,003,691	(1,420,311)	(70.88)%
Interest income (expense)	191,227	(27,691)	218,918	790.57 %
Government subsidy income	1,079,348	470,865	608,483	129.23 %
Other income (expenses)	(120,246)	68,024	(188,270)	(276.77)%
Income before income taxes	1,733,709	2,514,889	(781,180)	(31.06)%
Provision for income taxes	437,349	170,119	267,230	157.08 %
Net income	\$ 1,296,360	\$ 2,344,770	\$ (1,048,410)	(44.71)%

Revenue

Currently, the operating entities have three types of revenue streams derived from their three products and services: activated carbon, biomass electricity, and technical services. Total revenue for the fiscal year ended September 30, 2021 increased by \$7,370,607, or 59.08%, to \$19,846,921 from \$12,476,314 for the fiscal year ended September 30, 2020. The increase was mainly due to an increase in sales volume of activated carbon in fiscal year 2021.

The following table sets forth the breakdown of our revenue for the fiscal years ended September 30, 2021 and 2020, respectively:

	Fiscal Years Ended September 30,				Variance	
	2021	%	2020	%	Amount	%
Activated carbon	\$ 19,573,266	98.62 %	\$ 12,099,457	96.99 %	\$ 7,473,809	61.77 %
Biomass electricity	143,240	0.72 %	255,678	2.05 %	(112,438)	(43.98)%
Technical services	130,415	0.66 %	121,179	0.96 %	9,236	7.62 %
Total	\$ 19,846,921	100.00 %	\$ 12,476,314	100.00 %	\$ 7,370,607	59.08 %

Product/service type	Total revenue for fiscal years ended September 30,		QTY sold in 2021	QTY sold in 2020	Variance in QTY	% of QTY variance	Average unit price		Price Difference
	2021	2020					2021	2020	
Activated carbon	\$ 19,573,266	\$ 12,099,457	15,018 ton	9,525 ton	5,493	57.67 %	\$ 1,303.32	\$ 1,270.28	\$ 33.04
Biomass electricity	143,240	255,678	2,817,600 kWh	2,641,964 kWh	175,636	6.65 %	\$ 0.05	\$ 0.10	\$ (0.05)
Technical services	130,415	121,179	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total	\$ 19,846,921	\$ 12,476,314							

Activated carbon

Revenue from activated carbon for the fiscal year ended September 30, 2021 increased by \$7,473,809, or 61.77%, to \$19,573,266 from \$12,099,457 for fiscal year 2020. The increase was mainly attributable to the higher sales volume in fiscal year 2021. The operating entities sold 15,018 tons of activated carbon in fiscal year 2021, an increase of 5,493 tons, or 57.67%, as compared with 9,525 tons in fiscal year 2020. During fiscal year 2020, because of the COVID-19 pandemic and the shelter-in-place orders and travel restrictions mandated by the Chinese government, during January and February 2020, employees of Tahe Biopower Plant and Hangzhou Forasen could not return to work on time after the Chinese New Year and the transportation of raw materials and activated carbon was delayed or even stopped, which adversely impacted our production and sales of activated carbon during that period. The production and sales have gradually recovered since the end of March 2020. Since then, the operating entities increased their efforts to develop the market and seek new customers, and, as a result, their sales of activated carbon have continued to grow steadily. The operating entities acquired one new major customer in fiscal year 2021, who brought in approximately \$2.22 million, or 11.20%, of our total revenue from activated carbon for the fiscal year ended September 30, 2021. In addition, the COVID-19 pandemic has stimulated stronger demand for our activated carbon products, and the operating entities outsourced more customer orders to third-party manufacturers to keep up with the demand for their activated carbon products.

Average selling price of activated carbon increased by \$33.04, or 2.60%, to \$1,303.32 per ton for fiscal year 2021, from \$1,270.28 per ton for fiscal year 2020. The increase was attributable to the appreciation of RMB against U.S. dollars. The average exchange rate for the fiscal years ended September 30, 2021 and 2020, was RMB1 to \$0.1536 and RMB1 to \$0.1427, respectively, representing an increase of 7.64%. However, the average selling price in RMB decreased from RMB8,900 per ton to RMB8,485 per ton, which was mainly due to a decline in market prices. During the fiscal year 2021, companies in the activated carbon industry that previously suspended their production because of the COVID-19 pandemic resumed production, resulting in increased market competition and lower market price of activated carbon.

Biomass electricity

Revenue from biomass electricity for the fiscal year ended September 30, 2021, decreased by \$112,438, or 43.98%, to \$143,240 from \$255,678 for fiscal year 2020. The biomass electricity was generated in the process of producing activated carbon and supplied to State Grid Heilongjiang pursuant to a biomass electricity sales agreement, which is renewed annually. For the fiscal year ended September 30, 2021, average selling price for biomass electricity decreased by \$0.05, or 50.00%, to \$0.05 per kWh from \$0.10 per kWh for fiscal year 2020. Average selling price of biomass electricity is set by the NDRC. The selling price of biomass electricity comprises two parts, the standard rate and the biomass incentive rate. The biomass incentive rate portion will be paid when State Grid Heilongjiang receives the government subsidy. Due to the uncertainty of collection, revenue for biomass incentive rate is recognized upon cash receipt. For fiscal year 2021, we did not receive and recognize any revenue for biomass incentive rate, while in fiscal year 2020, we received and recognized approximately \$130,879.

The operating entities sold 2,817,600 kWh of biomass electricity in fiscal year 2021, an increase of 175,636 kWh, or 6.65%, as compared with 2,641,964 kWh in fiscal year 2020, which was mainly due to increased activated carbon production at their Tahe Biopower Plant during fiscal year 2021. The operating entities suspended their production during the temporary closure of their manufacturing facility in January and February 2020 and generated no electricity during the closure.

Technical services

For the fiscal year ended September 30, 2021, revenue from technical services increased by \$9,236, or 7.62%, to \$130,415 from \$121,179 for fiscal year 2020. The operating entities provided technical services related to their products during the fiscal years ended September 30, 2021 and 2020. The increase was mainly due to the appreciation of RMB against USD in fiscal year 2021.

Cost of Revenue

The following table sets forth the breakdown of our cost of revenue for the fiscal years ended September 30, 2021 and 2020, respectively:

Product/service type	Total cost of revenue for fiscal years ended September 30,						Average unit cost		Variance	
	2021		2020		Variance		2021	2020	Unit cost	
	Amount	%	Amount	%	Amount	%			cost	%
Activated carbon	\$ 16,935,849	98.29 %	\$ 8,846,448	97.03 %	\$ 8,089,401	91.44 %	\$ 1,127.70	\$ 928.86	\$ 198.84	21.41 %
Biomass electricity	289,175	1.68 %	265,769	2.92 %	23,406	8.81 %	\$ 0.10	\$ 0.10	\$ —	— %
Technical services	5,282	0.03 %	4,908	0.05 %	374	7.63 %	n/a	n/a	n/a	n/a
Total	<u>\$ 17,230,306</u>	100.00 %	<u>\$ 9,117,125</u>	100.00 %	<u>\$ 8,113,181</u>	88.99 %				

Cost of activated carbon increased by \$8,089,401, or 91.44%, to \$16,935,849 for the fiscal year ended September 30, 2021 from \$8,846,448 for fiscal year 2020, which was mainly due to the increased sales volume of activated carbon and an increase in the average unit cost of activated carbon. Average unit cost of activated carbon increased by \$198.84, or 21.41%, to \$1,127.70 per ton in fiscal year 2021 from \$928.86 per ton in fiscal year 2020. The increase in the average unit cost was mainly due to: 1) the increased percentage of activated carbon the operating entities purchased from external suppliers. Historically, unit costs of activated carbon produced by the operating entities are higher than those purchased from external suppliers; and 2) the higher cost for the main raw materials the operating entities used for the production of activated carbon, wood chips. The operating entities used to enjoy a value-added tax-in (“VAT-in”) exemption because wood chips are considered agricultural products, as determined by the local tax authority. In December 2020, the local tax authority notified the operating entities that it had reevaluated and concluded that the operating entities’ wood chips purchase no longer qualified for the VAT-in exemption because wood chips do not fall under agricultural products. As a result, the VAT-in amount of the operating entities’ wood chips purchase is no longer exempted for fiscal year 2021, which resulted in an increase in the purchasing cost of wood chips. The tax authority also required the operating entities to pay the prior-period exempted VAT-in retrospectively beginning May 2018, which was approximately \$429,000 and recorded in the cost of revenue for fiscal year 2021. In addition, due to the implementation of water and power restrictions policy in 2021 in PRC, the cost of activated carbon industry, including the price of wood, water, and electricity, has increased.

Cost of biomass electricity increased by \$23,406, or 8.81%, to \$289,175 for the fiscal year ended September 30, 2021, from \$265,769 for fiscal year 2020. Average unit cost of biomass electricity for the fiscal year 2021 was \$0.10 per kWh, unchanged from the fiscal year 2020.

Gross Profit

Total gross profit was \$2,616,615 for the fiscal year ended September 30, 2021, a decrease of \$742,574, or 22.11%, from \$3,359,189 in fiscal year 2020. Gross profit margin was 13.18% in fiscal year 2021, as compared with 26.92% in fiscal year 2020. The decrease by 13.74% points was primarily attributable to the increased average selling price being less than the increased average unit cost in fiscal year 2021.

Our gross profit and gross margin by product types were as follows:

	Fiscal Years Ended September 30,				Variance	
	2021		2020		Gross profit	Gross Profit %
	Gross profit	Gross profit%	Gross profit	Gross profit%		
Activated carbon	\$ 2,637,417	13.47 %	\$ 3,253,009	26.89 %	\$ (615,592)	(13.42)%
Biomass electricity	(145,935)	(101.88)%	(10,091)	(3.95)%	(135,844)	(97.93)%
Technical services	125,133	95.95 %	116,271	95.95 %	8,862	— %
Total	<u>\$ 2,616,615</u>	13.18 %	<u>\$ 3,359,189</u>	26.92 %	<u>\$ (742,574)</u>	(13.74)%

Gross profit for activated carbon decreased by \$615,592 to \$2,637,417 for the fiscal year ended September 30, 2021, as compared to \$3,253,009 for fiscal year 2020. Gross profit margin decreased to 13.47% in fiscal year 2021, from 26.89% in fiscal year 2020. The decrease was mainly attributable to the increased average selling price being less than the increased average unit cost in the fiscal year 2021, as discussed above.

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Gross profit for biomass electricity decreased by \$135,844 to a deficit of \$145,935 for the fiscal year ended September 30, 2021, as compared to a deficit of \$10,091 for fiscal year 2020. Gross profit margin decreased to negative 101.88% in fiscal year 2021, from negative 3.95% in fiscal year 2020. The fluctuation was mainly because the incentive portion of the revenue from biomass electricity was not recognized in fiscal year 2021, as mentioned above.

Gross profit for technical services increased slightly by \$8,862 to \$125,133 for the fiscal year ended September 30, 2021, as compared to \$116,271 for the fiscal year 2020. The increase was immaterial.

Selling Expenses

Selling expenses were \$198,443 for the fiscal year ended September 30, 2021, an increase of \$50,306, or 33.96%, from \$148,137 in the fiscal year 2020. The increase was primarily due to an increase of approximately \$56,875 in shipping expenses, which was in line with sales revenue increase in fiscal year 2021.

General and Administrative Expenses

Our general and administrative expenses were \$1,449,267 for the fiscal year ended September 30, 2021, an increase of \$529,205, or 57.52%, from \$920,062 for fiscal year 2020. The increase was primarily attributable to: 1) approximately \$284,000 in the compensation of our board of directors since we became public company in February 2021 and \$108,000 in wage and social insurance increases for other employees and 2) approximately \$83,000 in audit fees and regular legal counsel expenses.

Research and Development Expenses

Research and development expenses include costs directly attributable to the conduct of research and development projects, including raw materials, equipment parts, salaries, and other employee benefits. Research and development expenses increased by \$98,226, or 34.19%, to \$385,525 for the fiscal year ended September 30, 2021, from \$287,299 in fiscal year 2020. During in fiscal year 2020, the operating entities did not conduct as much R&D activities due to the interruption on their business caused by the COVID-19 pandemic. Therefore, research and development expenses increased as compared with fiscal year 2020.

Government Subsidy Income

The operating entities receive various government subsidies from time to time, such as the “VAT refund” and “Special Fund Subsidy.” Their government subsidies were all granted by local governments in recognition of their achievements. We cannot predict the likelihood or amount of any future subsidies.

Our subsidiary Khingan Forasen and its branch office, Tahe Biopower Plant, are entitled to obtain a 70% VAT refund as they meet the requirements of national comprehensive utilization of resources program. For more details, please see “Item 4. Information of the Company—B. Business Overview—Regulations—PRC Regulations Relating to Taxation—Tax Incentives.” For the fiscal years ended September 30, 2021 and 2020, VAT refund in the amount of \$968,909 and \$368,248 was recorded in government subsidy income, respectively. The increase was due to the increase of prior-period non-deductible VAT-in payment, as mentioned above.

In January 2014, April 2014 and December 2019, the operating entities received government subsidies of approximately \$840,000, \$140,000 and \$140,000 for equipment of energy projects, respectively. These subsidies were one-time grants, and we recognize the income over the useful lives of the equipment. As of September 30, 2021 and 2020, the balance of unrecognized government grants was \$600,740 and \$676,108, respectively, which was recorded in deferred revenue, respectively. During the fiscal years ended September 30, 2021 and 2020, \$110,439 and \$102,617 was recorded in government subsidy income, respectively.

Provision for Income Taxes

Our income tax increased by \$267,230, or 157.08%, from \$170,119 for the fiscal year ended September 30, 2020, to \$437,349 for the fiscal year ended September 30, 2021. The effective tax rate increased by 18.4% from 6.8% for the fiscal year ended September 30, 2020 to 25.2% for the fiscal year ended September 30, 2021. The increase was mainly due to: 1) an increase of 7.8% due to prior-year true-up. According to the national comprehensive utilization of resources program, 10% of the revenue generated from selling certain products were exempt from income tax, upon approval by the tax authority. In fiscal year 2021, the local tax authority notified the operating entities that their revenue generated from activated carbon did not qualify for the tax exemption from 2018 to 2020 because activated carbon was not included in the program, and the operating entities paid approximately \$135,000 income tax as assessed by the tax authority. Starting January 1, 2021, activated carbon has been included in the program, and we expect to be able to enjoy the income tax exemption going forward; and 2) an increase of 6.5% due to a higher loss generated by non-PRC entities not subject to PRC tax impact.

In November 2016, Khingan Forasen was approved as an HNTE, and as a result, Khingan Forasen and its branch office, Tahe Biopower Plant, have been entitled to a reduced income tax rate of 15% beginning November 2016, subject to a requirement that they re-apply for HNTE status every three years. Khingan Forasen successfully renewed its HNTE status on December 3, 2019 and December 16, 2021 and will continue to enjoy the reduced income tax rate for the next three years.

Net Income

As a result of the foregoing, our net income for the fiscal years ended September 30, 2021 and 2020, was \$1,296,360 and \$2,344,770, respectively.

Other comprehensive income

Foreign currency translation adjustments amounted to a gain of \$1,089,346 and \$977,659 for the fiscal years ended September 30, 2021 and 2020, respectively. The balance sheet amounts with the exception of equity as of September 30, 2021 were translated at RMB1.00 to \$0.1548 as compared to RMB1.00 to \$0.1470 as of September 30, 2020. The equity accounts were stated at their historical rates. The average translation rates applied to the income statements accounts for the fiscal years ended September 30, 2021 and 2020, were RMB1.00 to \$0.1536 and RMB1.00 to \$0.1427, respectively. The changes in the value of RMB relative to the U.S. dollar may affect our financial results reported in the U.S. dollar terms without giving effect to any underlying change in our business or results of operation.

The impact attributable to changes in revenue and expenses due to foreign currency translation are summarized as follows.

	Fiscal Year Ended September 30, 2021	Fiscal Year Ended September 30, 2020
Impact on revenue	\$ 155,054	\$ 372,920
Impact on operating expenses	\$ 11,166	\$ 33,492
Impact on net income	\$ 14,854	\$ 77,498

For the fiscal year ended September 30, 2021, if using RMB1.00 to \$0.1548 (the foreign exchange rate as of September 30, 2021) to translate our revenue, operating expense, and net income, our reported revenue, operating expense, and net income would have increased by \$155,054, \$11,166, and \$14,854, respectively.

For the fiscal year ended September 30, 2020, if using RMB1.00 to \$0.1470 (the foreign exchange rate as of September 30, 2020) to translate our revenue, operating expense, and net income, our reported revenue, operating expense, and net income would have increased by \$372,920, \$33,492, and \$77,498, respectively.

B. Liquidity and Capital Resources

Cash Flows for the Fiscal Years Ended September 30, 2022, 2021, and 2020

We are a holding company incorporated in the British Virgin Islands. We may need dividends and other distributions on equity from our PRC subsidiaries to satisfy our liquidity requirements. Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, our PRC subsidiaries are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of their respective registered capital. Our PRC subsidiaries may also allocate a portion of its after-tax profits based on PRC accounting standards to employee welfare and bonus funds at their discretion. These reserves are not distributable as cash dividends. We have relied on direct payments of expenses by our revenue generating subsidiaries to meet our obligations to date. Furthermore, cash transfers from our PRC subsidiaries to their parent companies outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to their parent companies outside of China, or otherwise satisfy their foreign currency denominated obligations. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in PRC—We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirement we may have, and any limitation on the ability of our subsidiaries to make payments to us and any tax we are required to pay could have a materially adverse effect on our ability to conduct our business.”

As of September 30, 2022, we had cash in the amount of \$18.0 million. Total current assets as of September 30, 2022, amounted to \$74.2 million, an increase of \$25.3 million compared to \$48.9 million at September 30, 2021. The increase of current assets was mainly attributable to an increase in cash and prepayment for an acquisition of a subsidiary, partially offset with a decrease in other receivables. During fiscal year 2022, we received cash in proceeds from private placements of \$18.0 million and repayment from other receivables of \$21.1 million. We made a prepayment of \$17.7 million to acquire a subsidiary. Current liabilities amounted to \$30.4 million as of September 30, 2022, an increase of \$24.7 million compared to \$5.6 million as of September 30, 2021. This increase of current liabilities was mainly attributable to the increase in proceeds from private placements, accounts payable, and bank loans.

As of September 30, 2022, we had advances to suppliers of approximately \$18.3 million. In order to secure a steady supply of raw materials, the operating entities are required from time to time to make cash advances when placing their purchase orders. Due to the COVID-19 pandemic and tighter environmental protection policies in China, many smaller suppliers have gone out of business, leading to higher prices and tighter supplies in the raw materials market. We monitor the advances to suppliers account and the allowance level periodically in order to ensure the related allowance is reasonable. We have since enhanced our collections or realization on advances to suppliers through tightening vendor prepayment policy and strengthening the monitoring of unrealized prepayment. If we have difficulty collecting, the following steps will be taken: cease additional purchases from these suppliers, visit the suppliers to request return of the prepayment promptly, and, if necessary, take legal recourse. If all of these steps are unsuccessful, management will determine whether or not the prepayment will be reserved or written off.

The operating entities periodically receive VAT refund, a government subsidy, from the local government. Khingan Forasen and its branch office, Tahe Biopower Plant, are entitled to obtain a 70% VAT refund as they meet the requirements of national comprehensive utilization of resources program. We do not have performance obligations regarding our receipts of subsidy income. We expect that Khingan Forasen and Tahe Biopower Plant will remain available to enjoy this preferential treatment until the local government amends or cancels the relevant policy. This preferential treatment will increase the amount of cash available to our company.

We have funded our working capital needs from operations, bank borrowings, our initial public offering, private placements, and additional capital contributions from shareholders. Currently, our principal source of liquidity is our operations. The primary drivers and material factors impacting our liquidity and capital resources include our ability to generate sufficient cash flows from our operations.

Working Capital

Total working capital as of September 30, 2022, amounted to \$43.9 million, compared to \$43.2 million as of September 30, 2021.

Capital Needs

Presently, our principal sources of liquidity are our operations, proceeds from our initial public offering and private placements, and bank loans. With the uncertainty of the current market and the impact of the COVID-19 pandemic, our management believes it is necessary to enhance the collection of the outstanding balance of accounts receivable and other receivables, and to be cautious on operational decisions and project selections. As of January 25, 2023, approximately \$1.2 million of our accounts receivable balance as of September 30, 2022 was collected. For fiscal year 2022, we generated negative operating cash flows of \$7.5 million, primarily due to an increase of \$9.1 million in advances to suppliers. We made advanced payments to fulfill sales orders received and secure a steady supply of raw materials. As discussed above, approximately \$4.32 million of our advances to supplier balance as of September 30, 2022 was utilized as of January 25, 2023. Our management believes that income generated from our current operations can satisfy our daily working capital needs over the next 12 months.

We may also raise additional capital through public offerings or private placements to finance our business development and to consummate any merger or acquisition, if necessary. Such transfer of funds from CN Energy or any of our offshore subsidiaries to our PRC subsidiaries is subject to the PRC regulatory restrictions and procedures: (i) the capital increase of the existing PRC subsidiaries and establishment of new PRC subsidiaries must be either filed with or approved by MOFCOM or its local counterparts depending on whether the business of the PRC subsidiary is subject to restrictions with respect to foreign investment under the PRC law, and registered with local banks authorized by SAFE; and (ii) loans to any of our PRC subsidiaries must not exceed the statutory limits and must be filed with SAFE. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in PRC—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds from our future financing activities to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.”

Cash Flows

The following table sets forth a summary of our cash flows for the fiscal years indicated:

	For the Fiscal Years Ended September 30,		
	2022	2021	2020
Net cash used in operating activities	\$ (7,514,619)	\$ (11,593,069)	\$ (1,818,912)
Net cash provided by (used in) investing activities	2,171,081	(27,921,675)	(875,831)
Net cash provided by financing activities	24,939,210	38,023,254	2,623,800
Effect of exchange rate changes on cash	(1,739,558)	112,213	80,643
Net increase (decrease) in cash	17,856,114	(1,379,277)	9,700
Cash, beginning of year	190,758	1,570,035	1,560,335
Cash, end of year	\$ 18,046,872	\$ 190,758	\$ 1,570,035

Operating Activities

Net cash used in operating activities was \$7.5 million for the fiscal year ended September 30, 2022. The net cash used in operating activities was primarily attributable to the following:

- Accounts payable increased by \$5.6 million as the operating entities used more suppliers to support their increase in sales volume and their suppliers providing higher amount of credit to the operating entities. The increase was because that the operating entities made more timely payments in 2021, due to the recovery of their business activities in 2021; and
- net income of \$2.4 million.

And offset by the following:

- accounts receivable increased by \$8.5 million and advances to suppliers increased by \$9.1 million. During the fiscal year 2022, we generated higher revenue from our increase in sales volume and, as a result, caused an increase in our accounts receivable and advances to suppliers.

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Net cash used in operating activities was \$11.6 million for the fiscal year ended September 30, 2021. The net cash used in operating activities was primarily attributable to the following:

- Advances to suppliers increased by \$9.1 million in anticipation of higher revenue to be generated; and
- Accounts payable decreased by \$3.3 million due to payment to our suppliers;

And offset by the following:

- net income of \$1.3 million.

Net cash used in operating activities was \$1.8 million for the fiscal year ended September 30, 2020. The net cash used in operating activities was primarily attributable to the following:

- Accounts receivable increased by \$4.2 million as we increased the credit sales limit for two major customers according to our increased sales volume and their credit history.

And offset by the following:

- net income of \$2.3 million.

Investing Activities

For the fiscal year ended September 30, 2022, net cash provided by investing activities amounted to \$2.2 million. We collected \$20.8 million from our suppliers where we provided them working capital support in fiscal 2021. Cash of \$17.7 million in investing activities were used as prepayment to acquire a subsidiary.

For the fiscal year ended September 30, 2021, net cash used in investing activities amounted to \$27.9 million, as compared to net cash used in investing activities of \$875,831 for fiscal year 2020. The increase in net cash used in investing activities of approximately \$27.0 million was primarily due to the following: 1) we prepaid \$3.8 million for property, plant, and equipment purchases for our Manzhouli production facility in fiscal year 2021; 2) we made a one-year term deposit of money in the amount of \$3.1 million into an account at a financial institution, while there were no such activities in the same period of fiscal year 2020; 3) we prepaid approximately \$20.7 million to five suppliers for working capital support or raw material purchases that the suppliers were not able to deliver, and the suppliers issued us bankers' acceptances for these payment; and 4) we made a long-term construction security deposit for our Manzhouli production facility in fiscal year 2020, while there were no such activities in fiscal year 2021. The deposit is interest-free and is refundable upon the completion of the project.

For the fiscal year ended September 30, 2020, net cash used in investing activities amounted to \$875,831 as compared to net cash used in investing activities of \$1.2 million for fiscal year 2019. The decrease in net cash used in investing activities of approximately \$0.3 million was primarily due to a decrease in payments made for the construction of our new facility in Manzhouli City, and a decrease in payments for the acquisition of land use right, offset with an increase in payment of security deposit for the first stage of construction of our new facility in Manzhouli City.

Financing Activities

Net cash provided by financing activities were \$24.9 million for the fiscal year ended September 30, 2022. During fiscal year 2022, we received cash from issuance of shares of \$5.5 million, from private placements of \$18.0 million and bank loans of \$5.9 million. Cash in financing activities were used in repayment of \$2.9 million in bank loans and repayment of \$2.0 million in related parties loans.

Net cash provided by financing activities was approximately \$38.0 million for the fiscal year ended September 30, 2021. During fiscal year 2021, we received cash in net proceeds from the initial public offering of approximately \$20.6 million and from private placement of approximately \$17.0 million, proceeds from bank loans of approximately \$1.5 million, and borrowed \$0.5 million related party loans for working capital, which were offset by repayments of short-term bank loans upon maturity of approximately \$1.7 million.

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Net cash provided by financing activities was approximately \$2.6 million for the fiscal year ended September 30, 2020. During fiscal year 2020, we obtained \$1.8 million from the issuance of Convertible Preferred Shares and net borrowing of 1.3 million short-term bank loan as working capital, which were offset by the repayment of \$0.4 million related party loans.

Loan Facilities

The following table sets forth a summary of our loan facilities:

For the fiscal year ended September 30, 2022	Loan commencement date	Loan maturity date	Loan amount in RMB	Loan amount in USD	Effective interest rate	Note
Secured short-term bank loans						
Industrial and Commercial Bank of China (Tahe Branch)	May 25, 2022	May 25, 2023	4,500,000	\$ 632,600	3.80 %	1
Industrial and Commercial Bank of China (Tahe Branch)	June 24, 2022	June 24, 2023	5,000,000	702,889	4.35 %	2
China Zheshang Bank Co., Ltd.	May 25, 2022	May 23, 2023	4,000,000	562,311	5.5 %	3
China Zheshang Bank Co., Ltd.	June 1, 2022	May 31, 2023	4,900,000	688,831	5.5 %	4
Bank of Beijing (Hangzhou Branch)	December 21, 2021	December 20, 2022	5,000,000	702,888	4.75 %	5
Total secured short-term bank loans			<u>23,400,000</u>	<u>\$ 3,289,519</u>		
Unsecured short-term bank loans						
Industrial and Commercial Bank of China (Tahe Branch)	December 14, 2021	December 9, 2022	1,500,000	\$ 210,867	3.85 %	
Industrial and Commercial Bank of China (Tahe Branch)	December 15, 2021	December 10, 2022	1,500,000	210,867	3.85 %	
Total unsecured short-term bank loans			<u>3,000,000</u>	<u>\$ 421,734</u>		
Total short-term bank loans			<u>26,400,000</u>	<u>\$ 3,711,253</u>		
Secured long-term bank loans						
Long-term bank loan, current portion						
WeBank Co., Ltd.	October 9, 2020	October 9, 2022	142,331	\$ 20,009	10.26 %	6
Long-term bank loan, non-current portion						
Xiaoshan Rural Commercial Bank	July 19, 2022	July 17, 2025	3,000,000	421,733	6.31 %	7
Total long-term bank loans			<u>3,142,331</u>	<u>\$ 441,742</u>		
Total short-term and long-term bank loans			<u>29,542,331</u>	<u>\$ 4,152,995</u>		

- (1) The loan is guaranteed by a third party, Heilongjiang Xinzheng Financing Guarantee Group Co., Ltd., for up to 80% of the outstanding principal and normal interest balance.
- (2) The loan is guaranteed by a third party, Heilongjiang Xinzheng Financing Guarantee Group Co., Ltd., for up to 80% of the outstanding principal and normal interest balance, personal guaranteed by Mr. Wenhua Liu, who is a legal representative of Kxingan Forasen and our director, and is collateralized by the property, plant and equipment of Kxingan Forasen, with a net book value of RMB2.1 million (equivalent to approximately \$0.3 million as of September 30, 2022).
- (3) The loan is collateralized by a property owned by a third party, Sigma Holdings (Hangzhou) Co., Ltd, which has a valuation of RMB5.35 million (equivalent to approximately \$752,091), is guaranteed by, Ms. Yefang Zhang, a principal shareholder, and by a subsidiary of our Company, CN Energy Development.

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- (4) This loan is guaranteed by, Ms. Yefang Zhang, a principal shareholder, and by a subsidiary of our Company, CN Energy Development.
- (5) The loan is guaranteed by a third party, Yangzhou High Tech Financing Guarantee Co., Ltd, Ms. Yefang Zhang, principal shareholder, and Mr. Zhengyu Wang, former CEO and spouse of principal shareholder, for up to 100% of the outstanding principal and normal interest balance.
- (6) This line of credit agreement with WeBank Co., Ltd is unconditionally guaranteed by the legal representative of Hangzhou Forasen for a maximum amount of RMB5 million (equivalent to approximately \$703,000 as of September 30, 2022).
- (7) The loan is guaranteed by a subsidiary of our Company, CN Energy Development.

Contractual Obligations

As of September 30, 2022, our contractual obligations were as follows:

Contractual obligations	Total	2023	2024	2025
Short-term loans	\$ 3,711,253	\$ 3,711,253	—	—
Long-term loans	441,742	20,009	—	421,733
Operating lease payments (1)	51,121	34,193	16,928	—
Total	<u>\$ 4,204,116</u>	<u>\$ 3,765,455</u>	<u>\$ 16,928</u>	<u>\$ 421,733</u>

- (1) We signed two lease agreements in July and August 2020 for office space and manufacturing facility leases. We lease about 1,006 square feet of office space in Hangzhou with a lease term from August 2020 to August 2022, and 59,174 square feet of manufacturing facility in Tahe with a lease term from July 2020 to March 2025. We are required to notify the landlord at least two months in advance if we would like to renew the lease agreements. See “Note 17 – Leases” to the consolidated financial statements for the fiscal years ended September 30, 2022, 2021, and 2020 included elsewhere in this annual report for more information.

Off-Balance Sheet Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are indexed to our own shares and classified as shareholders’ equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interest in any unconsolidated entity that we provide financing, liquidity, market risk, or credit support to or engages in hedging or research and development services with us.

C. Research and Development, Patents and Licenses, etc.

See “Item 4. Information on the Company—B. Business Overview—Intellectual Property.”

D. Trend Information

Other than as disclosed below and elsewhere in this annual report on Form 20-F, we are not aware of any trends, uncertainties, demands, commitments, or events for the period from October 1, 2021 to September 30, 2022 that are reasonably likely to have a material adverse effect on our net revenue, income, profitability, liquidity, or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial condition.

Factors and Trends Affecting Our Results of Operations

Impact of COVID-19 Pandemic

See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—Our financial condition, results of operations, and cash flows have been adversely affected by the COVID-19 pandemic.”

Government policies may impact our business and operating results.

We have not seen any impact of unfavorable government policies upon our business in recent years. However, our business and operating results will be affected by the overall economic growth and government policies in the PRC, and our products are currently eligible for certain favorable government tax incentive and other incentives. Unfavorable changes in government policies and these incentives could affect the demand for our products and could materially and adversely affect our results of operations. However, we will seek to make adjustments as required if and when government policies shift.

Exchange rate fluctuations may significantly impact our business and profitability.

All of our operations are in the PRC. Thus, our revenue and operating results may be impacted by exchange rate fluctuations between RMB and U.S. dollars. For the fiscal years ended September 30, 2022, 2021, and 2020, we had an unrealized foreign currency translation (loss) gain of (\$6,664,234), \$1,089,346, and \$977,659, respectively, because of changes in the exchange rates.

E. Critical Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and related disclosures in the financial statements. Critical accounting policies are those accounting policies that may be material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change, and that have a material impact on financial condition or operating performance. While we base our estimates and judgments on our experience and on various other factors that we believe to be reasonable under the circumstances, actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies used in the preparation of our financial statements require significant judgments and estimates. For additional information relating to these and other accounting policies, see “Note 2—Summary of significant accounting policies” to our consolidated financial statements included elsewhere in this annual report.

Use of Estimates

In preparing the consolidated financial statements in conformity with U.S. GAAP, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the reporting periods. Significant items subject to such estimates and assumptions include, but are not limited to, the valuation of inventory, accounts receivable, advances to suppliers, other receivables, useful lives of property, plant and equipment and intangible assets, the recoverability of long-lived assets, provision necessary for contingent liabilities, revenue recognition, and realization of deferred tax assets. Actual results could differ from those estimates.

Revenue Recognition

We account for revenue recognition under Accounting Standards Codification 606 (“ASC 606”), Revenue from Contracts with Customers. Our revenue is mainly from the sale of two types of products, activated carbon and biomass electricity generated in the process of producing activated carbon. For the sale of activated carbon, we recognize revenue when title and risk of loss passes and the customer accepts the products, which generally occurs at delivery. Product delivery is evidenced by warehouse shipping log as well as signed shipping bills from the shipping company, or by receipt document signed by the customer upon delivery, depending on the delivery term negotiated between us and customers on a customer-by-customer basis. For the sale of biomass electricity, revenue is recognized over time as the biomass electricity is delivered, which occurs when the biomass electricity is transmitted from our power plant to the provincial power grid company. The amount is based on the reading of meters, which occurs on a systematic basis throughout each reporting period and represents the market value of the biomass electricity delivered. We also provide technical services to customers who purchase activated carbon from us. The revenue of technical services is recognized on a straight-line basis over the service period as earned.

The transaction price of activated carbon and technical services is determined based on fixed consideration in our customer contracts. Pursuant to the power purchase agreements entered into between us and the respective provincial power grid company, our sales of biomass electricity were made to the power grid company at the tariff rates agreed with the provincial power grid company as approved by the relevant government authorities in the PRC. In determining the transaction price, no significant financing components exist since the timing from when we invoice our customers to when payment is received is less than one year.

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Revenue is reported net of all value added taxes. We generally do not permit customers to return products and historically, customer returns have been immaterial. In the event we receive an advance from a customer, such advance is recorded as a liability to us. We reduce the liability and recognizes revenue after the delivery of goods occurs.

The core principle underlying the revenue recognition ASC 606 is that we recognize revenue to represent the transfer of goods and services to customers in an amount that reflects the consideration to which we expect to be entitled in such exchange. This requires us to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time, based on when control of goods and services transfers to a customer. Our sales contracts of activated carbon have one single performance obligation as the promise to transfer the individual goods is not separately identifiable from other promises in the contracts and is, therefore, not distinct. Therefore, the sale of activated carbon is recognized at a point in time. Our sales contracts of biomass electricity have a single performance obligation that represents a promise to transfer to the customer a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer. Our performance obligation is satisfied over time as biomass electricity is delivered.

There were no contract assets as of September 30, 2022 and 2021. For the fiscal years ended September 30, 2022, 2021, and 2020, revenue recognized from performance obligations related to prior periods was insignificant. Revenue expected to be recognized in any future periods related to remaining performance obligations is insignificant.

We have elected the following practical expedients in applying ASC 606:

- Unsatisfied Performance Obligations – for all performance obligations relate to contracts with a duration of less than one year, we have elected to apply the optional exemption provided in ASC 606, and therefore are not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.
- Contract Costs - all incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that we otherwise would have recognized is one year or less in duration.
- Significant Financing Component - we do not adjust the promised amount of consideration for the effects of a significant financing component as we expect, at contract inception, that the period between when we transfer a promised good or service to a customer and when the customer pays for that good or service will be one year or less.
- Sales Tax Exclusion from the Transaction Price - we exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by us from the customer.
- Shipping and Handling Activities - we elect to account for shipping and handling activities as a fulfillment cost rather than as a separate performance obligation.

Accounts receivable

Accounts receivable are presented net of an allowance for doubtful accounts. We maintain an allowance for doubtful accounts for estimated losses. We review our accounts receivable on a periodic basis and make general and specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, we consider many factors, including the age of the balance, customer's historical payment history, customer's current credit-worthiness, and current economic trends. Accounts are written off against the allowance after efforts at collection prove unsuccessful.

Inventory

We value our inventory at the lower of cost, determined on a weighted average basis, or net realizable value. Costs include the cost of raw materials, freight, direct labor, and related production overhead. Net realizable value is estimated using selling price in the normal course of business less any costs to complete and sell products. We review our inventory periodically to determine if any reserves are necessary for potential obsolescence or if the carrying value exceeds net realizable value.

Income taxes

Our subsidiaries in the PRC and Hong Kong are subject to the income tax laws of the PRC and Hong Kong. No taxable income was generated outside the PRC for the fiscal years ended September 30, 2022, 2021, and 2020. We account for income taxes in accordance with ASC 740, Income Taxes. ASC 740 requires an asset and liability approach for financial accounting and reporting for income taxes and allows recognition and measurement of deferred tax assets based upon the likelihood of realization of tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before we are able to realize their benefits, or future deductibility is uncertain.

ASC 740-10-25 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken (or expected to be taken) in a tax return. It also provides guidance on the recognition of income tax assets and liabilities, classification accounting for interest and penalties associated with tax positions, years open for tax examination, accounting for income taxes in interim periods and income tax disclosures. There were no material uncertain tax positions as September 30, 2022. As of September 30, 2022, the tax years ended December 31, 2017, through December 31, 2021 for our PRC subsidiaries remain open for statutory examination by PRC tax authorities.

Recent accounting pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): The amendments in this Update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The amendments broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more timely information in the estimate of expected credit loss, which will be more decision useful to users of the financial statements. This ASU is effective for annual and interim periods beginning after December 15, 2019 for issuers and December 15, 2020 for non-issuers. Early adoption is permitted for all entities for annual periods beginning after December 15, 2018, and interim periods therein. In May 2019, the FASB issued ASU 2019-05, Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief. This update adds optional transition relief for entities to elect the fair value option for certain financial assets previously measured at amortized cost basis to increase comparability of similar financial assets. The updates should be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified retrospective approach). On November 19, 2019, the FASB issued ASU 2019-10 to amend the effective date for ASU 2016-13 to be fiscal years beginning after December 15, 2022 and interim periods therein. We will adopt this ASU within annual reporting period of September 30, 2024 and expect that the adoption will not have a material impact on our consolidated financial statements.

We do not believe other recently issued but not yet effective accounting standards, if currently adopted, would have a material effect on our consolidated financial position, statements of operations, and cash flows.

Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth information regarding our directors and executive officers as of the date of this annual report.

Name	Age	Position(s)
Kangbin Zheng	59	Chief Executive Officer, Chairman of the Board, and Director
Jinwu Huang	49	Chief Financial Officer
Wenhua Liu	54	Director
Phillip Connelly	69	Independent Director
Wenbiao Zhang	55	Independent Director
Jian Chen	53	Independent Director

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The following is a brief biography of each of our executive officers and directors:

Mr. Kangbin Zheng has been our director since April 2020 and our chief executive officer and chairman of the board of directors since June 2020. From August 2014 to July 2020, Mr. Zheng served as the chief executive officer of Beijing Future Ark Consulting Co., Ltd. and managed its strategies and daily operations. From January 2007 to July 2014, Mr. Zheng served as the director for private sector operations in China of the Asian Development Bank. From June 1986 to January 2007, Mr. Zheng worked at the World Bank Group on corporate strategy and resource management, risk management, investment projects, and economic and policy work. From February 2017 to June 2020, Mr. Zheng served as an independent director of Farmmi, Inc., a Nasdaq listed company. Mr. Zheng received his Ph.D. in Economics from Georgetown University in 1992, his master's degree in Business from Wuhan University in 1985, and his bachelor's degree in Mathematics from Hubei University in 1982.

Mr. Jinwu Huang has been our chief financial officer since March 2022 and is responsible for supervising our finance team, reviewing and approving financial and accounting transactions, and financial regulation compliance. Since January 2014, Mr. Huang has served as a financial manager of Greater Khingan Range Forasen Energy Technology Co., Ltd. and Manzhouli Zhongxing Energy Technology Co., Ltd., both of which are wholly owned subsidiaries of the Company. Prior to joining the Company, Mr. Huang served as a financial manager of the Northern Branch of Forasen Co., Ltd. between September 2006 and September 2013 and an accountant of Zhejiang Suichang Mineral Industry and Trade Co., Ltd. between June 2000 and July 2006. Mr. Huang received his associate degree in Accounting from Zhejiang Business College in 1994.

Mr. Wenhua Liu has served as our director since June 2022. Mr. Liu has served as the executive director of CN Energy Industrial Development Co., Ltd., our main operating entity in China, since April 2022. From August 2021 to March 2022, Mr. Liu served as the chief financial officer of Farmmi, Inc. Prior to that, from March 2015 to July 2021, Mr. Liu served as the general manager of the financial department of Forasen Holding Group Co., Ltd., a China-based corporation focusing on agricultural products trade, new energy industries, and investment business. He also served as the chief financial officer at Halumm (China) Co, Ltd., a China-based technology research and development company focusing on total solution services for prefabricated buildings, from October 2010 to February 2015. Mr. Liu served as the chief auditor for Zhejiang Boda Plastic Technology Co., Ltd, a China-based corporation focusing on producing various types of plastic pipes, from August 2009 to September 2010, and served as the chief financial officer for Zhejiang Taizhou Hongda Textile Co., Ltd, a China-based corporation focusing on production and sales of industrial chemical fiber waterproof cloth, luggage cloth, and light textile machinery accessories, from April 2004 to June 2009. From October 1997 to March 2004, Mr. Liu served as the vice president of the subsidiaries of BC Stone Group, a China-based corporation focusing on real estate, finance, new building materials, logistics, and environmental protection. Mr. Liu received a bachelor's degree in Accounting from Hunan University of Finance and Economics in 1995.

Mr. Phillip Connelly has been our independent director since April 2020. Mr. Connelly retired from his position as the executive vice chancellor of Wenzhou-Kean University in March 2018, where he oversaw the complete operations of the university in accordance with the direction established in its strategic plan since July 2008. From September 2002 to June 2008, Mr. Connelly served as the vice-president for administration and finance of Kean University, and was responsible for the operations of the divisions of financial services, computer services, facilities maintenance, campus planning, campus safety, and human resources. Mr. Connelly received his Master of Business Administration degree in Finance from Fordham University in 1985 and his bachelor's degree in Accounting from Rutgers University in 1981.

Mr. Wenbiao Zhang has been our independent director since August 2019. Mr. Zhang is an experienced researcher in the areas of bamboo charcoal and biomass energy, who published over 60 papers on Chinese and international journals, owns 10 patents in the PRC, and has been a committee member of multiple bamboo material related organizations. Mr. Zhang has been a professor and doctoral supervisor of Zhejiang A&F University since July 2002, whose research focuses on the pyrolysis of biomass in bamboo, biochar and its functional composites, and the production of clean energy from biomass. Mr. Zhang has served as an independent director of Jiangshan Oupai Door Co., Ltd., a public company in the PRC since October 2015. Mr. Zhang received his doctoral degree and master's degree in Wooden Materials and Technology from Nanjing Forestry University in 2002 and 1999, respectively, and his bachelor's degree in Wooden Materials and Engineering from Zhejiang A&F University in 1994.

Ms. Jian Chen has been our independent director since June 2020. Ms. Chen has served as the vice president of Kean USA Group Inc. since October 2010. From March 2007 to October 2010, Ms. Chen served as a senior financial manager of Verizon Wireless, Inc. From March 2000 to March 2007, Ms. Chen served as a senior system/business supervisor of Bristol-Myers Squibb. Ms. Chen received her Master of Business Administration degree in Management Information System from Kean University in 1999 and her bachelor's degree in Accounting and Finance from University of Nebraska in 1993.

Board Diversity

The table below provides certain information regarding the diversity of our board of directors as of the date of this annual report.

Board Diversity Matrix				
Country of Principal Executive Offices:	China			
Foreign Private Issuer	Yes			
Disclosure Prohibited under Home Country Law	No			
Total Number of Directors	5			
	Female	Male	Non-Binary	Did Not Disclose Gender
Part I: Gender Identity				
Directors	1	4	0	0
Part II: Demographic Background				
Underrepresented Individual in Home Country Jurisdiction	0			
LGBTQ+	0			
Did Not Disclose Demographic Background	0			

Family Relationships

None of our directors or executive officers has a family relationship as defined in Item 401 of Regulation S-K.

B. Compensation

For the fiscal year ended September 30, 2022, we paid an aggregate of \$254,093 as compensation to our executive officers and directors. None of our non-employee directors have any service contracts with us that provide for benefits upon termination of employment. We have not set aside or accrued any amount to provide pension, retirement, or other similar benefits to our directors and executive officers. Our PRC subsidiaries are required by law to make contributions equal to certain percentages of each employee’s salary for his or her pension insurance, medical insurance, unemployment insurance, and other statutory benefits and a housing provident fund.

C. Board Practices

Pursuant to our third amended and restated articles of association, the minimum number of directors consist of not less than one person unless otherwise determined by the shareholders in a general meeting. Our directors in office immediately prior to the first annual general meeting following the listing of our Class A ordinary shares on the Nasdaq Capital Market will retire at that annual general meeting unless re-elected. After the first annual general meeting following the listing of our ordinary shares, unless removed or re-appointed, each director will be appointed for a term expiring at the next-following annual general meeting, if any is held. At any annual general meeting held, our directors will be elected by a majority vote of shareholders eligible to vote at that meeting. At each annual general meeting, each director so elected shall hold office for a one-year term and until the election of their respective successors in office or removed.

Board of Directors

Our board of directors consists of five directors. We have determined that Wenbiao Zhang, Jian Chen, and Phillip Connelly satisfy the “independence” requirements of the Nasdaq Capital Market corporate governance rules.

Duties of Directors

Under British Virgin Islands law, our directors owe fiduciary duties both at common law and under statute, including a statutory duty to act honestly, in good faith and with a view to our best interests. When exercising powers or performing duties as a director, our directors also have a duty to exercise the care, diligence and skills that a reasonable director would exercise in comparable circumstances, taking into account without limitation the nature of the company, the nature of the decision and the position of the director and the nature

of the responsibilities undertaken by him. In exercising the powers of a director, the directors must exercise their powers for a proper purpose and shall not act or agree to the company acting in a manner that contravenes our third amended and restated memorandum and articles of association or the BVI Act. In fulfilling their duty of care to us, our directors must ensure compliance with our third amended and restated memorandum and articles of association. We have the right to seek damages if a duty owed by our directors is breached.

The functions and powers of our board of directors include, among others:

- appointing officers and determining the term of office of the officers;
- authorizing the payment of donations to religious, charitable, public, or other bodies, clubs, funds, or associations as deemed advisable;
- exercising the borrowing powers of the company and mortgaging the property of the company;
- executing checks, promissory notes, and other negotiable instruments on behalf of the company; and
- maintaining or registering a register of mortgages, charges, or other encumbrances of the company.

Terms of Directors and Executive Officers

Each of our directors generally holds office until a successor has been duly elected and qualified unless the director was appointed by the board of directors, in which case such director holds office until the next following annual meeting of shareholders at which time such director is eligible for re-election. All of our executive officers are appointed by and serve at the discretion of our board of directors.

Qualification

There is currently no shareholding qualification for directors, although a shareholding qualification for directors may be fixed by our shareholders by ordinary resolution.

Employment Agreements with Named Executive Officers

On June 22, 2020 and March 17, 2022, we entered into employment agreements with our executive officers. Pursuant to the employment agreements, we agreed to employ each of our executive officers for a specified time period, which may be renewed upon both parties' agreement 30 days before the end of the current employment term. We may terminate the employment for cause, at any time, without notice or remuneration, for certain acts of the executive officer, including but not limited to the commitments of any serious or persistent breach or non-observance of the terms and conditions of the employment, conviction of a criminal offense, willful disobedience of a lawful and reasonable order, fraud or dishonesty, receipt of bribery, or severe neglect of his or her duties. An executive officer may terminate his or her employment at any time with a one-month prior written notice. Each executive officer has agreed to hold, both during and after the employment agreement expires, in strict confidence and not to use or disclose to any person, corporation or other entity without written consent, any confidential information.

Our employment agreement with Mr. Kangbin Zheng, our chief executive officer and chairman, is for a term of three years beginning on June 22, 2020, with an annual salary of \$180,000.

Our employment agreement with Mr. Jinwu Huang, our chief financial officer, is for a term of three years beginning on March 17, 2022, with an annual salary of RMB200,000 (approximately \$27,599).

Insider Participation Concerning Executive Compensation

Our former director, Ms. Yefang Zhang, was making all determinations regarding executive officer compensation from the inception of our Company until August 2019, when she ceased to be our director. Our former director, Ms. Mei Cai and our director, Mr. Kangbin Zheng, were involved in the determinations regarding executive officer compensation until our Compensation Committee was set up in February 2021.

Committees of the Board of Directors

We have established an audit committee, a compensation committee, and a nominating and corporate governance committee. Our independent directors serve on each of the committees. We have adopted a charter for each of the three committees. Each committee's members and functions are described below.

Audit Committee. Our audit committee consists of our three independent directors, Wenbiao Zhang, Jian Chen, and Phillip Connelly. Ms. Chen is the chairperson of our audit committee. We have determined that each of our independent directors also satisfy the "independence" requirements of Rule 10A-3 under the Securities Exchange Act. Our board also has determined that Mr. Connelly qualifies as an audit committee financial expert within the meaning of the SEC rules or possesses financial sophistication within the meaning of the Nasdaq Capital Market corporate governance rules. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our Company. The audit committee is responsible for, among other things:

- appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;
- reviewing and approving all proposed related party transactions;
- meeting separately and periodically with management and the independent auditors; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Compensation Committee. Our compensation committee consists of our three independent directors, Wenbiao Zhang, Jian Chen, and Phillip Connelly. Mr. Connelly is the chairman of our compensation committee. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving the total compensation package for our most senior executive officers;
- approving and overseeing the total compensation package for our executives other than the most senior executive officers;
- reviewing and recommending to the board with respect to the compensation of our directors;
- reviewing periodically and approving any long-term incentive compensation or equity plans;
- selecting compensation consultants, legal counsel or other advisors after taking into consideration all factors relevant to that person's independence from management; and
- reviewing programs or similar arrangements, annual bonuses, employee pension, and welfare benefit plans.

Nominating and Corporate Governance Committee. Our nominating and corporate governance committee consists of our three independent directors, Wenbiao Zhang, Jian Chen, and Phillip Connelly. Mr. Zhang is the chairperson of our nominating and corporate governance committee. The nominating and corporate governance committee assists the board of directors in selecting individuals

qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- identifying and recommending nominees for election or re-election to our board of directors or for appointment to fill any vacancy;
- reviewing annually with our board of directors its current composition in light of the characteristics of independence, age, skills, experience and availability of service to us;
- identifying and recommending to our board the directors to serve as members of committees;
- advising the board periodically with respect to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to our board of directors on all matters of corporate governance and on any corrective action to be taken; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Code of Business Conduct and Ethics

Our board of directors has adopted a code of business conduct and ethics applicable to all of our directors, officers, and employees. We have made our code of business conduct and ethics publicly available on our website.

D. Employees

See “Item 4. Information on the Company—B. Business Overview—Employees.”

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership, within the meaning of Rule 13d-3 under the Exchange Act, of our ordinary shares as of the date of this annual report for:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5% of our ordinary shares.

Beneficial ownership includes voting or investment power with respect to the securities. Except as indicated below, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all ordinary shares shown as beneficially owned by them. Percentage of beneficial ownership of each listed person is based on 39,396,196 Class A ordinary shares and 3,020,969 Class B ordinary shares outstanding as of the date of this annual report.

Information with respect to beneficial ownership has been furnished by each director, officer, or beneficial owner of 5% or more of our ordinary shares. Beneficial ownership is determined in accordance with the rules of the SEC and generally requires that such person have voting or investment power with respect to securities. In computing the number of ordinary shares beneficially owned by a person listed below and the percentage ownership of such person, ordinary shares underlying options, warrants, or convertible securities held

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by each such person that are exercisable or convertible within 60 days of the date of this annual report are deemed outstanding, but are not deemed outstanding for computing the percentage ownership of any other person.

	Class A Ordinary Shares	Class B Ordinary Shares	Percentage of Beneficial Ownership**	Percentage of Aggregate Voting Power***
	Number	Number	%	%
Directors and Executive Officers⁽¹⁾:				
Kangbin Zheng	—	—	—	—
Jinwu Huang	30,000	—	*	*
Wenhua Liu	—	—	—	—
Phillip Connelly	—	—	—	—
Wenbiao Zhang	—	—	—	—
Jian Chen	—	—	—	—
All directors and executive officers as a group (six individuals):	30,000	—	*	*
5% Shareholders:				
Global Clean Energy Limited ⁽²⁾	—	3,020,969	13.09	79.31
Lishui Yilian Enterprise Management Consulting Co., Ltd. ⁽³⁾	2,764,351	—	7.02	1.45

* Represents beneficial ownership or voting power of less than 1%.

** For each person and group included in this column, percentage of voting power is calculated by dividing the voting power beneficially owned by such person or group by the voting power of all of our outstanding Class A ordinary shares and Class B ordinary shares as a single class.

*** Each holder of our Class A ordinary shares is entitled to one vote per share. Each holder of Class B ordinary shares is entitled to 10 votes per share, and while on all matters submitted to them for a vote. Our Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of our shareholders.

(1) Unless otherwise indicated, the business address of each of the individuals is Building 1-B, Room 303, No. 268 Shiniu Road, Liandu District, Lishui City, Zhejiang Province, the PRC. The business address of Phillip Connelly is 136 Lord Avenue, Bayonne, New Jersey 07002. The business address of Wenbiao Zhang is No.666 Wusu Street, Linan District, Hangzhou City, Zhejiang Province, the PRC. The business address of Jian Chen is 57 Sycamore Lane, Skillman, New Jersey 08558.

(2) Represents 3,020,969 Class B ordinary shares held by Global Clean Energy Limited, a British Virgin Islands company, which is 100% owned by Ms. Yefang Zhang, who has the sole dispositive and investment power over the Class B ordinary shares. The business address of Global Clean Energy Limited is 2/F, Palm Grove House, P.O. Box 3340, Road Town, Tortola, British Virgin Islands

(3) Represents 2,764,351 Class A ordinary shares held by Lishui Yilian Enterprise Management Consulting Co., Ltd., a limited liability company formed under the laws of the People's Republic of China. The business address of Lishui Yilian Enterprise Management Consulting Co., Ltd. is RM210, Floor 11, International Automobile City, No.309 Green Valley Avenue, Liandu District, Lishui City, Zhejiang Province, the PRC.

As of the date of this annual report, approximately 68.67% of our issued and outstanding Class A ordinary shares are held in the United States by one record holder (CEDE & CO), representing 14.21% of the aggregated voting power.

We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our Company.

Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

See “Item 6. Directors, Senior Management and Employees—E. Share Ownership.”

B. Related Party Transactions

Employment Agreements

See “Item 6. Directors, Senior Management and Employees—C. Board Practices—Employment Agreements and Indemnification Agreements.”

Material Transactions with Related Parties

The relationship and the nature of related party transactions are summarized as follow:

Name of Related Party	Relationship to Us	Nature of Transactions
Yefang Zhang	Principal shareholder	Providing a guarantee as an additional security for bank loans
Zhengyu Wang*	Former CEO and the spouse of Ms. Yefang Zhang	Providing a guarantee as an additional security for bank loans
Wenhua Liu	Our director and legal representative of Khingan Forasen	Providing a guarantee as an additional security for bank loans

* Zhengyu Wang ceased to be our chief executive officer, chairman of board of directors, and director on June 22, 2020.

Due from a Related Party

As of September 30, 2022, amount due from Yefang Zhang was \$116,250. The amount was fully repaid by Yefang Zhang in January 2023.

Guarantees Provided by Related Parties

Our related parties provide guarantees for our short-term and long-term bank loans. See “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Loan Facilities.”

C. Interests of Experts and Counsel

Not applicable.

Item 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report. See “Item 18. Financial Statements.”

Legal Proceedings

We are currently not a party to any material legal proceeding. From time to time, however, we may be subject to various claims and legal actions arising in the ordinary course of business.

Dividend Policy

See “Item 3. Key Information—Transfer of Funds and Other Assets Between Our Company and Our Subsidiaries” and “Item 3. Key Information—Dividends or Distributions and Tax Consequences.”

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

Item 9. THE OFFER AND LISTING

A. Offer and Listing Details

Our Class A ordinary shares have been listed on the Nasdaq Capital Market since February 5, 2021 under the symbol “CNEY.”

B. Plan of Distribution

Not applicable.

C. Markets

Our Class A ordinary shares have been listed on the Nasdaq Capital Market since February 5, 2021 under the symbol “CNEY.”

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

We incorporate by reference into this annual report our third amended and restated memorandum and articles of association, which are filed as Exhibit 1.1 to in this annual report, and the description of differences in corporate laws contained in our registration statement on [Form F-1 \(File No. 333-239659\), as amended, initially filed with the SEC on July 2, 2020](#).

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company” or elsewhere in this annual report.

D. Exchange Controls

See “Item 4. Information on the Company—B. Business Overview—Regulations—PRC Regulations Relating to Foreign Exchange” and “Item 4. Information on the Company—B. Business Overview—Regulations—PRC Regulations Relating to Offshore Investments by PRC Residents.”

E. Taxation

People’s Republic of China Taxation

We are a holding company incorporated in the British Virgin Islands and we gain substantial income by way of dividends paid to us from our PRC subsidiaries. The EIT Law and its implementation rules provide that PRC-sourced income of foreign enterprises, such as dividends paid by a PRC subsidiary to its equity holders that are non-resident enterprises, will normally be subject to PRC withholding tax at a rate of 10%, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a preferential tax rate or a tax exemption.

Under the EIT Law, an enterprise established outside of China with a “de facto management body” within China is considered a “resident enterprise,” which means that it is treated in a manner similar to a PRC domestic enterprise for enterprise income tax purposes. Although the implementation rules of the EIT Law define “de facto management body” as a managing body that actually, comprehensively manage and control the production and operation, staff, accounting, property, and other aspects of an enterprise, the only official guidance for this definition currently available is set forth in SAT Circular 82, which provides guidance on the determination of the tax residence status of a PRC-controlled offshore incorporated enterprise, defined as an enterprise that is incorporated under the laws of a foreign country or territory and that has a PRC enterprise or enterprise group as its primary controlling shareholder. Although CN Energy does not have a PRC enterprise or enterprise group as our primary controlling shareholder and is therefore not a PRC-controlled offshore incorporated enterprise within the meaning of SAT Circular 82, in the absence of guidance specifically applicable to us, we have applied the guidance set forth in SAT Circular 82 to evaluate the tax residence status of CN Energy and its subsidiaries organized outside of China.

According to SAT Circular 82, a PRC-controlled offshore incorporated enterprise will be regarded as a PRC tax resident by virtue of having a “de facto management body” in China and will be subject to PRC enterprise income tax on its worldwide income only if all of the following criteria are met: (i) the places where senior management and senior management departments that are responsible for daily production, operation and management of the enterprise perform their duties are mainly located within the territory of China; (ii) financial decisions (such as money borrowing, lending, financing and financial risk management) and personnel decisions (such as appointment, dismissal and salary and wages) are decided or need to be decided by organizations or persons located within the territory of China; (iii) main property, accounting books, corporate seal, the board of directors and files of the minutes of shareholders’ meetings of the enterprise are located or preserved within the territory of China; and (iv) one half (or more) of the directors or senior management staff having the right to vote habitually reside within the territory of China.

We believe that we do not meet some of the conditions outlined in the immediately preceding paragraph. For example, the key assets and records of CN Energy, including the resolutions and meeting minutes of our board of directors and the resolutions and meeting minutes of our shareholders, are located and maintained outside China, same as of Energy Holdings. In addition, we are not aware of any offshore holding companies with a corporate structure similar to ours that has been deemed a PRC “resident enterprise” by the PRC tax authorities. Accordingly, we believe that CN Energy and its offshore subsidiary should not be treated as a “resident enterprise” for PRC tax purposes if the criteria for “de facto management body” as set forth in SAT Circular 82 were deemed applicable to us. As the tax residency status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body” as applicable to our offshore entities, however, we will continue to monitor our tax status.

If the PRC tax authorities determine that CN Energy is a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from any dividends we pay to our shareholders that are non-resident enterprises. In addition, non-resident enterprise shareholders may be subject to a 10% PRC withholding tax on gains realized on the sale or other disposition of our ordinary shares, if such income is treated as sourced from within the PRC. It is unclear whether our non-PRC individual shareholders would be subject to any PRC tax on dividends or gains obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to dividends or gains realized by non-PRC individuals, it would generally apply at a rate of 20% unless a reduced rate is available under an applicable tax treaty. It is also unclear, however, whether our non-PRC

shareholders would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. There is no guidance from the PRC government to indicate whether or not any tax treaties between the PRC and other countries would apply in circumstances where a non-PRC company was deemed to be a PRC tax resident, and thus there is no basis for expecting how tax treaty between the PRC and other countries may impact non-resident enterprises. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in the PRC—Under the EIT Law, we may be classified as a ‘resident enterprise’ of China, which could result in unfavorable tax consequences to us and our non-PRC shareholders.”

Provided that CN Energy is not deemed to be a PRC resident enterprise, holders of our ordinary shares who are not PRC residents will not be subject to PRC income tax on dividends distributed by us or gains realized from the sale or other disposition of our shares. However, under SAT Bulletin 7, where a non-resident enterprise conducts an “indirect transfer” by transferring taxable assets, including, in particular, equity interests in a PRC resident enterprise, indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise, being the transferor, or the transferee or the PRC entity which directly owned such taxable assets may report to the relevant tax authority such indirect transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding, or deferring PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. We and our non-PRC resident investors may be at risk of being required to file a return and being taxed under SAT Bulletin 7, and we may be required to expend valuable resources to comply with SAT Bulletin 7, or to establish that we should not be taxed under this Bulletin. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.”

Hong Kong Taxation

Entities incorporated in Hong Kong are subject to profits tax in Hong Kong at the rate of 16.5% for each of the fiscal years ended September 30, 2022, 2021, and 2020.

British Virgin Islands Taxation

The British Virgin Islands currently levies no taxes on individuals or corporations based upon profits, income, gains, or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the Government of the British Virgin Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the British Virgin Islands. No stamp duty is payable in the British Virgin Islands on the issue of shares by, or any transfers of shares of, British Virgin Islands companies (except those which hold interests in land in the British Virgin Islands). The British Virgin Islands is not party to any double tax treaties that are applicable to any payments made to or by us. There are no exchange control regulations or currency restrictions in the British Virgin Islands.

Payments of dividends and capital in respect of our ordinary shares will not be subject to taxation in the British Virgin Islands and no withholding will be required on the payment of a dividend or capital to any holder of our ordinary shares, as the case may be, nor will gains derived from the disposal of our ordinary shares be subject to British Virgin Islands income or corporation tax.

United States Federal Income Taxation

The following does not address the tax consequences to any particular investor or to persons in special tax situations such as:

- banks;
- financial institutions;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;

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- broker-dealers;
- persons that elect to mark their securities to market;
- U.S. expatriates or former long-term residents of the U.S.;
- governments or agencies or instrumentalities thereof;
- tax-exempt entities;
- persons liable for alternative minimum tax;
- persons holding our ordinary shares as part of a straddle, hedging, conversion or integrated transaction;
- persons that actually or constructively own 10% or more of our voting power or value (including by reason of owning our ordinary shares);
- persons who acquired our ordinary shares pursuant to the exercise of any employee share option or otherwise as compensation;
- persons holding our ordinary shares through partnerships or other pass-through entities;
- beneficiaries of a Trust holding our ordinary shares; or
- persons holding our ordinary shares through a Trust.

The discussion set forth below is addressed only to U.S. Holders (defined below) that purchase our ordinary shares. Prospective purchasers are urged to consult their own tax advisors about the application of the U.S. federal income tax rules to their particular circumstances as well as the state, local, foreign, and other tax consequences to them of the purchase, ownership, and disposition of our ordinary shares.

Material Tax Consequences Applicable to U.S. Holders of Our Ordinary Shares

The following sets forth the material U.S. federal income tax consequences related to the ownership and disposition of our ordinary shares. It is directed to U.S. Holders of our ordinary shares and is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This description does not deal with all possible tax consequences relating to ownership and disposition of our ordinary shares or U.S. tax laws, other than the U.S. federal income tax laws, such as the tax consequences under non-U.S. tax laws, state, local, and other tax laws.

The following brief description applies only to U.S. Holders that hold ordinary shares as capital assets and that have the U.S. dollar as their functional currency. This brief description is based on the federal income tax laws of the United States in effect as of the date of this annual report and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this annual report, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

The brief description below of the U.S. federal income tax consequences to “U.S. Holders” will apply to you if you are a beneficial owner of ordinary shares and you are, for U.S. federal income tax purposes,

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or

- a trust that (1) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons for all substantial decisions or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

Taxation of Dividends and Other Distributions on Our Ordinary Shares

Subject to the PFIC rules discussed below, the gross amount of distributions made by us to you with respect to the ordinary shares (including the amount of any taxes withheld therefrom) will generally be includable in your gross income as dividend income on the date of receipt by you, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). With respect to corporate U.S. Holders, the dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

With respect to non-corporate U.S. Holders, including individual U.S. Holders, dividends will be taxed at the lower capital gains rate applicable to qualified dividend income, provided that (1) the ordinary shares are readily tradable on an established securities market in the United States, or we are eligible for the benefits of an approved qualifying income tax treaty with the United States that includes an exchange of information program, (2) we are not a PFIC for either our taxable year in which the dividend is paid or the preceding taxable year, and (3) certain holding period requirements are met. Because there is no income tax treaty between the United States and the British Virgin Islands, clause (1) above can be satisfied only if the ordinary shares are readily tradable on an established securities market in the United States. Under U.S. Internal Revenue Service authority, ordinary shares are considered for purpose of clause (1) above to be readily tradable on an established securities market in the United States if they are listed on certain exchanges, which presently includes the NYSE and the Nasdaq Stock Market. You are urged to consult your tax advisors regarding the availability of the lower rate for dividends paid with respect to our ordinary shares, including the effects of any change in law after the date of this annual report.

Dividends will constitute foreign source income for foreign tax credit limitation purposes. If the dividends are taxed as qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will be limited to the gross amount of the dividend, multiplied by the reduced rate divided by the highest rate of tax normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to our ordinary shares will constitute “passive category income” but could, in the case of certain U.S. Holders, constitute “general category income.”

To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits (as determined under U.S. federal income tax principles), it will be treated first as a tax-free return of your tax basis in your ordinary shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain. We do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that a distribution will be treated as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

Taxation of Dispositions of Ordinary Shares

Subject to the PFIC rules discussed below, you will recognize taxable gain or loss on any sale, exchange, or other taxable disposition of a share equal to the difference between the amount realized (in U.S. dollars) for the share and your tax basis (in U.S. dollars) in the ordinary shares. The gain or loss will be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, who has held the ordinary shares for more than one year, you will generally be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize will generally be treated as United States source income or loss for foreign tax credit limitation purposes which will generally limit the availability of foreign tax credits.

PFIC

A non-U.S. corporation is considered a PFIC, as defined in Section 1297(a) of the U.S. Internal Revenue Code, for any taxable year if either:

- at least 75% of its gross income for such taxable year is passive income; or

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- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the “asset test”).

Passive income generally includes dividends, interest, rents and royalties (other than rents or royalties derived from the active conduct of a trade or business), and gains from the disposition of passive assets. We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock. In determining the value and composition of our assets for purposes of the PFIC asset test, the value of our assets must be determined based on the market value of our ordinary shares from time to time, which could cause the value of our non-passive assets to be less than 50% of the value of all of our assets on any particular quarterly testing date for purposes of the asset test.

Based on our operations and the composition of our assets we do not expect to be treated as a PFIC under the current PFIC rules. We must make a separate determination each year as to whether we are a PFIC, however, and there can be no assurance with respect to our status as a PFIC for our current taxable year or any future taxable year. Depending on the amount of assets held for the production of passive income, it is possible that, for our current taxable year or for any subsequent taxable year, more than 50% of our assets may be assets held for the production of passive income. We will make this determination following the end of any particular tax year. In addition, because the value of our assets for purposes of the asset test will generally be determined based on the market price of our Class A ordinary shares, our PFIC status will depend in large part on the market price of our Class A ordinary shares. Accordingly, fluctuations in the market price of the Class A ordinary shares may cause us to become a PFIC. In addition, the application of the PFIC rules is subject to uncertainty in several respects and the composition of our income and assets will be affected by how, and how quickly, we spend our liquid assets. We are under no obligation to take steps to reduce the risk of our being classified as a PFIC, and as stated above, the determination of the value of our assets will depend upon material facts (including the market price of our Class A ordinary shares from time to time) that may not be within our control. If we are a PFIC for any year during which you hold ordinary shares, we will continue to be treated as a PFIC for all succeeding years during which you hold ordinary shares. If we cease to be a PFIC and you did not previously make a timely “mark-to-market” election as described below, however, you may avoid some of the adverse effects of the PFIC regime by making a “purging election” (as described below) with respect to the ordinary shares.

If we are a PFIC for your taxable year(s) during which you hold ordinary shares, you will be subject to special tax rules with respect to any “excess distribution” that you receive and any gain you realize from a sale or other disposition (including a pledge) of the ordinary shares, unless you make a “mark-to-market” election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the ordinary shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ordinary shares;
- the amount allocated to your current taxable year, and any amount allocated to any of your taxable year(s) prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and
- the amount allocated to each of your other taxable year(s) will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or “excess distribution” cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the ordinary shares cannot be treated as capital, even if you hold the ordinary shares as capital assets.

A U.S. Holder of “marketable stock” (as defined below) in a PFIC may make a mark-to-market election under Section 1296 of the U.S. Internal Revenue Code for such stock to elect out of the tax treatment discussed above. If you make a mark-to-market election for first taxable year which you hold (or are deemed to hold) ordinary shares and for which we are determined to be a PFIC, you will include in your income each year an amount equal to the excess, if any, of the fair market value of the ordinary shares as of the close of such taxable year over your adjusted basis in such ordinary shares, which excess will be treated as ordinary income and not capital gain. You are allowed an ordinary loss for the excess, if any, of the adjusted basis of the ordinary shares over their fair market value as of the close of the taxable year. Such ordinary loss, however, is allowable only to the extent of any net mark-to-market gains on the ordinary shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ordinary shares, are treated as ordinary income. Ordinary loss treatment also applies to any loss realized on the actual sale or disposition of the ordinary shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ordinary shares. Your basis in the ordinary shares will be adjusted to reflect any such income or loss amounts. If you make a valid mark-to-market election, the tax rules that apply to distributions by corporations which are

not PFICs would apply to distributions by us, except that the lower applicable capital gains rate for qualified dividend income discussed above under “—Taxation of Dividends and Other Distributions on our Ordinary Shares” generally would not apply.

The mark-to-market election is available only for “marketable stock,” which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter (“regularly traded”) on a qualified exchange or other market (as defined in applicable U.S. Treasury regulations), including the Nasdaq Capital Market. If the ordinary shares are regularly traded on the Nasdaq Capital Market and if you are a holder of ordinary shares, the mark-to-market election would be available to you were we to be or become a PFIC.

Alternatively, a U.S. Holder of stock in a PFIC may make a “qualified electing fund” election under Section 1295(b) of the U.S. Internal Revenue Code with respect to such PFIC to elect out of the tax treatment discussed above. A U.S. Holder who makes a valid qualified electing fund election with respect to a PFIC will generally include in gross income for a taxable year such holder’s pro rata share of the corporation’s earnings and profits for the taxable year. The qualified electing fund election, however, is available only if such PFIC provides such U.S. Holder with certain information regarding its earnings and profits as required under applicable U.S. Treasury regulations. We do not currently intend to prepare or provide the information that would enable you to make a qualified electing fund election. If you hold ordinary shares in any taxable year in which we are a PFIC, you will be required to file U.S. Internal Revenue Service Form 8621 in each such year and provide certain annual information regarding such ordinary shares, including regarding distributions received on the ordinary shares and any gain realized on the disposition of the ordinary shares.

If you do not make a timely “mark-to-market” election (as described above), and if we were a PFIC at any time during the period you hold our ordinary shares, then such ordinary shares will continue to be treated as stock of a PFIC with respect to you even if we cease to be a PFIC in a future year, unless you make a “purging election” for the year we cease to be a PFIC. A “purging election” creates a deemed sale of such ordinary shares at their fair market value on the last day of the last year in which we are treated as a PFIC. The gain recognized by the purging election will be subject to the special tax and interest charge rules treating the gain as an excess distribution, as described above. As a result of the purging election, you will have a new basis (equal to the fair market value of the ordinary shares on the last day of the last year in which we are treated as a PFIC) and holding period (which new holding period will begin the day after such last day) in your ordinary shares for tax purposes.

IRC Section 1014(a) provides for a step-up in basis to the fair market value for our ordinary shares when inherited from a decedent that was previously a holder of our ordinary shares. However, if we are determined to be a PFIC and a decedent that was a U.S. Holder did not make either a timely qualified electing fund election for our first taxable year as a PFIC in which the U.S. Holder held (or was deemed to hold) our ordinary shares, or a mark-to-market election and ownership of those ordinary shares are inherited, a special provision in IRC Section 1291(e) provides that the new U.S. Holder’s basis should be reduced by an amount equal to the Section 1014 basis minus the decedent’s adjusted basis just before death. As such if we are determined to be a PFIC at any time prior to a decedent’s passing, the PFIC rules will cause any new U.S. Holder that inherits our ordinary shares from a U.S. Holder to not get a step-up in basis under Section 1014 and instead will receive a carryover basis in those ordinary shares.

You are urged to consult your tax advisors regarding the application of the PFIC rules to your investment in our ordinary shares and the elections discussed above.

Information Reporting and Backup Withholding

Dividend payments with respect to our ordinary shares and proceeds from the sale, exchange, or redemption of our ordinary shares may be subject to information reporting to the U.S. Internal Revenue Service and possible U.S. backup withholding under Section 3406 of the U.S. Internal Revenue Code with at a current flat rate of 24%. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification on U.S. Internal Revenue Service Form W-9 or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide such certification on U.S. Internal Revenue Service Form W-9. U.S. Holders are urged to consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the U.S. Internal Revenue Service and furnishing any required information. We do not intend to withhold taxes for individual shareholders. Transactions effected through certain brokers or other intermediaries, however, may be subject to withholding taxes (including backup withholding), and such brokers or intermediaries may be required by law to withhold such taxes.

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Under the Hiring Incentives to Restore Employment Act of 2010, certain U.S. Holders are required to report information relating to our ordinary shares, subject to certain exceptions (including an exception for ordinary shares held in accounts maintained by certain financial institutions), by attaching a complete Internal Revenue Service Form 8938, Statement of Specified Foreign Financial Assets, with their tax return for each year in which they hold ordinary shares.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F within four months after the end of each fiscal year. The SEC maintains a website at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing, among other things, the furnishing and content of proxy statements to shareholders, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

I. Subsidiary Information

For a listing of our subsidiaries, see “Item 4. Information on the Company—A. History and Development of the Company.”

Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

Our business is conducted in the PRC by our PRC subsidiaries, and our PRC subsidiaries’ books and records are maintained in RMB. The financial statements that we file with the SEC and provide to our shareholders are presented in U.S. dollars. Changes in the exchange rates between the RMB and U.S. dollar affect the value of our PRC subsidiaries’ assets and results of operations, when presented in U.S. dollars.

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC’s political and economic conditions and perceived changes in the economy of the PRC and the United States. Any significant revaluation of the RMB may materially and adversely affect our cash flows, revenue, and financial condition. Further, our ordinary shares offered in the U.S. are offered in U.S. dollars, we need to convert the net proceeds we receive into RMB in order to use the funds for our PRC subsidiaries’ business. Changes in the conversion rate among the U.S. dollar and the RMB will affect the amount of proceeds we will have available for our PRC subsidiaries’ business.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into more hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

Credit Risk

Financial instruments that potentially subject us to significant concentrations of credit risk consist primarily of cash and term deposit. As of September 30, 2022 and 2021, approximately \$18.0 million and \$190,758 of our cash, and nil and \$3,096,000 of our term deposit were maintained with state-owned banks within the PRC, respectively. Per PRC regulations, the maximum insured bank deposit amount

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is approximately \$76,071 (RMB500,000) for each financial institution. While management believes that these financial institutions are of high credit quality, it also continually monitors their credit worthiness.

Accounts receivable are typically unsecured and derived from revenue earned from customers, thereby exposed to credit risk. The risk is mitigated by our assessment of our customers' creditworthiness and our ongoing monitoring of outstanding balances. Other receivables include working capital support provided to major suppliers, which are also typically unsecured. We also make advances to certain suppliers to ensure the stable supply of key raw materials. We perform ongoing credit evaluations of our key suppliers to help reduce credit risk.

Interest Rate Risk

We have not used derivative financial instruments to hedge interest risk. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed, nor do we anticipate being exposed to material risks due to changes in market interest rates. Our future interest income, however, may fall short of expectations due to changes in market interest rates.

Inflation Risk

In recent years, inflation has not had a material impact on our results of operations. According to the National Bureau of Statistics of China, the consumer price index in China increased by 0.9%, 2.5%, and 2.9% in 2022, 2021, and 2020, respectively. Although we have not in the past been materially affected by inflation since our inception, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China. If inflation rises, it may materially and adversely affect our business.

Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Not applicable.

Part II

Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

See “Item 10. Additional Information” for a description of the rights of securities holders, which remain unchanged.

Use of Proceeds

Registration Statement on Form F-1, as amended (File Number 333-239659)

The following “Use of Proceeds” information relates to the registration statement on Form F-1, as amended (File Number 333-239659) for our initial public offering, which was declared effective by the SEC on February 2, 2021. In February 2021, we completed our initial public offering in which we issued and sold an aggregate of 5,750,000 Ordinary Shares, at a price of \$4.00 per share for \$23 million.

The net proceeds raised from the initial public offering were \$20,622,550 after deducting underwriting discounts and the offering expenses payable by us. As of the date of this annual report, we have used \$8,204,400, \$234,245, and \$12,183,905 from the net proceeds for the construction of a manufacturing facility in Manzhouli City, research and development, and funding working capital and other general corporate purposes, respectively.

Registration Statement on Form F-3, as amended (File Number 333-264579)

The following “Use of Proceeds” information relates to the registration statement on Form F-3 (File Number 333-264579), utilizing a shelf registration process, which was declared effective by the SEC on June 13, 2022. In October 2022, we completed a follow-on public offering, in which we issued and sold 10,514,018 Class A ordinary shares, at a purchase price of US\$1.712 per share. We received aggregate proceeds of \$17,975,000, net of offering expenses payable by us. There was no underwriter in this offering.

We incurred approximately \$25,000 in expenses in connection with our follow-on offering, which included approximately \$20,000 in legal fees, and approximately \$5,000 in other expenses. None of the transaction expenses included payments to directors or officers of our company or their associates, persons owning more than 10% or more of our equity securities or our affiliates. None of the net proceeds we received from the follow-on public offering were paid, directly or indirectly, to any of our directors or officers or their associates, persons owning 10% or more of our equity securities or our affiliates.

The net proceeds raised from the follow-on offering were \$17,975,000 after deducting the offering expenses payable by us. As of the date of this annual report, we have used \$17,975,000 from the net proceeds for working capital and other general corporate purposes.

Item 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we carried out an evaluation of the effectiveness of our disclosure controls and procedures, which is defined in Rules 13a-15(e) of the Exchange Act, as of September 30, 2022.

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Based on that evaluation, our management has concluded that, due to the material weaknesses described below, as of September 30, 2022, our disclosure controls and procedures were not effective. Our conclusion is based on the fact that we do not have sufficient in-house personnel in our accounting department with sufficient knowledge of the U.S. GAAP and SEC reporting rules. Our management is currently in the process of evaluating the steps necessary to remediate the ineffectiveness, such as (i) hiring more qualified accounting personnel with relevant U.S. GAAP and SEC reporting experience and qualifications to strengthen the financial reporting function and to set up a financial and system control framework, and (ii) implementing regular and continuous U.S. GAAP accounting and financial reporting training programs for our accounting and financial reporting personnel.

Management’s Annual Report on Internal Control over Financial Reporting

This annual report does not include a report of management’s assessment regarding internal control over financial reporting or an attestation report of our registered public accounting firm due to a transition period established by rules of the SEC for newly public companies.

Attestation Report of the Registered Public Accounting Firm

This annual report on Form 20-F does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC where domestic and foreign registrants that are non-accelerated filers, which we are, and “emerging growth companies,” which we also are, are not required to provide the auditor attestation report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 16. [RESERVED]

Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Mr. Phillip Connelly qualifies as an “audit committee financial expert” as defined in Item 16A of Form 20-F. Mr. Phillip Connelly satisfies the “independence” requirements of Section 5605(a)(2) of the NASDAQ Listing Rules as well as the independence requirements of Rule 10A-3 under the Exchange Act.

Item 16B. CODE OF ETHICS

Our board of directors has adopted a code of business conduct and ethics, which is applicable to all of our directors, officers, and employees. Our code of business conduct and ethics is publicly available on our website.

Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered and billed by Enrome LLP, our independent registered public accounting firm since September 26, 2022, and Friedman LLP, our independent registered public accounting firm before September 26, 2022, for the periods indicated.

Friedman LLP Services	For the Fiscal Years Ended September 30,		
	2022	2021	2020
Audit fees ⁽¹⁾	\$ —	\$ 200,000	\$ 190,000
Audit-Related fees	—	—	—
Tax fees	—	—	—
All other fees ⁽²⁾	—	—	—
Total	<u>\$ —</u>	<u>\$ 200,000</u>	<u>\$ 190,000</u>

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Enrome LLP Services	For the Fiscal Years Ended September 30,		
	2022	2021	2020
Audit fees ⁽¹⁾	\$ 210,000	\$ —	\$ —
Audit-Related fees	—	—	—
Tax fees	—	—	—
All other fees ⁽²⁾	—	—	—
Total	<u>\$ 210,000</u>	<u>\$ —</u>	<u>\$ —</u>

(1) Audit fees include the aggregate fees billed for each of the fiscal years for professional services rendered by our independent registered public accounting firm for the audit of our annual financial statements or for the audits of our financial statements and review of the interim financial statements in connection with our initial public offering in 2021 and our follow-on public offering in 2022.

(2) All other fees include the aggregate fees billed in each of the fiscal years for products and services provided by our independent registered public accounting firm, other than the services reported under audit fees, audit-related fees, and tax fees.

The Audit Committee has adopted a policy requiring that all audit and non-audit services to be performed by Enrome LLP, our independent registered public accounting firm, to be pre-approved, including audit services, audit-related services, tax services, and other services as described above.

Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

Item 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

Item 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

There has been no change in independent accountants for our Company during the two most recent fiscal years or any subsequent interim period except as previously reported in our Form 6-K filed with the SEC on September 26, 2022. There have been no disagreements of the type required to be disclosed by Item 16F(b).

Item 16G. CORPORATE GOVERNANCE

As a company incorporated in the British Virgin Islands with limited liability that is listed on the Nasdaq Capital Market, we are subject to the Nasdaq corporate governance listing standards. Nasdaq rules, however, permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the British Virgin Islands, which is our home country, may differ significantly from the Nasdaq corporate governance listing standards.

Nasdaq Listing Rule 5635 generally provides that shareholder approval is required of U.S. domestic companies listed on Nasdaq prior to issuance (or potential issuance) of securities (i) equaling 20% or more of the company's common stock or voting power for less than the greater of market or book value (ii) resulting in a change of control of the company; and (iii) which is being issued pursuant to a stock option or purchase plan to be established or materially amended or other equity compensation arrangement made or materially amended. Notwithstanding this general requirement, Nasdaq Listing Rule 5615(a)(3)(A) permits foreign private issuers to follow their home country practice rather than these shareholder approval requirements. The British Virgin Islands do not require shareholder approval prior to any of the foregoing types of issuances. We, therefore, are not required to obtain such shareholder approval prior to entering into a transaction with the potential to issue securities as described above. Specifically, we have elected to be exempt from the requirements under (a) Nasdaq Listing Rule 5635 to obtain shareholder approval for (i) the issuance 20% or more of our outstanding ordinary shares or voting power in a private offering, (ii) the issuance of securities pursuant to a stock option or purchase plan to be established or materially amended or other equity compensation arrangement made or materially amended, (iii) the issuance of securities when the issuance or potential issuance will result in a change of control of our Company, and (iv) certain acquisitions in connection with the acquisition of the stock or assets of another company and (b) Nasdaq Listing Rule 5640, which requires that the voting rights of a listed company cannot be disparately reduced or restricted through any corporate action or issuance.

Nasdaq Listing Rule 5605(b)(1) requires listed companies to have, among other things, a majority of its board members be independent. As a foreign private issuer, however, we are permitted to, and we may follow home country practice in lieu of the above requirements. The corporate governance practice in our home country, the British Virgin Islands, does not require a majority of our board to consist of independent directors. Currently, a majority of our board members are independent. However, if we change our board composition such that independent directors do not constitute a majority of our board of directors, our shareholders may be afforded less protection than they would otherwise enjoy under Nasdaq's corporate governance requirements applicable to U.S. domestic issuers. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Ordinary Shares and the Trading Market—Because we are a foreign private issuer and have taken advantage of exemptions from certain Nasdaq corporate governance standards applicable to U.S. issuers, you will have less protection than you would have if we were a domestic issuer."

Other than those described above, there are no significant differences between our corporate governance practices and those followed by U.S. domestic companies under Nasdaq corporate governance listing standards.

Item 16H. MINE SAFETY DISCLOSURE

Not applicable.

Item 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

Part III

Item 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

Item 18. FINANCIAL STATEMENTS

The consolidated financial statements of CN Energy, and its operating entities are included at the end of this annual report.

Item 19. EXHIBITS

EXHIBIT INDEX

Exhibit No.	Description
1.1*	Third Amended and Restated Memorandum and Articles of Association
2.1*	Specimen Certificate for Class A Ordinary Shares
2.2	Form of Underwriter's Warrants (incorporated herein by reference to Exhibit 4.2 to the registration statement on Form F-1 (File No. 333-239659), as amended, initially filed with the Securities and Exchange Commission on July 2, 2020)
2.3	Convertible Promissory Note dated December 30, 2022, by and between the Registrant and Streeterville Capital, LLC (incorporated herein by reference to Exhibit 10.2 to the Form 6-K (File No. 001-39978) filed with the Securities and Exchange Commission on January 3, 2023)
2.4*	Description of Securities
4.1	Form of Employment Agreement by and between executive officers and the Registrant (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form F-1 (File No. 333-239659), as amended, initially filed with the Securities and Exchange Commission on July 2, 2020)
4.2	Form of Indemnification Agreement with the Registrant's directors and officers (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1 (File No. 333-239659), as amended, initially filed with the Securities and Exchange Commission on July 2, 2020)
4.3	English Translation of Form of Supplying Agreement (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1 (File No. 333-239659), as amended, initially filed with the Securities and Exchange Commission on July 2, 2020)
4.4	English Translation of Form of Activated Carbon Sales Agreement (incorporated herein by reference to Exhibit 10.4 to the registration statement on Form F-1 (File No. 333-239659), as amended, initially filed with the Securities and Exchange Commission on July 2, 2020)
4.5	English Translation of Biomass Electricity Sales Agreement dated August 25, 2021, by and between Khingan Forasen and State Grid Heilongjiang (incorporated herein by reference to Exhibit 4.5 to our annual report on Form 20-F (File No. 001-39978), filed with the Securities and Exchange Commission on February 15, 2022)
4.6	English Translation of Lease Agreement dated July 1, 2020, by and between Tahe Biopower Plant and Tahe Forestry Bureau (incorporated herein by reference to Exhibit 10.6 to the registration statement on Form F-1 (File No. 333-239659), as amended, initially filed with the Securities and Exchange Commission on July 2, 2020)
4.7	English Translation of Lease Agreement dated October 8, 2021, by and between Zhejiang New Material and Zhejiang Forasen Energy Technology Co., Ltd. (incorporated herein by reference to Exhibit 4.8 to our annual report on Form 20-F (File No. 001-39978), filed with the Securities and Exchange Commission on February 15, 2022)
4.8	Form of Subscription Agreement (incorporated herein by reference to Exhibit 10.1 to the Form 6-K (File No. 001-39978) filed with the Securities and Exchange Commission on October 3, 2022)
4.9	Equity Transfer Agreement (incorporated herein by reference to Exhibit 1.1 to the Form 6-K (File No. 001-39978) filed with the Securities and Exchange Commission on October 6, 2022)
4.10	Subscription Agreement, by and between the Company and Lishui Yilian Enterprise Management Consulting Co., Ltd. dated April 1, 2022 (incorporated herein by reference to Exhibit 10.1 to the Form 6-K (File No. 001-39978) filed with the Securities and Exchange Commission on April 4, 2022)
4.11*	English Translation of Small Business Loan Agreement dated June 22, 2022, by and between Khingan Forasen and Industrial and Commercial Bank of China Tahe Branch
4.12*	English Translation of Business Express Loan Contract dated June 27, 2022, by and between Khingan Forasen and Industrial and Commercial Bank of China Tahe Branch

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4.13*	English Translation of Loan Agreement dated May 24, 2022, by and between Khingan Forasen and China Zheshang Bank Co., Ltd. Qiantang Branch
4.14*	English Translation of Loan Agreement dated June 1, 2022, by and between Khingan Forasen and China Zheshang Bank Co., Ltd. Qiantang Branch
4.15*	English Translation of Working Capital Loan Agreement dated July 18, 2022, by and between Khingan Forasen and Xiaoshan Rural Commercial Bank Louta Branch
4.16*	English Translation of Lease Agreement dated September 1, 2022, by and between Zhejiang CN Energy and Lishui Yonglian Startup Services Co., Ltd.
4.17*	English Translation of Lease Agreement dated September 1, 2022, by and between CN Energy Development and Lishui Yonglian Startup Services Co., Ltd.
4.18*	English Translation of Lease Agreement dated February 10, 2022, by and between Hangzhou Forasen and Sigma Holdings (Hangzhou) Co., Ltd.
4.19	Securities Purchase Agreement dated December 30, 2022, by and between the Registrant and Streeterville Capital, LLC (incorporated herein by reference to Exhibit 10.1 to the Form 6-K (File No. 001-39978) filed with the Securities and Exchange Commission on January 3, 2023)
8.1*	List of subsidiaries of the Registrant
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated herein by reference to Exhibit 99.1 to the registration statement on Form F-1 (File No. 333-239659), as amended, initially filed with the Securities and Exchange Commission on July 2, 2020)
12.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Yingke Wuxi Law Firm
15.2*	Consent of Enrome LLP
15.3*	Consent of Friedman LLP
101*	The following financial statements from the Company's Annual Report on Form 20-F for the fiscal year ended September 30, 2022, formatted in Inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income and Comprehensive Income (Loss), (iii) Consolidated Statements of Changes in Shareholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements, tagged as blocks of text and including detailed tags
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed with this annual report on Form 20-F

** Furnished with this annual report on Form 20-F

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CN ENERGY GROUP. INC.

By: /s/ Kangbin Zheng
Kangbin Zheng
Chief Executive Officer, Director, and
Chairman of the Board of Directors

Date: January 27, 2023

CN ENERGY GROUP, INC.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Report of Independent Registered Public Accounting Firm

**To the Shareholders and Board of Directors
CN Energy Group, Inc.**

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of CN Energy Group, Inc. and its subsidiaries (collectively, the “Company”) as of September 30, 2022, the related consolidated statements of income and comprehensive income, changes in shareholder’s equity, and cash flows for the year ended September 30, 2022 and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2022, and the results of its operations and its cash flows for the year ended September 30, 2022, in conformity with accounting principles generally accepted in the United States of America (“US GAAP”).

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Emphasis of Matters

Restatement adjustments for changes in share re-designation

The consolidated financial statements of the Company as of September 30, 2021 were audited by other auditor. As described in note 19, the Company adjusted all shares and per share data periods presented for the shares re-designation. We audited the adjustments that were applied to restate the disclosure for share re-designation reflected in the September 30, 2021 consolidated financial statements to retrospectively apply the effects of the share re-designation that occurred subsequent to the year ended September 30, 2021. However, we were not engaged to audit, review, or apply any procedures to the September 30, 2021 consolidated financial statements of the Company other than with respect to such adjustments and, accordingly, we do not express an opinion or any other form of assurance on the September 30, 2021 consolidated financial statements taken as a whole.

/s/ Enrome LLP

We have served as the Company’s auditor since 2022.

Singapore
January 27, 2023

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
CN Energy Group, Inc.

Opinion on the Financial Statements

We have audited, before the effects of the adjustments to retrospectively apply the change in accounting related to the share re-designation as described in Note 19, the accompanying consolidated balance sheet of CN Energy Group, Inc. and its subsidiaries (collectively, the “Company”) as of September 30, 2021, and the related consolidated statements of income and comprehensive income, changes in shareholders’ equity, and cash flows for each of the two years in the period ended September 30, 2021, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, before the effects of share re-designation to restate all shares and per share data for all periods presented as described in Note 19, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2021, and the results of its operations and its cash flows for each of the two years in the period ended September 30, 2021, in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to audit, review or apply any procedures to adjustments to retrospectively apply the change in accounting related to the share re-designation as described in Note 19, accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by other auditors.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Friedman LLP

We have served as the Company’s auditor from 2018 to 2022.

New York, New York
February 15, 2022

**CN ENERGY GROUP. INC.
CONSOLIDATED BALANCE SHEETS**

ASSETS	September 30, 2022	September 30, 2021
Current Assets:		
Cash	\$ 18,046,872	\$ 190,758
Term deposit	—	3,096,000
Accounts receivable	18,764,549	12,375,425
Inventory	784,251	1,116,613
Advances to suppliers, net	18,262,520	10,800,478
Other receivables	—	21,153,506
Prepayment for an acquisition of a subsidiary	17,746,979	—
Due from a related party	116,250	—
Prepaid expenses and other current assets	495,344	155,021
Total current assets	74,216,765	48,887,801
Property, plant and equipment, net	14,538,686	14,285,557
Prepayment for property, plant and equipment	4,224,229	3,781,844
Intangible assets, net	11,913	68,427
Land use right, net	511,177	574,587
Right of use lease assets, net	314,339	97,160
Long-term deposits	1,124,763	1,238,555
Deferred tax assets	—	29,209
Total Assets	\$ 94,941,872	\$ 68,963,140
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Short-term bank loans	\$ 3,711,253	\$ 1,238,400
Long-term bank loans, current	20,009	264,393
Accounts payable	7,487,319	1,776,626
Deferred revenue, current	96,542	111,301
Proceeds from private placement	18,000,000	—
Due to related parties	—	1,426,631
Taxes payable	589,315	243,413
Operating lease liabilities, current	32,899	36,720
Accrued expenses and other current liabilities	524,197	545,632
Total current liabilities	30,461,534	5,643,116
Long-term bank loans, non-current	421,733	22,033
Deferred revenue, non-current	207,352	489,439
Operating lease liabilities, non-current	15,484	32,351
Deferred tax liabilities	53,443	97,249
Total liabilities	31,159,546	6,284,188
Commitments and contingencies		
Shareholders' Equity:		
Class A ordinary share, no par value, unlimited number of shares authorized; 20,062,658 and 16,738,307 shares issued and outstanding as of September 30, 2022 and 2021, respectively	54,278,472	47,965,683
Class B ordinary share, no par value, unlimited number of shares authorized; 3,020,969 and 3,580,969 shares issued and outstanding as of September 30, 2022 and 2021, respectively	4,231,055	5,015,142
Additional paid-in capital	8,865,199	8,865,199
Statutory reserves	524,723	315,808
Retained earnings	2,415,349	394,556
Accumulated other comprehensive (loss) income	(6,532,472)	122,564
Total shareholders' equity	63,782,326	62,678,952
Total Liabilities and Shareholders' Equity	\$ 94,941,872	\$ 68,963,140

The accompanying notes are an integral part of these consolidated financial statements.

CN ENERGY GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)

	For the Fiscal Years Ended September 30,		
	2022	2021	2020
Revenue	\$ 40,205,586	\$ 19,846,921	\$ 12,476,314
Cost of revenue	(36,563,945)	(17,230,306)	(9,117,125)
Gross profit	3,641,641	2,616,615	3,359,189
Operating expenses:			
Selling expenses	(89,312)	(198,443)	(148,137)
General and administrative expenses	(2,060,122)	(1,449,267)	(920,062)
Research and development expenses	(1,032,378)	(385,525)	(287,299)
Total operating expenses	(3,181,812)	(2,033,235)	(1,355,498)
Income from operations	459,829	583,380	2,003,691
Other income (expenses):			
Interest expense	(157,221)	—	(27,691)
Government subsidy income	1,636,491	1,079,348	470,865
Interest income	702,872	191,227	—
Other (expenses) income	(97,990)	(120,246)	68,024
Total other income, net	2,084,152	1,150,329	511,198
Income before income taxes	2,543,981	1,733,709	2,514,889
Provision for income taxes	(314,273)	(437,349)	(170,119)
Net income	2,229,708	1,296,360	2,344,770
Deemed dividend on conversion of Convertible Preferred Shares to Ordinary Shares	—	(975,000)	—
Net income attributable to Shareholders	<u>\$ 2,229,708</u>	<u>\$ 321,360</u>	<u>\$ 2,344,770</u>
Net income	2,229,708	1,296,360	2,344,770
Other comprehensive income:			
Foreign currency translation (loss) gain	(6,655,036)	1,089,346	977,659
Comprehensive (loss) income	<u>\$ (4,425,328)</u>	<u>\$ 2,385,706</u>	<u>\$ 3,322,429</u>
Earnings per share – basic and diluted	<u>\$ 0.10</u>	<u>\$ 0.02</u>	<u>\$ 0.23</u>
Weighted average shares outstanding – basic and diluted	<u>21,659,797</u>	<u>15,197,508</u>	<u>10,000,000</u>

The accompanying notes are an integral part of these consolidated financial statements.

CN ENERGY GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2022, 2021, AND 2020

	Ordinary Shares*				Preferred Shares		Additional Paid-in Capital	Statutory Reserves	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Class A Shares	Class A Amount	Class B Shares	Class B Amount	Shares	Amount					
Balance at September 30, 2019	6,419,031	\$ 8,990,479	3,580,969	\$ 5,015,142	—	—	\$ 7,890,199	—	\$ (1,955,766)	\$ (1,944,441)	\$ 17,995,613
Issuance of convertible preferred shares	—	—	—	—	500,000	1,800,000	—	—	—	—	1,800,000
Net income for the year	—	—	—	—	—	—	—	—	2,344,770	—	2,344,770
Appropriation to statutory reserve	—	—	—	—	—	—	—	129,497	(129,497)	—	—
Foreign currency translation gain	—	—	—	—	—	—	—	—	—	977,659	977,659
Balance at September 30, 2020	6,419,031	\$ 8,990,479	3,580,969	\$ 5,015,142	\$ 500,000	\$ 1,800,000	\$ 7,890,199	\$ 129,497	\$ 259,507	\$ (966,782)	\$ 23,118,042
Issuance of Ordinary Shares, net of offering expenses	5,750,000	20,135,204	—	—	—	—	—	—	—	—	20,135,204
Preferred Shares converted into Ordinary Shares	500,000	1,800,000	—	—	(500,000)	(1,800,000)	—	—	—	—	—
Issuance of Ordinary Shares for private placement, net	4,000,000	17,040,000	—	—	—	—	—	—	—	—	17,040,000
Exercise of warrants	69,276	—	—	—	—	—	—	—	—	—	—
Deemed dividend on conversion of Convertible Preferred Shares to Ordinary Shares	—	—	—	—	—	—	975,000	—	(975,000)	—	—
Net income for the year	—	—	—	—	—	—	—	—	1,296,360	—	1,296,360
Appropriation to statutory reserve	—	—	—	—	—	—	—	186,311	(186,311)	—	—
Foreign currency translation gain	—	—	—	—	—	—	—	—	—	1,089,346	1,089,346
Balance at September 30, 2021	16,738,307	\$ 47,965,683	3,580,969	\$ 5,015,142	—	—	\$ 8,865,199	\$ 315,808	\$ 394,556	\$ 122,564	\$ 62,678,952
Class B Ordinary Shares converted into Class A Ordinary Shares	560,000	784,087	(560,000)	(784,087)	—	—	—	—	—	—	—
Issuance of Ordinary Shares for private placement, net	2,764,351	5,528,702	—	—	—	—	—	—	—	—	5,528,702
Net income for the year	—	—	—	—	—	—	—	—	2,229,708	—	2,229,708
Appropriation to statutory reserve	—	—	—	—	—	—	—	208,915	(208,915)	—	—
Foreign currency translation loss	—	—	—	—	—	—	—	—	—	(6,655,036)	(6,655,036)
Balance at September 30, 2022	<u>20,062,658</u>	<u>\$ 54,278,472</u>	<u>3,020,969</u>	<u>\$ 4,231,055</u>	<u>—</u>	<u>—</u>	<u>\$ 8,865,199</u>	<u>\$ 524,723</u>	<u>\$ 2,415,349</u>	<u>\$ (6,532,472)</u>	<u>\$ 63,782,326</u>

The accompanying notes are an integral part of these consolidated financial statements.

* Retrospectively restated for effect of share re-designation on July 22, 2022 (see Note 20).

CN ENERGY GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Fiscal Years Ended September 30,		
	2022	2021	2020
Cash flows from operating activities:			
Net income	\$ 2,229,708	\$ 1,296,360	\$ 2,344,770
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation expense	1,365,830	1,050,924	916,386
Loss on sale of property, plant and equipment	42	68,155	—
Amortization of operating lease right-of-use assets	106,011	51,972	8,814
Amortization of intangible assets and land use right	65,852	123,205	114,091
Changes in bad debt allowances	497,397	39,953	56,100
Deferred income taxes	(9,033)	83,893	(8,415)
Amortization of deferred revenue	(261,533)	(110,438)	40,105
Changes in operating assets and liabilities:			
Accounts receivable	(8,503,455)	(3,159,543)	(4,216,674)
Inventory	248,675	1,828,011	(231,162)
Advances to suppliers	(9,286,781)	(9,125,201)	250,028
Prepaid expenses and other current assets	(384,367)	(278,122)	(425)
Accounts payable	6,357,128	(3,284,531)	(1,060,649)
Operating lease liabilities	(366,239)	(71,929)	(16,167)
Taxes payable	398,560	(13,627)	87,713
Accrued expenses and other current liabilities	27,586	(92,151)	(103,427)
Net cash used in operating activities	(7,514,619)	(11,593,069)	(1,818,912)
Cash flows from investing activities:			
Other receivables	20,790,311	(20,739,840)	—
Prepayment to acquire a subsidiary	(17,746,979)	—	—
Prepayment for purchase of property, plant and equipment	(1,421,646)	(3,752,528)	—
Purchase of property, plant and equipment	(2,493,448)	(434,834)	(14,693)
Proceeds from sale of property, plant and equipment	—	77,527	—
Purchase of term deposit	—	(3,072,000)	—
Withdrawal of term deposits	3,042,843	—	—
Purchase of intangible assets	—	—	(4,663)
Long-term deposits	—	—	(856,475)
Net cash provided by (used in) investing activities	2,171,081	(27,921,675)	(875,831)
Cash flows from financing activities:			
Deferred offering costs	—	—	(26,929)
Issuance of convertible preferred shares	—	—	1,800,000
Proceeds from the Initial Public Offering	—	23,000,000	—
Direct costs disbursed from Initial Public Offering proceeds	—	(2,377,450)	—
Proceeds from private placement	5,528,702	18,000,000	—
Direct costs disbursed from private placement proceeds	—	(960,000)	—
Proceeds from private placements	18,000,000	—	—
Repayment of related parties loans	(2,000,295)	—	(433,769)
Proceeds from related parties loans	414,814	534,226	—
Repayment of short-term bank loans	(2,922,341)	(1,689,600)	(710,756)
Proceeds from short-term bank loans	5,918,330	1,231,872	1,995,254
Proceeds from long-term bank loan	—	284,206	—
Net cash provided by financing activities	24,939,210	38,023,254	2,623,800
Effect of exchange rate changes on cash	(1,739,558)	112,213	80,643
Net increase (decrease) in cash	17,856,114	(1,379,277)	9,700
Cash, beginning of year	190,758	1,570,035	1,560,335
Cash, end of year	\$ 18,046,872	\$ 190,758	\$ 1,570,035
Supplemental disclosure information:			
Cash paid for income tax	\$ 71,849	\$ 387,595	\$ 93,086
Cash paid for interest	\$ 45,218	\$ 58,703	\$ 27,873
Supplemental non-cash activities:			
Accrued deferred offering costs	—	—	\$ 34,650
Payment of professional fees funded by related party loans	—	—	\$ 351,121
Deferred offering costs funded by a related party through related party loans	—	\$ 487,346	\$ 8,142
Accounts payable related to construction in progress	—	—	\$ 1,729,261
Right of use assets obtained in exchange for operating lease obligations	—	—	\$ 146,684
Deemed dividend on conversion of Convertible Preferred Shares to Ordinary Shares	—	\$ 975,000	—

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 – Organization and nature of business

CN ENERGY GROUP. INC. (“CN Energy”) is a holding company incorporated under the laws of the British Virgin Islands on November 23, 2018. CN Energy, through its subsidiaries (collectively, the “Company”), manufactures and supplies wood-based activated carbon that is primarily used in pharmaceutical manufacturing, industrial manufacturing, water purification, environmental protection, and food and beverage production (“Activated Carbon Production”), and produces biomass electricity generated in the process of producing activated carbon (“Biomass Electricity Production”).

Reorganization

In connection with its initial public offering, the Company undertook a reorganization of its legal structure (the “Reorganization”). The Reorganization involved: (1) the incorporation of CN Energy, a British Virgin Islands holding company; (2) the incorporation of Clean Energy Holdings Limited (“Energy Holdings”), a Hong Kong holding company; (3) the incorporation of Zhejiang CN Energy Technology Development Co., Ltd. (“Zhejiang CN Energy”) and Manzhouli CN Energy Industrial Co., Ltd. (“Manzhouli CN Energy”), two new wholly foreign-owned enterprises (“WFOE”) formed by Energy Holdings under the laws of the People’s Republic of China (“China” or the “PRC”); (4) the incorporation of Manzhouli CN Energy Technology Co., Ltd. (“Manzhouli CN Technology”), a PRC company, of which 90% of the equity interests are owned by Manzhouli CN Energy, and the remaining 10% by Zhejiang CN Energy; (5) the incorporation of CN Energy Industrial Development Co., Ltd. (“CN Energy Development”), a PRC company, of which 70% of the equity interests are owned by Manzhouli CN Technology and the remaining 30% by Zhejiang CN Energy; (6) the acquisition of 100% of the equity interests of Greater Khingan Range Forasen Energy Technology Co., Ltd. (“Khingang Forasen”) by CN Energy Development; and (7) the issuance of 10,000,000 ordinary shares of CN Energy (reflecting an approximate or rounded 71.62-for-1 forward split of the Company’s ordinary shares on April 20, 2020) to the original shareholders of Khingan Forasen. In relation to the Reorganization, a series of agreements were signed among CN Energy, the original shareholders of Khingan Forasen, CN Energy Development, and offshore holding companies controlled by the original shareholders of Khingan Forasen on August 12, 2019 and August 28, 2019. All share amounts and per share amounts have been presented giving effect to the forward split. The Company has retroactively restated all shares and per share data for all the periods presented.

In accordance with Accounting Standards Codification (“ASC”) 805-50-25, the Reorganization has been accounted for as a recapitalization among entities under common control since the same shareholders controlled all these entities prior to the Reorganization. The consolidation of CN Energy and its subsidiaries has been accounted for at historical cost and prepared on the basis as if the aforementioned transactions had become effective as of the beginning of the first period presented in the accompanying consolidated financial statements. Results of operations for the period presented comprise those of the previously separate entities combined from the beginning of the period to the end of the period. By eliminating the effects of intra-entity transactions in determining the results of operations for the period before the Reorganization, those results will be on substantially the same basis as the results of operations for the period after the date of Reorganization.

The effects of intra-entity transactions on current assets, current liabilities, revenue, and cost of sales for periods presented and on retained earnings (accumulated deficit) at the beginning of the periods presented are eliminated to the extent possible. Furthermore, ASC 805-50-45-5 indicates that the financial statements and financial information presented for prior years also shall be retrospectively adjusted to furnish comparative information.

In May and June 2021, the Company conducted another reorganization in order to simplify its corporate structure and make use of supportive government policies. The reorganization consisted of (i) the transfer of 60% of the equity interests in CN Energy Development from Manzhouli CN Technology to Zhejiang CN Energy, (ii) the transfer of 100% of the equity interests in Manzhouli Zhongxing Energy Technology Co., Ltd. (“Zhongxing Energy”) from Khingan Forasen to CN Energy Development, (iii) the transfer of 100% of the equity interests in Hangzhou Forasen Technology Co., Ltd. (“Hangzhou Forasen”) from Khingan Forasen to CN Energy Development, and (iv) the formation of Zhejiang CN Energy New Material Co., Ltd. (“Zhejiang New Material”), a PRC company wholly owned by CN Energy Development.

Note 1 – Organization and nature of business (Continued)

Reorganization (Continued)

CN Energy, the ultimate holding company, currently owns 100% of the equity interests of CN Energy Development, which in turn owns 100% of the equity interests of Khingan Forasen, Hangzhou Forasen, Zhongxing Energy, and Zhejiang New Material.

On March 31, 2022, CN Energy USA Inc. (“CN Energy USA”) was incorporated under the laws of the State of Delaware, the United States of America. CN Energy owns 100% of the equity interests in CN Energy USA.

On April 8, 2022, Zhoushan Xinyue Trading Co., Ltd. (“Zhoushan Xinyue”) was incorporated under the laws of the PRC. Hangzhou Forasen owns 100% of the equity interests in Zhoushan Xinyue.

On April 13, 2022, Ningbo Nadoutong Trading Co., Ltd. (“Ningbo Nadoutong”) was incorporated under the laws of the PRC. CN Energy Development owns 100% of the equity interests in Ningbo Nadoutong.

On October 11, 2022, Zhejiang Yongfeng New Material Technology Co., Ltd. (“Zhejiang Yongfeng”) was incorporated under the laws of the PRC. Hangzhou Forasen owns 100% of the equity interests in Zhejiang Yongfeng.

Upon the completion of the Reorganizations mentioned above, the Company has subsidiaries in countries and jurisdictions including the PRC, Hong Kong, the U.S., and the British Virgin Islands. Details of the subsidiaries of the Company are set out below:

Name of Entity	Date of Incorporation	Place of Incorporation	% of Ownership	Principal Activities
CN Energy	November 23, 2018	British Virgin Islands	Parent	Holding Company
Energy Holdings	August 29, 2013	Hong Kong	100	% Holding Company
Zhejiang CN Energy	January 14, 2019	Zhejiang, China	100	% Holding Company
Manzhouli CN Energy	January 24, 2019	Inner Mongolia, China	100	% Holding Company
Manzhouli CN Technology	June 10, 2019	Inner Mongolia, China	100	% Holding Company
CN Energy Development	April 18, 2019	Zhejiang, China	100	% Holding Company
	March 5, 2009			Produces and distributes activated carbon and biomass electricity
Khingan Forasen		Heilongjiang, China	100	%
Hangzhou Forasen	March 16, 2006	Zhejiang, China	100	% Distributes activated carbon products
	May 21, 2018			Expected to produce activated carbon and steam for heating in the future
Zhongxing Energy		Inner Mongolia, China	100	%
	May 24, 2021			Expected to produce and sell wading activated carbon in the future
Zhejiang New Material		Zhejiang, China	100	%
	March 31, 2022			Investment, consultation and trading, inactive.
CN Energy USA		Delaware, U.S.A.	100	%
Zhoushan Xinyue	April 8, 2022	Zhejiang, China	100	% Trading, inactive.
Ningbo Nadoutong	April 13, 2022	Zhejiang, China	100	% Trading, inactive.
	October 11, 2022			Produces and distributes activated carbon, inactive.
Zhejiang Yongfeng		Zhejiang, China	100	%

Note 1 – Organization and nature of business (Continued)

Initial Public Offering

On February 9, 2021, the Company closed its initial public offering (“IPO”) of 5,000,000 ordinary shares at public offering price of \$4.00 per share. On February 10, 2021, the underwriters exercised their over-allotment option to purchase an additional 750,000 ordinary shares at a price of \$4.00 per share. The net proceeds of the Company’s IPO, including the proceeds from the sale of the over-allotment shares, totaled approximately \$20 million, after deducting underwriting discounts and other related expenses. The Company’s ordinary shares commenced trading under the ticker symbol “CNEY” on February 5, 2021.

Private Placement

From June 8 to June 10, 2021, the Company entered into certain subscription agreements (the “Subscription Agreements”) with six investors (the “Purchasers”). Pursuant to the Subscription Agreements, the Company agreed to sell and the Purchasers agreed to purchase an aggregate of 4,000,000 ordinary shares of the Company at a price of \$4.50 per share (the “Private Placement”). On June 11, 2021, the Company closed the Private Placement and received gross proceeds of \$18 million, before deducting the placement agent’s fees of \$900,000 and other related offering expenses of \$60,000.

Note 2 – Summary of significant accounting policies

Basis of presentation and principles of consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and have been consistently applied.

The consolidated financial statements of the Company reflect the principal activities of CN Energy and its subsidiaries. All significant intercompany balances and transactions are eliminated upon consolidation.

Use of estimates

In preparing the consolidated financial statements in conformity with U.S. GAAP, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the reporting periods. Significant items subject to such estimates and assumptions include, but are not limited to, the valuation of inventory, accounts receivable, advances to suppliers, other receivables, useful lives of property, plant and equipment and intangible assets, the recoverability of long-lived assets, provision necessary for contingent liabilities, revenue recognition, and realization of deferred tax assets. Actual results could differ from those estimates.

Cash and cash equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less and money market accounts to be cash equivalents. The Company maintains all of its bank accounts in the PRC. As of September 30, 2022 and 2021, the Company had no cash equivalents.

Term deposit

Term deposit represents fixed-term deposit of money into an account at a financial institution with maturity over three months. As of September 30, 2022 and 2021, the Company had term deposit of nil and \$3,096,000, respectively. The Company earns interest at a fixed annual rate of 2% with a one-year maturity on this term deposit.

Note 2 – Summary of significant accounting policies (Continued)

Accounts receivable

Accounts receivable are presented net of an allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts for estimated losses. The Company reviews its accounts receivable on a periodic basis and makes general and specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the Company considers many factors, including the age of the balance, customer payment history, customer’s current credit-worthiness, and current economic trends. Accounts are written off against the allowance after efforts at collection prove unsuccessful.

Inventory

The Company values its inventory at the lower of cost, determined on a weighted average basis, or net realizable value. Costs include the cost of raw materials, freight, direct labor, and related production overhead. Net realizable value is estimated using selling price in the normal course of business less any costs to complete and sell products. The Company reviews its inventory periodically to determine if any reserves are necessary for potential obsolescence or if the carrying value exceeds net realizable value. No inventory reserves were recorded as of September 30, 2022 and 2021.

Advances to suppliers

Advances to suppliers consist of balances paid to suppliers for services and materials that have not been provided or received. The Company reviews its advances to suppliers on a periodic basis and makes general and specific allowances when there is doubt as to the ability of a supplier to provide supplies to the Company or refund an advance.

Property, plant, and equipment

Property, plant, and equipment are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use.

Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets. The estimated useful lives for significant property, plant and equipment are as follows:

	<u>Useful life</u>
Property and buildings	20 years
Machinery and equipment	10 years
Vehicles	4 years
Office equipment	3 - 5 years

Expenditures for maintenance and repair, which do not materially extend the useful lives of the assets, are charged to expense as incurred. Expenditures for major renewals and betterments which substantially extend the useful life of assets are capitalized. The cost and related accumulated depreciation of assets retired or sold are removed from the respective accounts, and any gain or loss is recognized in the consolidated statements of income and comprehensive income in income from operations.

Construction-in-progress represents property and buildings under construction and consists of construction expenditures, equipment procurement, and other direct costs attributable to the construction. Construction-in-progress is not depreciated. Upon completion and ready for intended use, construction-in-progress is reclassified to the appropriate category within property, plant, and equipment.

Prepayment for property, plant and equipment represents payment made for production line equipment to be installed in the new production plant in Manzhouli City. Prepayment for property, plant and equipment is not depreciated. Upon readiness for intended use, prepayment for property, plant and equipment is reclassified to the appropriate category within property, plant, and equipment.

Land use right

Land use right is recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful life which is 50 years and represents the shorter of the estimated usage period or the terms of the agreement.

Note 2 – Summary of significant accounting policies (Continued)

Intangible assets

Intangible assets consist primarily of patents and software. Intangible assets are stated at cost less accumulated amortization, which are amortized using the straight-line method with the following estimated useful lives:

	<u>Useful life</u>
Patents	10 years
Software	10 years

Impairment of long-lived assets

The Company reviews long-lived assets, including definitive-lived intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the estimated cash flows from the use of the asset and its eventual disposition are below the asset's carrying value, then the asset is deemed to be impaired and written down to its fair value. There were no impairments of these assets as of September 30, 2022 and 2021.

Leases

The Company accounts for leases following ASC 842, *Leases* ("Topic 842").

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, current portion of obligations under operating leases, and obligations under operating leases, non-current on the Company's consolidated balance sheets.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives and includes initial direct costs incurred. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expenses for minimum lease payments are recognized on a straight-line basis over the lease term. See "Note 17—Leases" for further discussion.

Fair value of financial instruments

The Company applies ASC 820, Fair Value Measurements and Disclosures ("ASC 820"). ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 requires disclosures to be provided on fair value measurement.

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.
- Level 2 - Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.
- Level 3 - Inputs are unobservable inputs which reflect the reporting entity's own assumptions about what assumptions market participants would use in pricing the asset or liability based on the best available information.

Any transfers of assets or liabilities between Level 1, Level 2, and Level 3 of the fair value hierarchy will be recognized at the end of the reporting period in which the transfer occurs. There were no transfers between fair value levels in any of the periods presented herein.

Note 2 – Summary of significant accounting policies (Continued)

Unless otherwise disclosed, the fair value of the Company’s financial instruments including cash, term deposit, accounts receivable, advances to suppliers, other receivables, prepaid expenses and other current assets, short-term bank loans, accounts payable, due to related parties, taxes payable, and accrued expenses and other current liabilities approximate their recorded values due to their short-term maturities. The fair value of long-term bank loan and operating lease liabilities approximate their recorded values as their stated interest rates approximate the rates currently available.

Revenue recognition

The Company accounts for revenue recognition under Accounting Standards Codification 606, *Revenue from Contracts with Customers* (“ASC 606”). Revenue of the Company is mainly from the sale of two types of products, activated carbon and biomass electricity generated in the process of producing activated carbon. For the sale of activated carbon, the Company recognizes revenue when title and risk of loss passes and the customer accepts the products, which occurs at delivery. Product delivery is evidenced by warehouse shipping log as well as signed shipping bills from the shipping company, or by receipt document signed by the customer upon delivery, depending on the delivery term negotiated between the Company and customers on a customer-by-customer basis. For the sale of biomass electricity, revenue is recognized over time as the biomass electricity is delivered, which occurs when the biomass electricity is transmitted from the power plant of the Company to the provincial power grid company. The amount is based on the reading of meters, which occurs on a systematic basis throughout each reporting period and represents the market value of the biomass electricity delivered.

The Company also provides technical services to customers who purchase activated carbon from the Company. The revenue of technical services is recognized on a straight-line basis over the service period as earned.

The transaction price of activated carbon and technical services is determined based on fixed consideration in the Company’s customer contracts. Pursuant to the power purchase agreements entered into between the Company and the respective provincial power grid company, the Company’s sales of biomass electricity were made to the power grid company at the tariff rates agreed with the provincial power grid company as approved by the relevant government authorities in the PRC. In determining the transaction price, no significant financing components exist since the timing from when the Company invoices its customers to when payment is received is less than one year.

Revenue is reported net of all value added taxes. The Company generally does not permit customers to return products and historically, customer returns have been immaterial. In the event the Company receives an advance from a customer, such advance is recorded as a liability to the Company. The Company reduces the liability and recognizes revenue after the delivery of goods occurs.

The core principle underlying ASC 606 is that the Company recognizes revenue to represent the transfer of goods and services to customers in an amount that reflects the consideration to which the Company expects to be entitled in such exchange. This requires the Company to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time, based on when control of goods and services transfers to a customer. The Company’s sales contracts of activated carbon have one single performance obligation as the promise to transfer the individual goods is not separately identifiable from other promises in the contracts and is, therefore, not distinct. Therefore, the sale of activated carbon is recognized at a point in time. The Company’s sales contracts of biomass electricity have a single performance obligation that represents a promise to transfer to the customer a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer. The Company’s performance obligation is satisfied over time as biomass electricity is delivered.

There were no contract assets as of September 30, 2022 and 2021. For the fiscal years ended September 30, 2022, 2021, and 2020, revenue recognized from performance obligations related to prior periods was insignificant. Revenue expected to be recognized in any future periods related to remaining performance obligations is insignificant.

Note 2 – Summary of significant accounting policies (Continued)

Revenue recognition (Continued)

The Company has elected the following practical expedients in applying ASC 606:

- Unsatisfied Performance Obligations – for all performance obligations relate to contracts with a duration of less than one year, the Company has elected to apply the optional exemption provided in ASC 606, and therefore is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.
- Contract Costs - all incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the Company otherwise would have recognized is one year or less in duration.
- Significant Financing Component - the Company does not adjust the promised amount of consideration for the effects of a significant financing component as the Company expects, at contract inception, that the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.
- Sales Tax Exclusion from the Transaction Price - the Company excludes from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the Company from the customer.
- Shipping and Handling Activities - the Company elected to account for shipping and handling activities as a fulfillment cost rather than as a separate performance obligation.

Refer to “Note 18—Segment reporting” for details of revenue disaggregation.

Cost of revenue

Cost of revenue includes cost of raw materials purchased, inbound freight cost, cost of direct labor, depreciation expenses, and other overhead. Write-down of inventory for lower of cost or net realizable value adjustments is also recorded in cost of revenue.

Research and development expenses

Research and development expenses include costs directly attributable to the conduct of research and development projects, including the cost of salaries and other employee benefits. All costs associated with research and development are expensed as incurred.

Shipping and handling

All shipping and handling costs are expensed as incurred and included in selling expenses. Total shipping and handling expenses were \$65,881, \$164,230, and \$107,355 for the fiscal years ended September 30, 2022, 2021, and 2020, respectively.

Note 2 – Summary of significant accounting policies (Continued)

Government subsidy income

The Company receives various government grants from time to time. There is no guarantee that the Company will continue to receive such grants in the future. For the fiscal years ended September 30, 2022, 2021, and 2020, the Company had subsidy income of \$1,636,491, \$1,079,348, and \$470,865, including \$132,212, \$110,439, and \$102,617 for equipment of energy projects grants, \$636,536, \$968,909, and \$368,248 of value-added tax refund, \$760,711, nil, and nil of becoming a public company, and \$107,033, nil, and nil of other miscellaneous grants, respectively.

In January 2014, April 2014, and December 2019, the Company received government subsidies of approximately \$840,000, \$140,000, and \$140,000 for equipment of energy projects, respectively. These subsidies were one-time grants, and the Company recognizes the income over the useful lives of the equipment. As of September 30, 2022 and 2021, the balance of unrecognized government grants was \$303,894 and \$600,740, respectively, which was recorded in deferred revenue. During the fiscal years ended September 30, 2022, 2021, and 2020, \$132,212, \$110,439, and \$102,617 was recorded in government subsidy income, respectively.

Income taxes

The Company's subsidiaries in the PRC, Hong Kong, and the U.S. are subject to the income tax laws of the PRC, Hong Kong, and the U.S. The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*. ASC 740 requires an asset and liability approach for financial accounting and reporting for income taxes and allows recognition and measurement of deferred tax assets based upon the likelihood of realization of tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or future deductibility is uncertain.

ASC 740-10-25 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken (or expected to be taken) in a tax return. It also provides guidance on the recognition of income tax assets and liabilities, classification accounting for interest and penalties associated with tax positions, years open for tax examination, accounting for income taxes in interim periods and income tax disclosures. There were no material uncertain tax positions as of September 30, 2022 and 2021. As of September 30, 2022, the tax years ended December 31, 2017 through December 31, 2021 for the Company's subsidiaries remain open for statutory examination by tax authorities.

Value added tax ("VAT")

Sales revenue represents the invoiced value of goods, net of VAT. The VAT is based on gross sales price and VAT rates range up to 13%, depending on the type of products sold. The VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing or acquiring its finished products. The Company recorded a VAT payable or receivable net of payments in the accompanying consolidated financial statements. All of the VAT returns filed by the Company's subsidiaries in the PRC, have been and remain subject to examination by the tax authorities for five years from the date of filing.

Each local tax authority at times may grant tax holidays to local enterprises as a way to encourage entrepreneurship and stimulate local economy. Khingan Forasen and its branch office, Greater Khingan Range Forasen Energy Technology Co., Ltd. Tahe Biopower Plant ("Biopower Plant"), are entitled to obtained 70% VAT refund as they meet the requirement of national comprehensive utilization of resources program. For the fiscal years ended September 30, 2022, 2021, and 2020, \$636,536, \$968,909, and \$368,248 of VAT refund was recorded in government subsidy income, respectively.

Note 2 – Summary of significant accounting policies (Continued)

Concentrations of credit risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash, term deposit, accounts receivable, advances to suppliers, and other receivables. Most of the Company's cash is maintained with banks within the PRC. Per PRC regulations, the maximum insured bank deposit amount is RMB500,000 (approximately \$76,071) for each financial institution. While management believes that these financial institutions are of high credit quality, it also continually monitors their credit worthiness.

The Company has not experienced any losses in such accounts. A significant portion of the Company's sales are credit sales which are primarily to customers whose ability to pay is dependent upon the industry economics prevailing in these areas. The Company also makes cash advances to certain suppliers to ensure the stable supply of key raw materials. The Company performs ongoing credit evaluations of its customers and key suppliers to help further reduce credit risk.

Comprehensive income

Comprehensive income consists of two components, net income and other comprehensive income (loss). Other comprehensive income (loss) refers to revenue, expenses, gains, and losses that under U.S. GAAP are recorded as an element of shareholders' equity but are excluded from net income. Other comprehensive income (loss) consists of foreign currency translation adjustment from the Company not using U.S. dollar as its functional currency.

Foreign currency translation

The Company's financial information is presented in U.S. dollars. The functional currency of the Company is the Renminbi ("RMB"), the currency of the PRC. Any transactions denominated in currencies other than RMB are translated into RMB at the exchange rate quoted by the People's Bank of China prevailing at the dates of the transactions, and exchange gains and losses are included in the statements of income as foreign currency transaction gain or loss. The consolidated financial statements of the Company have been translated into U.S. dollars in accordance with ASC 830, *Foreign Currency Matters*. The financial information is first prepared in RMB and then translated into U.S. dollars at period-end exchange rates for assets and liabilities and average exchange rates for revenue and expenses. Capital accounts are translated at their historical exchange rates when the capital transactions occurred. The effects of foreign currency translation adjustments are included as a component of accumulated other comprehensive income (loss) in shareholders' equity.

The exchange rates in effect as of September 30, 2022 and 2021, were RMB1 for \$0.1577 and \$0.1548, respectively. The average exchange rates for the fiscal years ended September 30, 2022, 2021, and 2020, were RMB1 for \$0.1570, \$0.1536 and \$0.1427, respectively.

Earnings Per Share

The Company computes earnings per share ("EPS") in accordance with ASC 260, *Earnings per Share*. ASC 260 requires companies with complex capital structures to present basic and diluted EPS. Basic EPS is measured as net income divided by the weighted average ordinary shares outstanding for the period. Diluted EPS is similar to basic EPS but presents the dilutive effect on a per share basis of potential ordinary shares (e.g., convertible securities, options and warrants) as if they had been converted at the beginning of the periods presented, or issuance date, if later. Potential ordinary shares that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS. There is no anti-dilutive effect for the fiscal years ended September 30, 2022, 2021, and 2020.

Statement of cash flows

In accordance with ASC 230, *Statement of Cash Flows*, cash flows from the Company's operations are formulated based upon the local currencies, and then translated at average translation rates for the periods. As a result, amounts related to assets and liabilities reported on the statements of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheets.

Note 2 – Summary of significant accounting policies (Continued)

Risks and uncertainties

The operations of the Company are located in the PRC. Accordingly, the Company’s business, financial condition, and results of operations may be influenced by the political, economic, and legal environments in the PRC, in addition to the general state of the PRC economy. The Company’s results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

The Company’s sales, purchases, and expense transactions are denominated in RMB, and all of the Company’s assets and liabilities are also denominated in RMB. RMB is not freely convertible into foreign currencies under the current law. In the PRC, foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People’s Bank of China, the central bank of the PRC. Remittances in currencies other than RMB may require certain supporting documentation in order to effect the remittance.

The Company does not carry any business interruption insurance, product liability insurance, or any other insurance policy except for a limited property insurance policy. As a result, the Company may incur uninsured losses, increasing the possibility that investors would lose their entire investment in the Company.

All of the Company’s revenue is derived from sales in China. Since late January 2020, the coronavirus (“COVID-19”) was rapidly evolving in China and globally, which led to disruptions in the business and transportation. The Chinese government has ordered quarantines, travel restrictions, and the temporary closure of stores and facilities. Companies are also taking precautions, such as requiring employees to work remotely, imposing travel restrictions, and temporarily closing businesses. During fiscal year 2021, the Company’s production, sales, and construction of the new facility in Manzhouli City were disrupted several times by government regulations in response to the COVID-19 pandemic. In 2022, the repeated COVID-19 outbreaks in China have continued to impact the Company’s production, sales, and construction activities. Due to regulations of the Chinese government in response to the COVID-19 pandemic, the Company had to halt the transportation of raw materials several times, which led to higher costs of raw materials and transportation. The construction of the new facility in Manzhouli City was also disrupted several times. The COVID-19 pandemic may continue to materially adversely affect the Company’s business operations and condition and operating results for fiscal year 2023, including but not limited to a material negative impact on its total revenue, slower collection of accounts receivables, additional allowance for doubtful accounts, disruption to supply chain, and an increase in the cost of raw materials. Because of the significant uncertainties surrounding the COVID-19 pandemic, the Company cannot reasonably estimate the extent of the business disruption and the related financial impact at this time.

Note 2 – Summary of significant accounting policies (Continued)

Recent accounting pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. The amendments in this Update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The amendments broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more timely information in the estimate of expected credit loss, which will be more decision useful to users of the financial statements. This ASU is effective for annual and interim periods beginning after December 15, 2019 for issuers and December 15, 2020 for non-issuers. Early adoption is permitted for all entities for annual periods beginning after December 15, 2018, and interim periods therein. In May 2019, the FASB issued ASU 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief*. This ASU adds optional transition relief for entities to elect the fair value option for certain financial assets previously measured at amortized cost basis to increase comparability of similar financial assets. The ASUs should be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified retrospective approach). On November 19, 2019, the FASB issued ASU 2019-10 to amend the effective date for ASU 2016-13 to be fiscal years beginning after December 15, 2022 and interim periods therein. The Company will adopt this ASU within annual reporting period of September 30, 2024 and expects that the adoption will not have a material impact on the Company’s consolidated financial statements.

The Company does not believe other recently issued but not yet effective accounting standards, if currently adopted, would have a material effect on the Company’s consolidated financial position, statements of operations and cash flows.

Note 3 – Accounts receivable, net

Accounts receivable consisted of the following:

	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Trade accounts receivable	\$ 19,095,539	\$ 12,375,425
Less: allowance for doubtful accounts	(330,990)	—
Accounts receivable, net	<u>\$ 18,764,549</u>	<u>\$ 12,375,425</u>

The Company's accounts receivable primarily include balances due from customers when the Company's activated carbon products and biomass electricity are sold and delivered to customers.

The movement of allowance for doubtful accounts was as follows:

	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Balance at beginning of year	—	—
Addition to allowance for doubtful accounts	358,218	—
Translation adjustments	(27,228)	—
Balance at end of year	<u>\$ 330,990</u>	<u>—</u>

Note 4 – Inventory

Inventory consisted of the following:

	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Raw materials	\$ 536,368	\$ 932,145
Finished goods	247,883	184,468
Total	<u>\$ 784,251</u>	<u>\$ 1,116,613</u>

Note 5 – Advances to suppliers, net

Advances to suppliers represent prepayments made to ensure continuous high-quality supply and favorable purchase prices. Advances to suppliers consisted of the following:

	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Advances for raw materials purchase	\$ 18,524,038	\$ 10,949,095
Less: allowance for doubtful accounts	(261,518)	(148,617)
Advances to suppliers, net	<u>\$ 18,262,520</u>	<u>\$ 10,800,478</u>

The movement of allowance for doubtful accounts was as follows:

	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Balance at beginning of year	\$ 148,617	\$ 102,884
Addition to allowance for doubtful accounts	136,966	90,278
Recovery in allowance for doubtful accounts	—	(50,013)
Translation adjustments	(24,065)	5,468
Balance at end of year	<u>\$ 261,518</u>	<u>\$ 148,617</u>

Note 6 – Other receivables

Other receivables as of September 30, 2021 mainly resulted from the following: (1) in June 2021 and August 2021, to ensure that the Company's procurement needs are prioritized, the Company provided RMB80 million (approximately \$12,384,000) working capital support to two major suppliers for their supply chain projects. The working capital support is for one year and guaranteed by two third parties and collateralized by their property and buildings. In return, the Company earns interest at a fixed annual rate of 7%. Interest income is accrued on a monthly basis and will be collected upon maturity. In January 2022, these two suppliers issued six-month bankers' acceptances in the amount of RMB80 million to the Company; and (2) in fiscal year 2021, the Company made prepayments to three suppliers for raw material purchases. Due to the impact of the COVID-19 pandemic, those three suppliers could not deliver raw materials to the Company as agreed upon. As a result, one of them refunded RMB20 million (approximately \$3,100,000) to the Company in December 2021 and two issued six-month bankers' acceptances in the amount of RMB35 million (approximately \$5,418,000) to the Company in January 2022. The above balances were fully collected in August 2022.

Note 7 – Property, plant, and equipment, net

Property, plant, and equipment, stated at cost less accumulated depreciation, consisted of the following:

	September 30, 2022	September 30, 2021
Property and buildings	\$ 7,139,369	\$ 7,828,294
Machinery and equipment	9,217,130	7,793,640
Office equipment	101,878	119,107
Vehicles	227,030	132,173
Subtotal	16,685,407	15,873,214
Construction in progress	5,294,970	5,253,930
Less: accumulated depreciation	(7,441,691)	(6,841,587)
Property, plant, and equipment, net	<u>\$ 14,538,686</u>	<u>\$ 14,285,557</u>

Depreciation expense was \$1,365,830, \$1,050,924 and \$916,386 for the fiscal years ended September 30, 2022, 2021, and 2020, respectively.

Note 8 – Prepayment for property, plant and equipment

As of September 30, 2022, the Company had prepayment in the amount of \$4,224,229 for the production line equipment to be installed in the new production plant in Manzhouli City. Since the groundwork of the factory workshop was delayed by the local government's shelter-in-place orders due to the COVID-19 pandemic, the equipment was not delivered as of September 30, 2022. The construction is expected to be completed by December 2023 and the equipment is expected to be delivered by December 2023. As of September 30, 2022, the Company had contractual obligations of approximately \$0.2 million, which are expected to be paid over the next 12 months upon the delivery and installation of the equipment. In addition, contractual obligations of groundwork of the factory workshop as of September 30, 2022 were approximately \$0.2 million, which are expected to be paid in fiscal year 2024, upon the completion of the construction of the factory workshop.

The Company purchased land use right at the cost of RMB3.7 million (\$0.6 million) on November 16, 2018. The acreage is 279,862 square feet. The period of use is from November 16, 2018 to November 16, 2068. The Company intends to build an activated carbon production base on the land.

Note 8 – Prepayment for property, plant and equipment (Continued)

Land use right, net, consisted of the following:

	September 30, 2022	September 30, 2021
Land use right	\$ 554,122	\$ 610,182
Less: accumulated amortization	(42,945)	(35,595)
Land use right, net	<u>\$ 511,177</u>	<u>\$ 574,587</u>

Amortization expense was \$11,493, \$12,109, and \$11,251 for the fiscal years ended September 30, 2022, 2021, and 2020, respectively.

Estimated future amortization expense is as follows:

	Amortization expense
Fiscal 2023	\$ 9,235
Fiscal 2024	9,235
Fiscal 2025	9,235
Fiscal 2026	9,235
Fiscal 2027	9,235
Thereafter	465,002
Total	<u>\$ 511,177</u>

Note 9 – Intangible assets, net

Intangible assets, net consisted of the following:

	September 30, 2022	September 30, 2021
Software	\$ 14,409	\$ 15,867
Purchased patents	1,002,360	1,103,768
Subtotal	1,016,769	1,119,635
Less: accumulated amortization	(1,004,856)	(1,051,208)
Intangible assets, net	<u>\$ 11,913</u>	<u>\$ 68,427</u>

Amortization expense was \$54,359, \$111,096, and \$102,840 for the fiscal years ended September 30, 2022, 2021, and 2020, respectively.

Estimated future amortization expense is as follows:

	Amortization expense
Fiscal 2023	\$ 8,774
Fiscal 2024	459
Fiscal 2025	459
Fiscal 2026	459
Fiscal 2027	459
Thereafter	1,303
Total	<u>\$ 11,913</u>

Note 10 – Long-term deposits

Long-term deposits consisted of the following:

	September 30, 2022	September 30, 2021
Construction deposit (a)	\$ 843,607	\$ 928,955
Deposit for acquisition of land use rights (b)	281,156	309,600
Long-term deposits	\$ 1,124,763	\$ 1,238,555

- (a) On June 25, 2020, the Company entered into a construction agreement with a third party, Manzhouli Lancheng Project Management Co., Ltd., for the first stage of construction of the Company's new facility in Manzhouli City, China. Pursuant to the agreement, the Company made a payment of RMB6 million (equivalent to \$0.8 million as of September 30, 2022) as security deposit. The deposit is interest-free and is refundable upon the completion of the project.
- (b) The Company paid a deposit of RMB2 million (equivalent to \$0.3 million as of September 30, 2022) to the Finance Bureau designated by the Tahe County Land and Resources Bureau, to bid for the acquisition of the land use rights for the land which the Company leases from Tahe County and where Biopower Plant is currently located. The deposit is interest-free and refundable if the Company decides not to purchase the land use rights when the lease expires.

Note 11 – Short-term and long-term bank loans

	September 30, 2022	September 30, 2021
Short-term bank loans		
Industrial and Commercial Bank of China (Tahe Branch)	\$ 1,757,223	\$ 1,238,400
China Zheshang Bank Co., Ltd.	1,251,142	—
Bank of Beijing (Yangzhou Branch)	702,888	—
Total short-term bank loans	\$ 3,711,253	\$ 1,238,400
Long-term bank loans		
Long-term bank loans, current portion		
WeBank Co., Ltd.	\$ 20,009	\$ 264,393
Long-term bank loans, non-current portion		
Xiaoshan Rural Commercial Bank	421,733	—
WeBank Co., Ltd.	—	22,033
Total long-term loans	\$ 441,742	\$ 286,426
Total short-term and long-term loans	\$ 4,152,995	\$ 1,524,826

The following table summarizing the loan commencement date, loan maturity date, loan amount in RMB and its equivalent to the United States dollar, and the effective interest rate of each secured and unsecured short-term and long-term bank loan:

Note 11 – Short-term and long-term bank loans (Continued)

For the fiscal year ended September 30, 2022	Loan commencement date	Loan maturity date	Loan amount in RMB	Loan amount in USD	Effective interest rate	Note
Secured short-term bank loans						
Industrial and Commercial Bank of China (Tahe Branch)	May 25, 2022	May 25, 2023	4,500,000	\$ 632,600	3.80 %	1
Industrial and Commercial Bank of China (Tahe Branch)	June 24, 2022	June 24, 2023	5,000,000	702,889	4.35 %	2
China Zheshang Bank Co., Ltd.	May 25, 2022	May 23, 2023	4,000,000	562,311	5.5 %	3
China Zheshang Bank Co., Ltd.	June 1, 2022	May 31, 2023	4,900,000	688,831	5.5 %	4
Bank of Beijing (Yangzhou Branch)	December 21, 2021	December 20, 2022	5,000,000	702,888	4.75 %	5
Total secured short-term bank loans			<u>23,400,000</u>	<u>\$ 3,289,519</u>		
Unsecured short-term bank loans						
Industrial and Commercial Bank of China (Tahe Branch)	December 14, 2021	December 9, 2022	1,500,000	\$ 210,867	3.85 %	
Industrial and Commercial Bank of China (Tahe Branch)	December 15, 2021	December 10, 2022	1,500,000	210,867	3.85 %	
Total unsecured short-term bank loans			<u>3,000,000</u>	<u>\$ 421,734</u>		
Total short-term bank loans			<u>26,400,000</u>	<u>\$ 3,711,253</u>		
Secured long-term bank loans						
Long-term bank loan, current portion						
WeBank Co., Ltd.	October 9, 2020	October 9, 2022	142,331	\$ 20,009	10.26 %	6
Long-term bank loan, non-current portion						
Xiaoshan Rural Commercial Bank	July 19, 2022	July 17, 2025	3,000,000	421,733	6.31 %	7
Total long-term bank loans			<u>3,142,331</u>	<u>\$ 441,742</u>		
Total short-term and long-term bank loans			<u>29,542,331</u>	<u>\$ 4,152,995</u>		
For the fiscal year ended September 30, 2021						
Secured short-term bank loans						
Industrial and Commercial Bank of China (Tahe Branch)	June 24, 2021	June 24, 2022	5,000,000	\$ 774,000	4.35 %	2
Unsecured short-term bank loans						
Industrial and Commercial Bank of China (Tahe Branch)	June 21, 2021	June 12, 2022	1,500,000	232,200	4.65 %	
Industrial and Commercial Bank of China (Tahe Branch)	June 21, 2021	June 13, 2022	1,500,000	232,200	4.65 %	
Total short-term bank loans			<u>8,000,000</u>	<u>\$ 1,238,400</u>		
Secured long-term bank loans						
WeBank Co., Ltd.	October 9, 2020	October 9, 2022	573,144	\$ 88,722	10.26 %	6
WeBank Co., Ltd.	October 9, 2020	October 9, 2022	573,144	88,722	10.26 %	6
WeBank Co., Ltd.	October 9, 2020	October 9, 2022	561,679	86,949	10.26 %	6
Long-term bank loans current portion			1,707,967	264,393		
Long-term bank loans non-current portion			142,328	22,033		
Total long-term bank loans			<u>1,850,295</u>	<u>\$ 286,426</u>		

Note 11 – Short-term and long-term bank loans (Continued)

- (1) The loan is guaranteed by a third party, Heilongjiang Xinzheng Financing Guarantee Group Co., Ltd., for up to 80% of the outstanding principal and normal interest balance.
- (2) The loan is guaranteed by a third party, Heilongjiang Xinzheng Financing Guarantee Group Co., Ltd., for up to 80% of the outstanding principal and normal interest balance, personal guaranteed by Mr. Wenhua Liu, who is a legal representative of Khingan Forasen and a director of the Company, and is collateralized by the property, plant and equipment of Khingan Forasen, with a net book value of RMB2.1 million (equivalent to approximately \$0.3 million as of September 30, 2022).
- (3) The loan is collateralized by a property owned by a third party, Sigma Holdings (Hangzhou) Co., Ltd, which has a valuation of RMB5.35 million (equivalent to approximately \$752,091), is guaranteed by, Ms. Yefang Zhang, a principal shareholder, and by a subsidiary of the Company, CN Energy Development.
- (4) This loan is guaranteed by, Ms. Yefang Zhang, a principal shareholder, and by a subsidiary of the Company, CN Energy Development.
- (5) The loan is guaranteed by a third party, Yangzhou High Tech Financing Guarantee Co., Ltd, Ms. Yefang Zhang, principal shareholder, and Mr. Zhengyu Wang, former CEO and spouse of principal shareholder, for up to 100% of the outstanding principal and normal interest balance.
- (6) This line of credit agreement with WeBank Co., Ltd is unconditionally guaranteed by the legal representative of Hangzhou Forasen for a maximum amount of RMB5 million (equivalent to approximately \$703,000 as of September 30, 2022).
- (7) The loan is guaranteed by a subsidiary of the Company, CN Energy Development.

Note 12 – Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consisted of the following:

	September 30, 2022	September 30, 2021
Payroll payable	\$ 291,616	\$ 444,453
Accrued expenses	232,581	101,179
Accrued expenses and other current liabilities	<u>\$ 524,197</u>	<u>\$ 545,632</u>

Note 13 – Related party transactions

The relationship and the nature of related party transactions are summarized as follow:

Name of Related Party	Relationship to the Company	Nature of Transactions
Yefang Zhang	Principal shareholder	Providing a guarantee as an additional security for bank loans and providing working capital loan to the Company
Zhengyu Wang	Former CEO, spouse of Ms. Yefang Zhang	Providing a guarantee as an additional security for bank loans
Hangzhou Nongyuan Network Technology Co., Ltd.	Owned by Yefang Zhang’s daughter	Lease of office space to the Company
Wenhua Liu	Legal representative of Khingan Forasen and a director of the Company	Providing a guarantee as an additional security for bank loans

Note 13 – Related party transactions (Continued)

Due from a related party

As of September 30, 2022 and 2021, amount due from Yefang Zhang was \$116,250 and nil, respectively. The amount was fully repaid by Yefang Zhang in January 2023.

Due to a related party

As of September 30, 2022 and 2021, the Company owed Yefang Zhang nil and \$1,426,631, respectively. The balance of due to related parties is interest-free, unsecured, and due upon demand.

Operating lease from a related party

On August 5, 2020, Hangzhou Forasen entered into a lease agreement with Hangzhou Nongyuan Network Technology Co., Ltd., a PRC company wholly owned by Yefang Zhang's daughter, to lease approximately 1,006 square feet of office space in Hangzhou. The lease term was for two years with annual rent of RMB283,258 (equivalent of \$43,095). The lease was terminated on February 15, 2022.

Guarantees provided by related parties

The Company's related parties provide guarantees for the Company's short-term and long-term bank loans (see Note 11).

Note 14 – Taxes

Corporation Income Tax

The Company is subject to income taxes on an entity basis on income derived from the location in which each entity is domiciled.

CN Energy is incorporated in the British Virgin Islands as an offshore holding company and is not subject to tax on income or capital gain under the laws of the British Virgin Islands.

Energy Holdings is incorporated in Hong Kong as a holding company with no activities. Under the Hong Kong tax laws, an entity is not subject to income tax if no revenue is generated in Hong Kong.

Under the Enterprise Income Tax ("EIT") Law of the PRC, domestic enterprises and Foreign Investment Enterprises (the "FIE") are usually subject to a unified 25% EIT rate while preferential tax rates, tax holidays, and even tax exemption may be granted on case-by-case basis. The PRC tax authorities grant preferential tax treatment to High and New Technology Enterprises ("HNTEs"). Under this preferential tax treatment, HNTEs are entitled to an income tax rate of 15%, subject to a requirement that they re-apply for HNTE status every three years. Since Khingan Forasen was approved as an HNTE in November 2016, Khingan Forasen and its branch office, Biopower Plant, are entitled to a reduced income tax rate of 15% beginning November 2016. On December 16, 2021, Khingan Forasen successfully renewed its HNTE certificate and is able to enjoy the reduced income tax rate in the next three years. In addition, according to the national comprehensive utilization of resources program, 10% of the revenue generated from selling certain products is exempt from income tax, upon approval by the tax authority. In fiscal year 2021, the local tax authority notified the Company that its revenue generated from activated carbon did not qualify for the tax exemption from 2018 to 2020 because activated carbon was not included in the program, and the Company paid approximately \$135,000 income tax as assessed by the tax authority (see the prior year true-up below). Starting January 1, 2021, activated carbon has been included in the program, and the Company expects to be able to enjoy the income tax exemption going forward.

Note 14 – Taxes (Continued)

The impact of the reduced tax rate noted above decreased the Company's income taxes by \$230,332, \$245,816, and \$294,516 for the fiscal years ended September 30, 2022, 2021, and 2020, respectively. The benefits of the reduced tax rate and tax exemption on net income per share (basic and diluted) were \$0.01, \$0.02, and \$0.03 for the fiscal years ended September 30, 2022, 2021, and 2020, respectively.

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The following table reconciles the statutory rate to the Company’s effective tax rate:

	For the fiscal years ended September 30,		
	2022	2021	2020
China Statutory income tax rate	25.0 %	25.0 %	25.0 %
Effect of PRC preferential tax rate and tax exemption	(8.8)%	(14.2)%	(11.7)%
Research and development (“R&D”) tax credit	(4.4)%	(3.0)%	(1.3)%
Effect of non-taxable government subsidy income	(3.4)%	(1.0)%	(0.6)%
Non-PRC entities not subject to PRC tax	2.1 %	8.7 %	2.2 %
Change in valuation allowance	(0.3)%	0.9 %	(6.2)%
Prior year true-up	0.0 %	7.8 %	—
Others	2.5 %	1.0 %	(0.6)%
Effective tax rate	12.8 %	25.2 %	6.8 %

The provision for income tax consisted of the following:

	For the fiscal years ended September 30,		
	2022	2021	2020
Current income tax provision	\$ 323,306	\$ 353,456	\$ 178,534
Deferred income tax provision	(9,033)	83,893	(8,415)
Income tax provision	\$ 314,273	\$ 437,349	\$ 170,119

Deferred tax liabilities and assets attributable to different tax jurisdictions are not offset. Components of deferred tax assets and liabilities were as follows:

	September 30,	September 30,
	2022	2021
Deferred tax assets:		
Net operating loss carryforwards	\$ 60,387	\$ 287,186
Allowance for doubtful accounts	—	29,209
Valuation allowance on net operating loss	(60,387)	(287,186)
Total	\$ 0	\$ 29,209
Deferred tax liabilities:		
Accelerated depreciation of equipment	\$ 53,443	\$ 97,249
Total	\$ 53,443	\$ 97,249

The Company’s PRC subsidiaries had cumulative net operating loss of approximately \$241,548 and \$1,799,000 as of September 30, 2022 and 2021, respectively, which may be available for reducing future taxable income.

Note 14 – Taxes (Continued)

As of each reporting date, management considers evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets. On the basis of this evaluation, valuation allowance of \$60,387 and \$287,186 was recorded against the gross deferred tax asset balance at September 30, 2022 and 2021, respectively. The amount of the deferred tax asset is considered unrealizable because it is more likely than not that the Company will not generate sufficient future taxable income to utilize this portion of the net operating loss. The net change in valuation allowance for the fiscal years ended September 30, 2022, 2021, and 2020 was a decrease of \$226,799, an increase of \$29,336 and a decrease of \$137,642, respectively.

Note 15 – Concentration of major customers and suppliers

For the fiscal year ended September 30, 2022, one major customer accounted for 58% of the Company's total sales. For the fiscal year ended September 30, 2021, three major customers accounted for approximately 44%, 33%, and 11% of the Company's total sales, respectively. For the fiscal year ended September 30, 2020, three major customers accounted for approximately 36%, 26%, and 20% of the Company's total sales, respectively. Any decrease in sales to these major customers may negatively impact the Company's operations and cash flows if the Company fails to increase its sales to other customers.

As of September 30, 2022, three major customers accounted for 42%, 20%, and 18% of the Company's accounts receivable balance, respectively. As of September 30, 2021, three major customers accounted for approximately 46%, 31%, and 20% of the Company's accounts receivable balance, respectively.

For the fiscal year ended September 30, 2022, two major suppliers accounted for 35% and 14% of the total purchases, respectively. For the fiscal year ended September 30, 2021, three major suppliers accounted for approximately 26%, 25% and 16% of the total purchases, respectively. For the fiscal year ended September 30, 2020, three major suppliers accounted for approximately 29%, 17% and 10% of the total purchases, respectively.

As of September 30, 2022, four suppliers accounted for 27%, 18%, 17%, and 10% of the Company's advance to suppliers balance, respectively. As of September 30, 2021, four suppliers accounted for approximately 40%, 15%, 15%, and 15% of the Company's advance to suppliers balance, respectively.

Note 16 – Leases

On July 1, 2020, Biopower Plant entered into a lease agreement with Tahe Forestry Bureau (the "Landlord") to lease the manufacturing facility. The lease period is from July 1, 2020 to March 31, 2025, and the annual rent is RMB126,440 (approximately \$19,295). According to the lease agreement, Biopower Plant can only use the land and factory buildings for the operations of Biopower Plant and cannot transfer the lease to a third person without the prior consent of the Landlord; otherwise, the lease agreement shall be terminated. Biopower Plant is required to notify the Landlord at least two months in advance of the lease expiration date to renew the lease agreement.

On October 8, 2021, Zhejiang New Material entered into a lease agreement with Hangzhou Forasen Energy Technology Co., Ltd., a PRC company controlled by Mr. Zhengyu Wang, spouse of Ms. Yefang Zhang, to lease approximately 27,147 square feet of office space in Hangzhou. The lease term is for five years with annual rent of RMB454,043 (equivalent of \$71,624). The Company prepaid total rent of RMB2,270,214 (equivalent of \$358,120) upon the starting date of the lease period.

On February 15, 2022, Hangzhou Forasen entered into a lease agreement with a third party to lease approximately 1,012 square feet of office space in Hangzhou. The lease term is for one and a half years with annual rent of RMB283,258 (equivalent of \$44,683).

As of September 30, 2022 and 2021, the remaining average lease term was an average of 1.9 years and 2.6 years, respectively. The Company's lease agreements do not provide a readily determinable implicit rate nor is it available to the Company from its lessors. Instead, the Company estimates its incremental borrowing rate based on actual incremental borrowing interest rates from financial institutions in order to discount lease payments to present value. The weighted average discount rate of the Company's operating leases was 4.7% per annum and 6.5% per annum, as of September 30, 2022 and 2021, respectively.

Note 15 – Concentration of major customers and suppliers (Continued)

Supplemental balance sheet information related to operating leases from the Company's continuing operations was as follows:

	September 30, 2022	September 30, 2021
Right-of-use assets under operating leases	\$ 314,339	\$ 97,160
Operating lease liabilities, current	32,899	36,720
Operating lease liabilities, non-current	15,484	32,351
Total operating lease liabilities	<u>\$ 48,383</u>	<u>\$ 69,071</u>

	As of September 30, 2022
Fiscal 2023	\$ 34,193
Fiscal 2024	16,928
Total Future minimum lease payments	51,121
Less: Imputed interest	(2,738)
Total	<u>\$ 48,383</u>

Note 17 – Commitments and contingencies

The requirement of employee benefit plans has not been implemented consistently by the local governments in China given the different levels of economic development in different locations. Biopower Plant has not paid adequate social insurance for all its employees, and the Company’s PRC subsidiaries have not made adequate housing provident fund payments for all their employees. The relevant PRC authorities may order the Company to make up the contributions to these plans. In addition, failure to make adequate social insurance payments on time may subject the Company to 0.05% late fees per day, starting from the date of underpayment, and fines equal to one to three times the underpaid amount. For failure to make adequate housing provident fund payments as required, the Company may be fined RMB10,000 to RMB50,000. If the Company is subject to late fees or fines in relation to underpaid employee benefits, the financial condition and results of operations may be adversely affected. However, the risk of regulatory penalty that the relevant authorities may impose on the Company’s PRC subsidiaries in relation to its failure to make adequate contributions to the employee benefit plans for all the Company’s employees as required is remote, because the relevant local authorities confirmed in writing that no records of violation were found on the Company’s PRC subsidiaries for social insurance plan and/or housing provident fund contributions.

Note 18 – Segment reporting

ASC 280, *Segment Reporting*, establishes standards for reporting information about operating segments on a basis consistent with the Company’s internal organizational structure as well as information about geographical areas, business segments, and major customers in financial statements for details on the Company’s business segments. The Company uses the “management approach” in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company’s chief operating decision maker for making operating decisions and assessing performance as the source for determining the Company’s reportable segments. The Company’s chief operating decision maker makes operating decisions and assesses performance solely based on activated carbon sales orders received. In addition, the production of activated carbon and the biomass electricity are one integrated process and inseparable. Therefore, the Company has determined that it has only one operating segment and therefore one reportable segment as defined by ASC.

Note 18 – Segment reporting (Continued)

The following table presents revenue by major product categories for the fiscal years ended September 30, 2022, 2021, and 2020, respectively:

	For the fiscal years ended September 30,		
	2022	2021	2020
Activated carbon	\$ 39,925,693	\$ 19,573,266	\$ 12,099,457
Biomass electricity	150,716	143,240	255,678
Technical service	129,177	130,415	121,179
Total	<u>\$ 40,205,586</u>	<u>\$ 19,846,921</u>	<u>\$ 12,476,314</u>

All of the Company’s long-lived assets are located in the PRC. All of the Company’s products are sold in the PRC.

Note 19 – Shareholders’ equity

Ordinary shares

CN Energy is a holding company established under the laws of the British Virgin Islands on November 23, 2018. The original authorized and issued number of ordinary shares was 50,000 shares with a par value of \$1.00 per share. In August 2019, the Company amended its Memorandum of Association to increase its authorized shares from 50,000 shares with a par value of \$1.00 per share to an unlimited number of ordinary shares with no par value, and subdivide the already issued 50,000 shares to 139,627 shares with no par value. On April 15, 2020, the shareholders and board of directors of the Company approved (i) a forward split of the issued and outstanding ordinary shares of the Company at an approximate or rounded ratio of 71.62-for-1 share (the “Forward Split”), and (ii) the creation of a new class of convertible preferred shares of no par value. On April 16, 2020, the Company filed its second amended and restated memorandum and articles of association with the Registrar of Corporate Affairs of the British Virgin Islands to effect such corporate actions, which filing became effective on April 20, 2020. The Company believes it is appropriate to reflect the Forward Split on a retroactive basis pursuant to ASC 260. All shares and per share data for all the periods presented have been retroactively restated. As a result of all events mentioned above, the Company had an unlimited number of no par value ordinary shares authorized, of which 10,000,000 were issued and outstanding after the Forward Split.

Share re-designation

In July 2022, the shareholders of the Company adopted a resolution to authorize the re-designation of the Company’s shares

- (a) from (i) an unlimited number of ordinary shares of no par value and an unlimited number of convertible preferred shares of no par value to (ii) an unlimited number of Class A ordinary shares of no par value and an unlimited number of Class B ordinary shares of no par value; and
- (b) the issued shares in the Company were re-designated and re-classified into Class A or Class B ordinary shares of no par value on a one for one basis, each with the rights and privileges as set forth in the Third Amended and Restated Memorandum and Articles of Association of the Company.

Each holder of Class A ordinary shares is entitled to one vote per one Class A ordinary share and each holder of Class B ordinary shares is entitled to 50 votes per one Class B ordinary share. The Class A ordinary shares are not convertible into shares of any other class. The Class B ordinary shares are convertible into Class A ordinary shares at any time after issuance at the option of the holder on a one-to-one basis.

The Company believes the re-designation should be accounted for on a retroactive basis pursuant to ASC 260. The Company has retroactively restated all shares and per share data for all periods presented. As a result, there were 20,062,658 and 16,738,307 Class A ordinary shares issued and outstanding and 3,020,969 and 3,580,969 Class B ordinary shares issued and outstanding as of September 30, 2022 and 2021, respectively.

Note 19 – Shareholders’ equity (Continued)

Initial Public Offering

On February 9, 2021, the Company closed its IPO of 5,000,000 ordinary shares at public offering price of \$4.00 per share. On February 10, 2021, the underwriters exercised their over-allotment option to purchase an additional 750,000 ordinary shares at a price of \$4.00 per share. The closing for the sale of the over-allotment shares took place on February 17, 2021. The net proceeds of the Company’s IPO, including the proceeds from the sale of the over-allotment shares, totaled approximately \$20 million, after deducting underwriting discounts and other related expenses. The Company’s ordinary shares commenced trading under the ticker symbol “CNEY” on February 5, 2021.

Convertible Preferred Shares

On April 20, 2020, the Company issued an aggregate of 500,000 convertible preferred shares to two individual investors for a total consideration of \$1,800,000 pursuant to certain Share Purchase Agreement dated April 3, 2020 (“Share Purchase Agreement”).

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The convertible preferred shares have the following characteristics:

Conversion - Upon the register of members being updated at the closing of the Company's initial public offering, all issued and outstanding convertible preferred shares will be converted automatically at a 10% discount to the initial public offering price.

Voting - Prior to conversion of convertible preferred shares, holders of convertible preferred shares do not have the right to vote as a shareholder, and upon conversion of Convertible Preferred Shares, holders of then ordinary shares will have the same voting rights and vote together with other holders of ordinary shares, and not as a separate class, except where otherwise required by law.

Ranking - Convertible preferred shares, before conversion, are senior to ordinary shares with respect to distribution rights upon liquidation, to receive a payment per convertible preferred share, equal to the price per share for the issue of convertible preferred share.

Dividends - Holders of convertible preferred shares are entitled to an equal share in any dividend paid to the convertible preferred share class.

The Company determined that the convertible preferred shares contained an embedded beneficial conversion feature ("BCF") as they were in the money at the issuance. Because the conversion of the convertible preferred shares was dependent on the closing of the Company's initial public offering, which was outside the control of the Company, the BCF embedded in the convertible preferred shares was contingent on the commitment date. Therefore, the Company would recognize the intrinsic value of the BCF separately from additional paid-in capital, and account for it as a deemed dividend and, as such, recognize the BCF as retained earnings upon the closing of the initial public offering, when the contingency was resolved, in accordance with ASC 470. The intrinsic value of the BCF was measured based upon the difference between the fair value of the underlying ordinary shares at the commitment date and the effective conversion price embedded in the convertible preferred shares.

Upon the completion of the IPO, all issued and outstanding convertible preferred shares of the Company were automatically converted into 500,000 ordinary shares of the Company. As a result, the Company recorded deemed dividend in retained earnings of \$975,000 as the intrinsic value of the BCF, which was measured based upon the difference between the fair value of the ordinary shares at the commitment date of \$5.55 and the effective conversion price of \$3.60, multiplying the 500,000 convertible preferred shares.

There is no authorized convertible preferred share after the re-designation.

Private Placement

From June 8 to June 10, 2021, the Company entered into the Subscription Agreements with the Purchasers. Pursuant to the Subscription Agreements, the Company agreed to sell and the Purchasers agreed to purchase an aggregate of 4,000,000 ordinary shares of the Company at a price of \$4.50 per share. On June 11, 2021, the Company closed the Private Placement and received gross proceeds of \$18 million, before deducting the placement agent's fees of \$900,000 and other related offering expenses of \$60,000.

Note 19 – Shareholders' equity (Continued)

Underwriter Warrants

In connection with the February 9, 2021 offering, the Company agreed to grant to the Underwriters Warrants ("UW Warrants") covering a number of Ordinary Shares equal to 5% of the aggregate number of the Ordinary Shares sold in the offering (excluding the over-allotment shares). The warrants carried a term of five years and were exercisable at \$4.80 per share. The UW Warrants were not exercisable for a period of 180 days after the effective date of the offering. On August 11, 2021, the warrants holders signed the Notice of Exercise of the UW Warrants for a cashless exercise, pursuant to which the Company issued an aggregate of 69,276 Ordinary Shares. As of September 30, 2022 and 2021, no warrants were outstanding.

Statutory reserves and restricted net assets

The Company's ability to pay dividends primarily depends on the Company receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the Company's subsidiaries incorporated in PRC only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company's subsidiaries.

The Company's PRC subsidiaries are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of their respective registered capital. The Company's PRC subsidiaries may also allocate a portion of its after-tax profits based on PRC accounting standards to employee welfare and bonus funds at their discretion. These reserves together with paid in capital of the Company's PRC subsidiaries are not distributable as cash dividends. As of September 30, 2022 and 2021, the balance of the required statutory reserves was \$524,723 and \$315,808, respectively.

Note 20 – Subsequent events

1. On September 27, 2022, the Company entered into a series of subscription agreements (collectively, the "2022 Subscription Agreements") with 15 purchasers, each an unrelated third party to the Company (collectively, the "2022 Purchasers"). Pursuant to the 2022 Subscription Agreements, the 2022 Purchasers agreed to subscribe for and purchase, and the Company agreed to issue and sell to the 2022 Purchasers, an aggregate of 10,514,018 Class A ordinary shares of the Company, no par value (the "Shares"), at a purchase price of \$1.712 per share, and for an aggregate purchase price of \$18,000,000 (the "Offering"). The Shares were offered under the Company's registration statement on Form F-3 (File No. 333-264579), initially filed with the U.S. Securities and Exchange Commission on April 29, 2022 and declared effective on June 13, 2022 (the "Registration Statement"). A prospectus supplement to the Registration Statement in connection with this Offering was filed with the U.S. Securities and Exchange Commission on October 3, 2022. The Subscription Agreements, the transactions contemplated thereby, and the issuance of the Shares were approved by the Company's board of directors. On October 13, 2022, the Company completed the \$18 million private placement by issuing 10,514,018 Class A ordinary shares to 2022 Purchasers.
2. On November 11, 2022, the Company completed an acquisition of MZ Mining International Co., Ltd ("MZ HK"), a Hong Kong company that wholly owns MZ Pintai Mining (Zhejiang) Co., Ltd, which is a Chinese company that wholly owns Yunnan Yuemu Agriculture and Forestry Technology Co., Ltd ("Yunnan Yuemu"), pursuant to an equity transfer agreement (the "Equity Transfer Agreement") dated September 30, 2022 with Shenzhen Xiangfeng Trading Co., Ltd. (the "Seller"). The Seller is independent from all directors and officers of the Company, and the Company itself. Pursuant to the Equity Transfer Agreement, the Seller first transferred 100% of its equity interests in Yunnan Honghao Forestry Development Co., Ltd. ("Yunnan Honghao"), a wholly owned subsidiary of the Seller, to Yunnan Yuemu, and the Seller then sold and transferred, and the Company purchased and acquired, 100% of its equity interests in MZ HK for a consideration of \$17,706,575.88 and the issuance of 8,819,520 Class A ordinary shares of the Company having a value of \$18,373,771, delivered to the Seller and its designees.

Through the acquisition of 100% shares of MZ HK, the Company indirectly acquired 100% of the equity interests in Yunnan Honghao.

3. On December 30, 2022, the Company completed a \$3.23 million convertible promissory note transaction with an institutional investor (the "Investor"). Pursuant to a Securities Purchase Agreement, dated as of December 30, 2022, the Company issued and sold to the Investor a convertible promissory note of \$3.23 million due on December 30, 2023, convertible into Class A ordinary shares, no par value, at a discount of \$0.23 million. The discount will be amortized over a period of one year.

Note 21 – Condensed financial information of the parent company

Pursuant to the requirements of Rule 12-04(a), 5-04(c), and 4-08(e)(3) of Regulation S-X, the condensed financial information of the parent company shall be filed when the restricted net assets of consolidated subsidiaries exceed 25% of consolidated net assets as of the end of the most recently completed fiscal year. The Company performed a test on the restricted net assets of consolidated subsidiaries in accordance with such requirement and concluded that it was applicable to the Company as the restricted net assets of the Company's PRC subsidiaries exceeded 25% of the consolidated net assets of the Company. Therefore, the condensed financial statements of the parent company are included herein.

For purposes of the above test, restricted net assets of consolidated subsidiaries shall mean that amount of the Company's proportionate share of net assets of consolidated subsidiaries (after intercompany eliminations) which as of the end of the most recent fiscal year may not be transferred to the parent company by subsidiaries in the form of loans, advances, or cash dividends without the consent of a third party.

The condensed financial information of the parent company has been prepared using the same accounting policies as set out in the Company's consolidated financial statements except that the parent company used the equity method to account for investment in its subsidiaries. Such investment is presented on the condensed balance sheets as "Investment in subsidiaries" and the respective profit or loss as "Equity in earnings of subsidiaries" on the condensed statements of income.

The footnote disclosures contain supplemental information relating to the operations of the Company and, as such, these statements should be read in conjunction with the notes to the consolidated financial statements of the Company. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted.

The Company did not pay any dividend for the periods presented. As of September 30, 2022 and 2021, there were no material contingencies, significant provisions for long-term obligations, or guarantees of the Company, except for those separately disclosed in the consolidated financial statements, if any.

Note 21 – Condensed financial information of the parent company (Continued)

**CN ENERGY GROUP, INC.
PARENT COMPANY BALANCE SHEETS**

	As of September 30, 2022	As of September 30, 2021
Assets		
Current assets		
Cash	\$ 16,099	\$ 8,105
Non-current assets		
Investment in subsidiaries	64,114,716	65,012,468
Total assets	\$ 64,130,815	\$ 65,020,573
Liabilities and Shareholders' Equity		
Current liabilities		
Due to related parties,	236,677	1,959,971
Accrued expenses and other current liabilities	—	381,650
Total liabilities	\$ 236,677	\$ 2,341,621
Commitments and contingencies		
Shareholders' equity		
Class A ordinary share, no par value, unlimited number of shares authorized; 20,062,658 and 16,738,307 shares issued and outstanding as of September 30, 2022 and 2021, respectively	54,278,472	47,965,683
Class B ordinary share, no par value, unlimited number of shares authorized; 3,020,969 and 3,580,969 shares issued and outstanding as of September 30, 2022 and 2021, respectively	4,231,055	5,015,142
Additional paid-in capital	8,865,199	8,865,199
Statutory reserves	524,723	315,808
Retained earnings	2,415,349	394,556
Accumulated other comprehensive (loss) income	(6,532,472)	122,564
Total shareholders' equity	63,782,326	62,678,952
Total liabilities and shareholders' equity	\$ 64,019,003	\$ 65,020,573

Note 21 – Condensed financial information of the parent company (Continued)**CN ENERGY GROUP, INC.
PARENT COMPANY STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

	For the fiscal years ended September 30,		
	2022	2021	2020
General and administrative expenses	\$ (218,663)	\$ (438,020)	\$ (247,979)
Equity in earnings of subsidiaries	2,448,371	1,734,380	2,592,749
Net income	2,229,708	1,296,360	2,344,770
Deemed dividend on conversion of Convertible Preferred Shares to Ordinary Shares	—	(975,000)	—
Net income attributable to Shareholders	2,229,708	321,360	2,344,770
Net income	2,229,708	1,296,360	2,344,770
Foreign currency translation (loss) gain	(6,655,036)	1,089,346	977,659
Comprehensive (loss) income	\$ (4,425,328)	\$ 2,385,706	\$ 3,322,429

Note 21 – Condensed financial information of the parent company (Continued)

**CN ENERGY GROUP, INC.
PARENT COMPANY STATEMENTS OF CASH FLOWS**

	For the fiscal years ended September 30,		
	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	2,229,708	1,296,360	2,344,770
Adjustments to reconcile net income to net cash used in operating activities:			
Equity in earnings of subsidiaries	(2,448,371)	(1,734,380)	(2,592,749)
Prepaid expenses and other current assets	92,000	—	—
Accrued expenses and other current liabilities	(202,001)	—	247,979
Net cash used in operating activities	<u>(328,664)</u>	<u>(438,020)</u>	<u>—</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in subsidiaries	(3,211,899)	(38,075,908)	—
Net cash used in investing activities	<u>(3,211,899)</u>	<u>(38,075,908)</u>	<u>—</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from the Initial Public Offering	—	23,000,000	—
Direct costs disbursed from Initial Public Offering proceeds	—	(2,377,450)	—
Proceeds from private placement	5,528,702	18,000,000	—
Direct costs disbursed from private placement proceeds	—	(960,000)	—
Proceeds from related party loans	—	859,483	—
Repayment of related party loans	(1,980,145)	—	—
Net cash provided by financing activities	<u>3,548,557</u>	<u>38,522,033</u>	<u>—</u>
CHANGES IN CASH	7,994	8,105	—
CASH, beginning of year	8,105	—	—
CASH, end of year	<u>\$ 16,099</u>	<u>\$ 8,105</u>	<u>—</u>
SUPPLEMENTAL NON-CASH ACTIVITIES:			
Accrued deferred offering costs	—	\$ 385,193	\$ 34,650
Payment of professional fees funded by related party loans	—	\$ —	\$ 351,121
Deferred offering costs funded by a related party through related party loans	—	\$ 102,153	\$ 8,142
Deemed dividend on conversion of Convertible Preferred Shares to Ordinary Shares	—	\$ 975,000	—



**BRITISH VIRGIN ISLANDS
BVI BUSINESS COMPANIES ACT, 2004 (AS AMENDED)**

**Third Amended and Restated
Memorandum and Articles of Association**

of

**CN ENERGY GROUP, INC.
中北能源集团有限公司**

**Incorporated on 23 November 2018
Amended and Restated on 11 September 2019
Amended and Restated on 20 April 2020
Amended and Restated on 22 July 22**

THIRD AMENDED AND RESTATED MEMORANDUM OF ASSOCIATION

OF

CN ENERGY GROUP, INC.
中北能源集团有限公司

1 COMPANY NAME

1.1 The name of the Company is CN ENERGY GROUP, INC. The company has a foreign character name in addition: 中北能源集团有限公司, this is a combination of translation and transliteration in the Chinese language of the name of the Company in English. The full name of the Company (and its foreign character name, if applicable) shall be clearly stated in every:

- (a) written communication sent by, or on behalf of, the Company; and
- (b) document issued or signed by, or on behalf of, the Company that evidences or creates a legal obligation of the Company.

1.2 The Company may from time to time change the Company's name (or foreign character name, if applicable) by Resolution of Directors or Resolution of Members. A change of name (or foreign character name) takes effect from the date that the Registrar issues a change of name certificate.

2 COMPANY STATUS.

2.1 The Company is a company limited by shares.

2.2 The Company is a legal entity in its own right separate from its Members and continues in existence until it is dissolved.

3 LIABILITY OF MEMBERS

3.1 The liability of each Member is limited to:

- (a) the amount from time to time unpaid on that Member's Shares;
- (b) any liability expressly provided for in this Memorandum or the Articles; and
- (c) any liability to repay a Distribution pursuant to section 58(1) of the Act.

4 REGISTERED AGENT

4.1 The first registered agent of the Company is Sertus Incorporations (BVI) Limited of Sertus Chambers, P.O. Box 905, Quastisky Building, Road Town, Tortola, British Virgin Islands and the current registered agent of the Company is Tricor Services (BVI) Limited of 2/F, Palm Grove House, P.O. Box 3340, Road Town, Tortola, British Virgin Islands and the registered agent of the Company thereafter will be such other registered agent as the directors or members may decide from time to time.

5 REGISTERED OFFICE

5.1 The first registered office of the Company is situated at offices of Sertus Incorporations (BVI) Limited, Sertus Chambers, P.O. Box 905, Quastisky Building, Road Town, Tortola, British Virgin and the current registered office of the Company is at the offices of Tricor Services (BVI) Limited, 2/F, Palm Grove House, P.O. Box 3340, Road Town, Tortola, British Virgin Islands.

5.2 The Company may change its Registered Office by Resolution of Directors or Resolution of Members, provided that the Registered Office is at all times at the office of its Registered Agent in the British Virgin Islands.

6 CAPACITY AND POWERS

6.1 Subject to the Act, any other British Virgin Islands legislation, this Memorandum and/or the Articles, the Company has, irrespective of corporate benefit:

- (a) full capacity to carry on or undertake any business or activity, do any act or enter into any transaction; and
- (b) for the purposes of Sub-Clause 6.1 (a), full rights, powers and privileges.

6.2 For the purposes of section 9(4) of the Act, there are no limitations on the business that the Company may carry on.

7 NUMBER AND CLASSES OF SHARES

7.1 The Company is authorised to issue an unlimited number of no par value Shares divided into two classes as follows:

- (a) Class A Ordinary Shares of no par value; and
- (b) Class B Ordinary Shares of no par value.

7.2 The Company may issue fractional Shares and a fractional Share shall have the corresponding fractional rights, obligations and liabilities of a whole Share of the same class or series of Shares.

7.3 The Company may issue a class of Shares in one or more series. The division of a class of Shares into one or more series and the designation to be made to each series shall be determined by the Directors from time to time by a Resolution of Directors.

8 RIGHTS CONFERRED BY SHARES

8.1 Subject to this Memorandum and the Articles, each holder of Class A Ordinary Share confers on the holder thereof the right to:

- (a) one vote for each such share on any Resolution of Members, and shall be entitled to notice of any members' meeting in accordance with the Articles;
- (b) an equal share in any dividend paid to Class A Ordinary Shares by the Company; and
- (c) an equal share in the Distribution of the surplus assets of the Company.

8.2 Subject to this Memorandum and the Articles, each Class B Ordinary Share confers on the holder thereof the right to:

(a) fifty (50) votes for each such share on vote on any Resolution of Members, and shall be entitled to notice of any members' meeting in accordance with the Articles;

(b) an equal share in any dividend paid to Class B Ordinary Shares by the Company;

(c) convert, at the option of the holder thereof, into the number of fully paid and non-assessable Class A Ordinary Shares on a one-for-one basis. For the avoidance of doubt, except as required under applicable laws or regulations, no additional consideration shall be payable upon such conversion.

(d) No fractional Class A Ordinary Shares shall be issued upon conversion of the Class B Ordinary Shares. In lieu of any fractional shares to which the holder would otherwise be entitled, the Company shall round the number of shares to be issued upon conversion up to the nearest whole number of shares.

8.3 New or additional Shares of any class, or any bonds or debentures, or other evidences of indebtedness convertible into or exchangeable for Shares of any class, may be issued and disposed of by the Board on such terms and for such consideration (to the extent permitted by law), and to such person or persons as the Board in its absolute discretion may deem advisable.

8.4 Notwithstanding anything to the contrary in the Articles, in no event may any Class A Ordinary Share be converted into Class B Ordinary Shares.

8.5 The rights conferred upon the holders of the Shares of any class may only be varied, whether or not the Company is in liquidation, either by a resolution:

(a) approved at a Members Meeting by the affirmative vote of a Majority of the votes of the Shares of the class being varied and entitled to vote, which were present at the Members Meeting (in person or by their duly appointed Proxy) and were voted; or

(b) consented to in writing by a Majority of the votes of the Shares of the class being varied and entitled to vote, without the need for any notice, and may consist of several documents, including written electronic communication, in like form each signed or assented to by one or more Members.

8.6 The rights conferred upon the holders of the Shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the Shares of that class, be deemed to be varied by the creation or issue of further Shares ranking *pari passu* therewith or by the redemption or purchase of shares of any class by the Company.

9 REGISTERED SHARES

9.1 The Company shall issue registered shares only.

9.2 The Company is not authorised to issue bearer shares, convert registered shares to bearer shares or exchange registered shares for bearer shares.

10 AMENDMENTS TO THE MEMORANDUM AND ARTICLES

10.1 Subject to Clause 8.2, the Company may amend this Memorandum and/or the Articles by Special Majority Resolution of Directors or Special Majority Resolution of Members, save that no amendment may be made by a Special Majority Resolution of Directors:

(a) to restrict the rights or powers of the Members to amend this Memorandum and/or the Articles; or

- (b) to change the percentage of Members required to pass a Resolution of Members to amend this Memorandum and/or the Articles; or
- (c) in circumstances where this Memorandum and/or the Articles may only be amended by the Members; or
- (d) to Clause 8 or this Clause 10.

10.2 Any amendment to this Memorandum or the Articles will take effect from the date the notice of amendment, or restated memorandum and articles incorporating the amendment, is registered by the Registrar or from such other date as determined pursuant to the Act.

11 DEFINITIONS AND INTERPRETATION

11.1 In this Memorandum and the Articles, except where the context requires otherwise, the following words and expressions shall have the following meanings:

Acquire	to purchase, redeem or otherwise acquire (and “ Acquisition ” and “ Acquired ” shall be construed accordingly);
Act	the BVI Business Companies Act, 2004 (as amended from time to time) and includes the BVI Business Companies Regulations 2012 and any other regulations made under the Act from time to time;
Agent	an Eligible Person (including a Director) appointed as an agent of the Company;
Alternate Director	a Director or an Eligible Person whose name is entered in the Register of Directors as an alternate for a Director;
Appointing Director	a Director who has appointed an Alternate Director;
Articles	the Company's articles of association, attached to this Memorandum, as amended from time to time;
Board	the board of directors of the Company;
Business Days	a day (other than Saturday or Sunday) on which banks are open for general business in the British Virgin Islands;
Chairperson	the chairperson of a Members Meeting who shall be the Chairperson of the Board, however: <ul style="list-style-type: none"> (a) if there is no Chairperson of the Board or if they are not present at the Members Meeting, the Members present shall choose one of their number to be the Chairperson; and (b) if the Members are unable to choose a Chairperson for any reason, then the person representing the greatest number of voting Shares present in person or by Proxy at the Members Meeting shall preside as Chairperson, failing which the oldest individual Member or representative of a Member present at the Members Meeting shall be the Chairperson;

Chairperson of the Board	a Director who has been appointed as the chairperson of a Directors Meeting;
Charge	any mortgage, charge or other form of security over a Share (and “ Charged ” shall be construed accordingly);
Charged Shares	has the meaning ascribed to it in Sub-Regulation 7.1;
Chargee	any Eligible Person to whom a Charge has been granted or any nominee of that Eligible Person;
Class A Ordinary Share	means a Class A Ordinary Share of the Company of no par value, each with the right provided for in the Memorandum;
Class B Ordinary Share	means a Class B Ordinary Share of the Company of no par value, each with the rights provided for in the Memorandum;
Committee	a committee of Directors, each consisting of one or more Directors;
Committee Meeting	a duly convened and constituted meeting of the Committee Members;
Committee Member	a member of a Committee;
Company Records	means the: <ul style="list-style-type: none"> (a) Registers; (b) Minute Book; and (c) Records and Documentation;
Controller	an individual that is the sole Member and sole Director;
Designated Stock Exchange	means the New York Stock Exchange or the NASDAQ Global Select Market, as applicable, for as long as the Company’s Shares are listed thereon, and any other Recognised Exchange on which the Company’s Shares may be listed from time to time.
Director	an Eligible Person whose name is entered in the Register of Directors as a director of the Company;
Directors Meeting	a duly convened and constituted meeting of Directors;
Distribution	in relation to a distribution by the Company means: <ul style="list-style-type: none"> (a) the direct or indirect transfer of an asset, other than the Company’s own Shares, to or for the benefit of a Member; or (b) the incurring of a debt to or for the benefit of a Member, in relation to Shares held by that Member, and whether by means of the purchase of an asset, the purchase, redemption or other acquisition of Shares, a transfer of indebtedness or otherwise, and includes a dividend;
Electronic Transactions Act	the Electronic Transactions Act, 2001 (as amended from time to time);

Eligible Person	individuals, corporations, trusts, the estates of deceased individuals, partnerships and unincorporated associations of persons;
Exchange Act	The Securities Exchange Act of 1934 of the United States (as amended from time to time);
Exchange Rules	the listing rules of the Designated Stock Exchange, to the extent applicable and any other relevant code, rules and regulations as amended and revised from time to time;
Independent Director	a Director who is an independent director as defined in the Exchange Rules as determined by the Board;
Insolvency Act	the Insolvency Act, 2003 (as amended from time to time);
IPO Date	the date on which the Company's Shares are first traded on the Designated Stock Exchange;
Majority	means in excess of fifty (50) per cent.;
Member	an Eligible Person whose name is entered in the Register of Members as the holder of one or more Shares or fractional Shares;
Members Meeting	a duly convened and constituted meeting of Members;
Memorandum	this, the Company's memorandum of association, as amended from time to time;
Minute Book	means the minutes and/or written resolutions (as applicable) of all: <ul style="list-style-type: none"> (a) Resolutions of Members and of classes of Members; and (b) Resolutions of Directors and of Committees;
MLAT	the Mutual Legal Assistance (Tax Matters) (Amendment) Act, 2012 (as amended from time to time);
Officer	an Eligible Person appointed as an officer of the Company;
Ordinary Share	an ordinary share of the Company of no par value;
Parent	has the meaning defined in the Act;
Prohibited Powers	any of the following powers to: <ul style="list-style-type: none"> (a) amend this Memorandum or the Articles; (b) designate a Committee; (c) delegate powers to a Committee; (d) appoint or remove Directors; (e) appoint or remove an Agent; (f) approve a plan or merger, consolidation or arrangement;

	(g) make a declaration of solvency or to approve a liquidation plan; and/or
	(h) make a determination that the Company will, immediately after a proposed Distribution, satisfy the Solvency Test;
Proxy	an Eligible Person who has been duly appointed by a Member (in accordance with the Act and Regulation 12) to be its proxy at a Members Meeting;
Records and Documents	has the meaning ascribed to it in Sub-Regulation 29;
Recognised Exchange	has the meaning given in the Act;
Register of Charges	a register of charges that the Company maintains at its Registered Office, which contains details of each charge it has created over its assets;
Register of Directors	the Company's register of Directors, maintained in accordance with the Act;
Register of Members	the Company's register of Members, maintained in accordance with the Act;
Registered Agent	the Company's registered agent, as appointed from time to time, in accordance with the Act;
Registered Office	the Company's registered office maintained in accordance with the Act;
Registers	the Register of Members and the Register of Directors;
Registrar	the Registrar of Corporate Affairs in the British Virgin Islands;
Reserve Director	an Eligible Person whose name is entered in the Register of Directors as being nominated a reserve director of the Company by a Controller;
Resolution of Directors	either a resolution: <ul style="list-style-type: none"> (a) approved at a Directors Meeting or Committee Meeting by the affirmative vote of a Majority of Directors entitled to vote thereon or by a Majority of Committee Members, as the case may be, entitled to vote thereon which were present at the Directors Meeting (in person or by their duly appointed Alternate Director) who voted, except that where a Director is given more than one vote, he or she shall be counted by the number of votes he or she casts for the purpose of establishing a Majority of Directors Majority or Majority of Committee Members, as the case may be; or (b) consented to in writing by a Majority of Directors (in person or by their duly appointed Alternate Director) or by a Majority of the Committee Members as the case may be, without the need for any notice, and may consist of several documents, including

written electronic communication, in like form each signed or assented to by one or more Directors (in person or by their duly appointed Alternate Director);

Resolution of Members

either a resolution:

- (a) approved at a Members Meeting by the affirmative vote of a Majority of the votes of the Shares entitled to vote thereon which were present at the Members Meeting (in person or by their duly appointed Proxy) and were voted; or
- (b) consented to in writing by a Majority of the votes of the Shares entitled to vote thereon, without the need for any notice, and may consist of several documents, including written electronic communication, in like form each signed or assented to by one or more Members;

Seal

any seal which has been duly adopted as the common seal of the Company, and shall include reference to an electronic seal which satisfies the requirements of the Electronic Transactions Act;

Securities

shares and debt obligations of every kind of the Company, and including without limitation options, warrants and rights to acquire shares or debt obligations;

Securities Act

the Securities Act of 1933 of the United States (as amended from time to time);

Securities Exchange Act

the Securities Exchange Act of 1934 of the United States (as amended from time to time);

Share

a share issued or to be issued in the Company;

Solvency Test

the Company satisfies the solvency test if the value of the Company's assets exceeds its liabilities and the Company is able to pay its debts as they fall due;

Special Majority

means in excess of two thirds;

Special Majority Resolution of Directors

either a resolution:

- (a) approved at a Directors Meeting or Committee Meeting by the affirmative vote of a Special Majority of Directors entitled to vote thereon or by a Special Majority of Committee Members, as the case may be, entitled to vote thereon which were present at the Directors Meeting (in person or by their duly appointed Alternate Director) who voted, except that where a Director is given more than one vote, he or she shall be counted by the number of votes he or she casts for the purpose of establishing a Special Majority of Directors Special Majority or Special Majority of Committee Members, as the case may be; or

(b) consented to in writing by a Special Majority of Directors (in person or by their duly appointed Alternate Director) or by a Special Majority of the Committee Members as the case may be, without the need for any notice, and may consist of several documents, including written electronic communication, in like form each signed or assented to by one or more Directors (in person or by their duly appointed Alternate Director);

Special Majority Resolution of Members either a resolution:

- (a) approved at a Members Meeting by the affirmative vote of a Special Majority of the votes of the Shares entitled to vote thereon which were present at the Members Meeting (in person or by their duly appointed Proxy) and were voted; or
- (b) consented to in writing by a Special Majority of the votes of the Shares entitled to vote thereon, without the need for any notice, and may consist of several documents, including written electronic communication, in like form each signed or assented to by one or more Members;

Subsidiary

has the meaning defined in the Act; and

Treasury Share

a Share that was previously issued but was repurchased, redeemed or otherwise acquired by the Company and not cancelled, in accordance with the Act.

11.2 In this Memorandum and the Articles:

- (a) a **Clause** or **Sub-Clause** is a reference to a clause or sub-clause of this Memorandum;
- (b) a **Regulation** or **Sub-Regulation** is a reference to a regulation or sub-regulation of the Articles;
- (c) voting by Members is a reference to the casting of the votes attached to the Shares held by the Member voting;
- (d) words and expressions defined in the Act shall have the same meaning and, unless otherwise required by the context, the singular shall include the plural and vice versa, the masculine shall include the feminine and the neuter and references to persons shall include corporations and all entities capable of having a legal existence;
- (e) reference to any provision of law (including but not limited to the Act, the Electronic Transactions Act) is a reference to that provision as extended, applied, amended or re-enacted and includes any subordinate legislation;
- (f) reference to this Memorandum or to the Articles is a reference to those documents as amended from time to time;
- (g) the headings are for convenience only and shall not affect the construction of this Memorandum or the Articles;
- (h) reference to a thing being **written** or **in writing** includes all forms of writing, including all electronic records which satisfy the requirements of the Electronic Transactions Act, including (but not limited to) information generated, sent, received or stored by electronic, electrical, digital, magnetic, optical, electromagnetic, biometric or photonic means, including electronic data interchange, electronic mail, telegram, telex or telecopy;

- (i) reference to a thing being **signed** or to a person's **signature** shall include reference to an electronic signature which satisfies the requirements of the Electronic Transactions Act;
- (j) any words or expressions defined in the Act shall have the same meaning in this Memorandum and the Articles and unless otherwise required by the context or unless otherwise defined in this Memorandum or the Articles;
- (k) where a period of time is expressed as a number of days, the days on which the period begins and ends are not included in the computation of the number of days;
- (l) headings are inserted for convenience only and shall be disregarded in the construction of or the interpretation of this Memorandum and the Articles; and
- (m) a reference to the Exchange Rules shall only apply if, and for so long as, the Company's Shares are listed on a Designated Stock Exchange.

We, Sertus Incorporations (BVI) Limited of Sertus Chambers, P.O. Box 905, Quastisky Building, Road Town, Tortola, British Virgin Islands in our capacity as registered agent for the Company hereby apply to the Registrar of Corporate Affairs for the incorporation of the Company this 23rd day of November, 2018.

Incorporator

Sgd: Alyson Parker / Ann Penn

Alyson Parker / Ann Penn
Authorised Signatories
Sertus Incorporations (BVI) Limited

ARTICLES OF ASSOCIATION

OF

CN ENERGY GROUP, INC.
中北能源集团有限公司

1 DISAPPLICATION OF THE ACT

1.1 The following sections of the Act shall not apply to the Company:

- (a) section 46 (*Pre-emptive rights*);
- (b) section 60 (*Process for acquisition of own shares*);
- (c) section 61 (*Offer to one or more shareholders*);
- (d) section 62 (*Shares redeemed otherwise than at the option of company*); and
- (e) section 175 (*Disposition of assets*).

2 SHARES

2.1 Subject to the provisions of the Act, these Articles, the Memorandum, the Exchange Rules (if applicable, where any of the Shares in the Company are listed on a Designated Stock Exchange) and to any special rights conferred on the holders of any Shares or class of shares, Shares and other securities may be issued, and options to acquire Shares may be granted, at such times, to such Eligible Persons, for such consideration and on such terms as the Directors may determine by a Resolution of Directors.

2.2 A Share may be issued for consideration in any form, or combination of forms, including money, a promissory note, or other written obligation to contribute money or property, real property, personal property (including goodwill and know-how), services rendered or a contract for future services.

2.3 No Shares may be issued for a consideration which is in whole or in part other than money, unless a Resolution of Directors has been passed stating:

- (a) the amount to be credited for the issue of the Shares; and
- (b) that, in their opinion, the present cash value of the non-money consideration and the money consideration for the issue is not less than the amount to be credited for the issue of the Shares.

2.4 The Company may issue bonus Shares.

2.5 A Share is deemed to be issued when the name of the Eligible Person is entered in the Register of Members.

3 SHARE CERTIFICATES

3.1 Subject to sub-regulation 3.5, each Member is entitled to a certificate:

- (a) signed by a Director or Officer, or any other person authorised by Resolution of Directors; or

(b) under the Seal,

specifying the number of Shares held by him or her, and the signature of the Director, Officer or authorised person and the Seal may be facsimiles.

3.2 Each Member who receives a share certificate shall indemnify and hold the Company, its Directors and Officers harmless from any loss or liability which it or they may incur by reason of any wrongful or fraudulent use or representation made by any Eligible Person by virtue of the possession thereof.

3.3 If a share certificate is worn out or lost, it may (subject to the prior written consent of any Chargee whose interest has been noted on the Register of Members) be renewed on production of the worn out certificate or on satisfactory proof of its loss together with such indemnity as the Directors may reasonably require.

3.4 If several Eligible Persons are registered as joint holders of any Shares, the Company is not bound to issue more than one certificate in relation to those Shares and delivery of a share certificate to one of several joint holders of Shares shall be sufficient delivery to all.

3.5 Nothing in these Articles shall require title to any Shares or other securities to be evidenced by a certificate if the Act and the Exchange Rules permit otherwise. With effect from the IPO Date, no holder of Shares of any class in the Company shall have the right to require the issuance or provision to them at any time of any certificate in respect of Shares held by them.

3.6 If a holder of Shares of any class received one or more certificates at any time prior to the IPO Date in respect of any Shares of any class owned by the holder in the Company, such holder shall return the originals of all such certificates to the Company for cancellation promptly upon request to do so by the Company or, if earlier, at the time of any transfer or purported transfer or other disposition of such Shares. The Company may by Resolution of Directors unilaterally cancel any original share certificates issued prior to the IPO Date that are not promptly returned upon request by the Company. Any certificates so cancelled shall be null and void and, for the avoidance of doubt, Sub-Regulation 3.2 shall apply in respect of such cancelled share certificates that are not returned to the Company.

4 REGISTER OF MEMBERS

4.1 Subject to the Act, the Company shall keep a Register of Members containing:

- (a) the name and address of each Eligible Person who holds Shares;
- (b) the number of each class and series of Shares held by each Member;
- (c) the date on which the name of each Member was entered in the Register of Members; and
- (d) the date on which any Eligible Person ceased to be a Member.

4.2 The entry of an Eligible Person on the Register of Members as a holder of a Share is *prima facie* evidence that legal title in the Share vests in that Eligible Person.

4.3 The Company may treat the holder of a Share issued by the Company as the only Eligible Person entitled to:

- (a) exercise any voting rights attached to the Share;
- (b) receive notices;
- (c) receive a Distribution in respect of the Share; and

(d) exercise other rights and powers attached to the Share.

4.4 The Register of Members may be in any such form as the Directors may approve, but if it is in magnetic, electronic or other data storage form, the Company must be able to produce legible evidence of its contents. Until the Directors otherwise determine, the magnetic, electronic or other data storage form shall be the original Register of Members.

4.5 The Company may elect to file a copy of its Register of Members with the Registrar, to make it available for public inspection, in accordance with the Act (a “**Public Register of Members**”).

4.6 Once the Public Register of Members has been filed with the Registrar, the Company is bound by its contents. Each time the Register of Members is updated, amended or altered in any way, the Company must file a copy of the same with the Registrar, to update the Public Register of Members. The Company may elect to cease registering such changes by filing a notice with the Registrar, in accordance with the Act.

5 TRANSFER OF SHARES

5.1 Subject to the Act and Sub-Regulation 5.7, Shares may be transferred by a written instrument of transfer signed by the transferor and containing the name and address of the transferee, which shall be sent to the Company so that the Register of Members can be updated to reflect and effect the share transfer. If the transfer imposes a liability to the Company on the transferee, the transferee must also sign the written instrument of transfer.

5.2 Subject to Sub-Regulation 5.3, the Company shall, on receipt of an instrument of transfer, enter the name of the transferee in the Register of Members.

5.3 Subject to Sub-Regulation 7.4, the Directors may resolve to refuse or delay the registration of the transfer of Shares. Where the Directors do so, they must specify the reason(s) for this refusal or delay in a Resolution of Directors. The Directors may refuse or delay the registration of a transfer of Shares if the transferor has failed to pay an amount due in respect of those Shares.

5.4 Where the Directors pass a Resolution of Directors pursuant to Sub-Regulation 5.3, the Company shall, as soon as reasonably practicable, send the transferor and the transferee a notice of the refusal or delay in the approved form.

5.5 Subject to section 41(1A) of the Act, the transfer of a Share is effective when the name of the transferee is entered on the Register of Members.

5.6 If the Directors are satisfied that an instrument of transfer relating to Shares has been signed but that the instrument has been lost or destroyed, they may resolve by a Resolution of Directors:

- (a) to accept such evidence of the transfer of Shares as they consider appropriate; and
- (b) that the transferee’s name should be entered in the Register of Members, notwithstanding the absence of the instrument of transfer.

5.7 Where Shares are listed on a Designated Stock Exchange:

- (a) Sub-Regulations 5.1 to 5.6 shall not apply; and
- (b) the Shares may be transferred without the need for a written instrument of transfer if the transfer is carried out in accordance with the Exchange Rules pursuant to the provisions of section 54A of the Act and other requirements applicable to Shares listed on the Designated Stock Exchange.

6 REDEMPTION OF SHARES, SURRENDER OF SHARES AND TREASURY SHARES

6.1 Subject to the Act and these Articles, the Company may Acquire and hold its own Shares save that the Company may not Acquire its own Shares without the consent of Members whose Shares are to be Acquired unless the Company is permitted by the Act or any other provision in the Memorandum or these Articles to Acquire the Shares without their consent.

6.2 The Company may only offer to Acquire Shares if the Resolution of Directors authorising the Acquisition contains a statement that the Directors are satisfied (on reasonable grounds) that immediately after the Acquisition the Company will be able to satisfy the Solvency Test.

6.3 Shares that the Company Acquires may be cancelled or held as Treasury Shares. Unless the Shares Acquired are held as Treasury Shares, any Shares Acquired by the Company shall be deemed to be cancelled immediately on completion of the Acquisition of the Shares.

6.4 The Company may Acquire its own fully paid Share(s) for no consideration by way of surrender of such Share(s) to the Company by the Member whose Share(s) are being surrendered. Any such surrender shall be in writing and signed by the Member whose Share(s) are being surrendered.

6.5 The number of Shares held as Treasury Shares (when aggregated with Shares of the same class already held as Treasury Shares) cannot exceed 50 per cent. of the Shares of that class previously issued by the Company (excluding Shares that have been cancelled).

6.6 Shares which have been cancelled shall be available for reissue.

6.7 All rights and obligations attaching to a Treasury Share are suspended and shall not be exercised by the Company while it holds the Share as a Treasury Share.

6.8 Treasury Shares may be transferred or disposed of by the Company on such terms and conditions (not otherwise inconsistent with the Memorandum and these Articles) as the Company may by a Resolution of Directors determine.

7 MORTGAGES OF SHARES AND CHARGES OVER SHARES

7.1 Members may Charge their Shares. If a Member has created a Charge over any of their Shares, such Shares shall be referred to as the "**Charged Shares**".

7.2 At the written request of a Member who has Charged Shares, the following shall be entered in the Register of Members:

- (a) a statement that such Charged Shares are Charged;
- (b) the name of the Chargee; and
- (c) the date on which the particulars specified in Sub-Regulations 7.2(a) and 7.2 (b) are entered in the Register of Members.

7.3 Whilst particulars of a Charge over Shares are entered in the Register of Members, the Company shall not, without the prior written consent of the named Chargee:

- (a) effect the transfer of any such Charged Share; or
- (b) Acquire any such Charged Share; or

(c) replace a share certificate in respect of any such Charged Share.

7.4 Notwithstanding anything contained in the Memorandum or these Articles, the Directors shall not decline to register any transfer of Charged Shares, nor may they suspend registration thereof, where such transfer is:

- (a) to any Chargee, whose interest has been noted on the Register of Members; or
- (b) by any such Chargee, pursuant to the power of sale under its Charge; or
- (c) by any such Chargee, in accordance with the terms of the relevant security document creating the Charge.

7.5 Where particulars of a Charge are entered in the Register of Members, such particulars may be cancelled:

- (a) with the written consent of the named Chargee or anyone authorised to act on its behalf; or
- (b) upon evidence satisfactory to the Directors of the discharge of the liability secured by the Charge and the issue of such indemnities as the Directors shall consider necessary or desirable.

8 FORFEITURE

8.1 Shares that are not fully paid on issue are subject to the forfeiture provisions set forth in this Regulation and for this purpose, Shares issued for a promissory note or other written obligation to contribute money or property, or a contract for future services are deemed to be not fully paid.

8.2 A written notice of call (a "**Forfeiture Notice**") shall be served on a Member who defaults in making payment in respect of any Shares held by him or her (the "**Forfeiture Shares**").

8.3 A Forfeiture Notice must:

- (a) specify a date that the Member should make payment for the Forfeiture Shares;
- (b) provide a further date (no earlier than 14 days from the date that the Forfeiture Notice was served) on, or before which, payment for the Forfeiture Shares is required (a "**Payment Date**"); and
- (c) contain a statement that in the event of non-payment at or before the Payment Date, the Forfeiture Shares (or any of them) will be liable to be forfeited.

8.4 Where a Forfeiture Notice has been served pursuant to Sub-Regulations 8.2 and 8.3(a), and the requirements of the Forfeiture Notice have not been complied with, the Directors may, at any time before tender of payment, forfeit and cancel the Forfeiture Shares.

8.5 The Company is under no obligation to refund any moneys to a Member whose Shares have been cancelled pursuant to Sub-Regulation 8.4 and that Member shall be discharged from any further obligation to the Company.

9 DISTRIBUTIONS

9.1 Subject to Sub-Regulation 9.2, the Directors may, by Resolution of Directors, authorise a Distribution by the Company to the Members at such time and of such amount as they think fit, if they are satisfied (on reasonable grounds) that the Company will, immediately after the Distribution, satisfy the Solvency Test.

9.2 If, after a Distribution is authorised (but before it is made) the Directors cease to be satisfied (on reasonable grounds) that the Company will be able to satisfy the Solvency Test after the Distribution is made, then such Distribution is deemed not to have been authorised.

9.3 Distributions may be paid in money, shares or other property.

9.4 The Directors may, before recommending any Distribution, set aside out of the profits of the Company such sums as they think proper as a reserve which shall, at their discretion, either be employed in the business of the Company or be invested in such investments as the Directors may from time to time think fit.

9.5 If several Eligible Persons are registered as joint holders of any Share, any of them may give effectual receipt for any Distribution or other monies payable on or in respect of the jointly held Share.

9.6 Notice of any Distribution that may have been declared shall be given to each Member pursuant to Regulation 30.

9.7 All Distributions that are unclaimed for three years after having been declared may be forfeited by a Resolution of Directors, for the benefit of the Company.

9.8 No Distribution shall bear interest against the Company or be paid on those shares which are held by the Company as Treasury Shares at the date of the Distribution is declared.

10 MEETINGS OF MEMBERS

10.1 The Company may, but shall not (unless required by the Exchange Rules, if applicable) be obligated to, in each year hold a Members Meeting as an annual general meeting, which, if held, shall be convened by the Board, in accordance with these Articles.

10.2 A Members Meeting may be convened by:

(a) a Director at such times and in such manner and places, within or outside the British Virgin Islands, as the Director considers necessary or desirable; or

(b) the Directors, upon the written request of Members entitled to exercise 30 per cent. (or more) of the voting rights in respect of the matter for which the Members Meeting is requested.

10.3 The Director convening a Members Meeting shall give not less than seven days' notice of a Members Meeting to:

(a) those Members whose names appear on the Register of Members on the date the notice is given and who are entitled to vote at the Members Meeting; and

(b) the other Directors.

10.4 The Director convening a Members Meeting may fix as the record date for determining those Members that are entitled to vote at the Members Meeting the date notice is given of the Members Meeting, or such other date as may be specified in the notice, being a date not earlier than the date of the notice.

10.5 A Members Meeting held in contravention of the requirement to give notice is valid if Members holding at least 90 per cent. of the total voting rights on all the matters to be considered at the Members Meeting have waived notice of the Members Meeting and, for this purpose, the presence of a Members at the Members Meeting shall constitute waiver in relation to all the Shares which that Members holds.

10.6 The inadvertent failure of a Director who convenes a Members Meeting to give notice of a Members Meeting to a Member or another Director, or the fact that a Member or another Director has not received notice, does not invalidate the Members Meeting.

11.1 No business shall be transacted at any Members Meeting unless a quorum of Members is present at the time when the Members Meeting proceeds to business. A Members Meeting is duly constituted if, at the commencement of the Members Meeting, there are present in person (or by Proxy) holders of a Majority of the voting rights of the Shares or class or series of Shares entitled to vote on the resolutions to be considered at the Members Meeting. A quorum may comprise a single Member (or Proxy) and then such person may pass a Resolution of Members and a certificate signed by such Member (accompanied by a copy of the proxy instrument if such person is a Proxy) shall constitute a valid Resolution of Members.

11.2 A Member shall be deemed to be present at a Members Meeting if:

- (a) the Member (or its Proxy) participates by telephone or other electronic means; and
- (b) all Members and Proxies participating in the Members Meeting are able to hear each other.

11.3 Subject to Sub-Regulation 11.4, if a Members Meeting is convened upon the requisition of a Director or in any other case and a quorum is not present within two hours from the time appointed for the Members Meeting, the Members Meeting shall stand adjourned to the next business day in the jurisdiction in which the Members Meeting was to have been held at the same time and place or to such other time and place as the Directors may determine by a Resolution of Directors. If, at the adjourned Members Meeting, there are present within one hour from the time appointed for the adjourned Members Meeting in person or by Proxy not less than one third voting rights of the Shares or class or series of Shares entitled to vote on the matters to be considered by the Members Meeting, those present shall constitute a quorum but otherwise the Members Meeting shall be dissolved.

11.4 If a Members Meeting is convened upon the requisition of the Members, and a quorum is not present within two hours from the time appointed for the Members Meeting, the Members meeting shall be dissolved.

11.5 The Chairperson may, with the consent of the Members at the Members Meeting, adjourn any Members Meeting from time to time, and from place to place, but no business shall be transacted at any adjourned Members Meeting other than the business left unfinished at the Members Meeting from which the adjournment took place.

11.6 A resolution put to the vote in a Members Meeting shall be decided on a show of hands by the Members holding a Majority of the voting rights of the Shares or class or series of Shares entitled to vote on Resolutions of Members to be considered at the Members Meeting.

11.7 A declaration by the Chairperson that a Resolution of Members has, on a show of hands been approved, and an entry is made to that effect in the Minute Book, shall be sufficient evidence of the fact, without proof of the number or proportion of the votes recorded in favour of or against such Resolution of Members.

11.8 At any Members Meeting, the Chairperson is responsible for deciding in such manner as he or she considers appropriate, whether any resolution proposed has been carried or not and the result of his or her decision shall be announced to the Members Meeting and recorded in the minutes of the Members Meeting. If the Chairperson has any doubt as to the outcome of the vote on a proposed resolution, he or she shall cause a poll to be taken of all votes cast upon such resolution. If the Chairperson fails to take a poll then any Member present in person or by Proxy who disputes the announcement by the Chairperson of the result of any vote may immediately following such announcement demand that a poll be taken and the Chairperson shall cause a poll to be taken. If a poll is taken at any Members Meeting, the result shall be announced to the Members Meeting and recorded in the minutes of the Members Meeting.

11.9 The right of any individual to speak for or represent a Member who is not an individual shall be determined by the law of the jurisdiction where, and by the documents by which, such Member is constituted or derives its existence. In case of doubt, the Directors may in good faith seek legal advice from any qualified person and unless

and until a court of competent jurisdiction shall otherwise rule, the Directors may rely and act upon such advice without incurring any liability to any Member or the Company.

11.10 Any Member who is not an individual may, by resolution of its directors or other governing body, authorise such individual as it thinks fit to act as its representative at any Members Meeting or of any meeting of a class of Members, and such individual shall be entitled to exercise the same rights on behalf of the Member which he or she represents as that Member could exercise if it were an individual Member.

11.11 The Chairperson of any Members Meeting at which a vote is cast by Proxy or on behalf of any Eligible Person other than an individual may call for a notarially certified copy of such Proxy or authority which shall be produced within seven (7) days of being so requested or the votes cast by such Proxy or on behalf of such Eligible Person shall be disregarded.

11.12 The Directors may attend and speak at any Members Meeting and at any separate Members Meeting of the holders of any class or series of Shares.

11.13 An action that may be taken by the Members at a Members Meeting may also be taken by a Resolution of Members consented to in writing by a Majority of the votes of Shares entitled to vote and voting thereon, without the need for any notice. If any Resolution of Members is adopted otherwise than by the unanimous written consent of all Members, a copy of such resolution shall forthwith be sent to all Members not consenting to such resolution. The consent may be in the form of counterparts, each counterpart being signed by one or more Members. If the consent is in one or more counterparts, and the counterparts bear different dates, then the resolution shall take effect on the earliest date upon which Eligible Persons holding a sufficient number of votes of Shares to constitute a Resolution of Members have consented to the resolution by signed counterparts.

11.14 If the Company has only one Member the provisions herein contained for a Members Meeting do not apply and such sole Member has full power to represent and act for the Company in all matters as are by the Act, the Memorandum or these Articles required to be exercised by the Members. In lieu of minutes of a Members Meeting, the sole Member shall record in writing and sign a note or memorandum of all matters requiring a Resolution of Members. Such a note or memorandum constitutes sufficient evidence of such Resolutions of Members for all purposes.

11.15 In the case of an equality of votes, whether on a show of hands or on a poll, the Chairperson at which the show of hands takes place, or at which the poll is demanded, shall not be entitled to a second or casting vote.

12 MEMBER'S REPRESENTATION AT A MEETING BY PROXY

12.1 A Member may be represented at a Members Meeting by a Proxy who may speak and vote on behalf of that Member.

12.2 The instrument appointing the Proxy must be produced:

- (a) at the place designated for the Members Meeting to take place at which the Proxy proposes to vote; and
- (b) before the time the Members Meeting at which the Proxy proposes to vote is scheduled to take place,

unless the notice of the Members Meeting at which the Proxy proposes to vote has specified an alternative or additional place or time at which the Proxy shall be presented.

12.3 The instrument appointing a Proxy shall be in writing and substantially the following form, or such other form as the Chairperson shall accept as properly evidencing the wishes of the Member, appointing the Proxy.

Company Name: _____ (the "Company")

Company Number: _____

In this appointment of a proxy, except where the context otherwise requires (or except where terms are defined herein) words and expressions shall have the same meanings assigned to them in the Company's memorandum and articles of association.

I am/We are a Member of the Company **HEREBY APPOINT:**

_____ of _____
or failing him/her

_____ of _____

to be my/our proxy to vote for me/us at the Members Meeting to be held on _____

at _____ and at any adjournment thereof.

(Any restrictions on voting to be inserted here.)

Signed by: (Name of Member)

Date:

12.4 Where Shares are held jointly, by two or more Eligible Persons:

- (a) each of the Eligible Person that holds Shares jointly may be present in person (or by Proxy) at a Members Meeting and may speak as a Member;
- (b) if only one of the joint owners is present at a Members Meeting, in person or by Proxy, he or she may vote on behalf of all joint owners of the Share(s);
- (c) if two or more of the joint owners are present at a Members Meeting, in person or by Proxy, they must vote as one; and
- (d) if two or more of the joint owners are present at a Members Meeting, in person or by Proxy, and vote, it is the vote of the joint owner whose name appears first among such voting joint holders in the Register of Members alone that shall be counted.

13 APPOINTMENT AND REMOVAL OF DIRECTORS

13.1 The first Director(s) shall be appointed by the Registered Agent within six (6) months of the date of incorporation of the Company. Thereafter, the Directors shall be elected by Resolution of Members or by Resolution of Directors for such terms as these Articles and the Members or Directors may so determine.

13.2 If, before the Company has any Members, the sole Director or all of the Directors appointed by the Registered Agent resign, die or otherwise cease to exist, the Registered Agent may appoint one or more further Eligible Persons as a Director.

13.3 Subject to Sub-Regulation 13.2, the minimum number of Directors shall be one (1) and there shall be no maximum number of Directors.

13.4 No Eligible Person shall be:

- (a) appointed as a Director or as an Alternate Director; or
- (b) nominated as a Reserve Director,

unless he or she has consented to be a Director, an Alternate Director, or to be nominated as a Reserve Director (as applicable).

13.5 Each Director shall hold office for such period as may be determined by a Resolution of Directors or a Resolution of Members, save that for so long as the Shares in the Company are listed on any Designated Stock Exchange and unless removed in accordance with Sub-Regulations 13.10 or 13.11 below:

- (a) each Director in office immediately prior to the first annual general meeting following the IPO Date shall retire at that annual general meeting unless re-elected in accordance with these Articles; and
- (b) thereafter, each Director re-elected or otherwise appointed shall be appointed for a term expiring at the next-following annual general meeting of the Company where upon that Director shall retire unless re-elected in accordance with these Articles.

13.6 If the Company does not fill the vacancy at the meeting at which a Director retires or otherwise, the retiring Director shall, if willing to act, be deemed to have been re-appointed unless at the meeting it is resolved not to fill the vacancy or unless a resolution for the re-appointment of the Director is put to the meeting and lost. If a retiring Director is re-appointed he is treated as having remained a director continuously.

13.7 Subject to Sub-Regulation 13.5, if there is no fixed term, the Director serves indefinitely until the earlier of:

- (a) his or her disqualification to act as a Director under the Act (on which his or her office as Director shall be automatically terminated if he or she has not resigned in accordance with the Act); or
- (b) his or her death; or
- (c) his or her resignation; or
- (d) the effective date of his or her removal by Resolution of Directors or Resolution of Members.

13.8 A Director may resign his or her office by giving written notice of his or her resignation to the Company. Such resignation has effect from the date the notice is received by the Company at the Registered Office or from such later date as may be specified in the resignation notice. A Director shall resign forthwith as a Director if he or she is, or becomes, disqualified from acting as a Director under the Act.

13.9 The following are disqualified for appointment as a Director:

- (a) an individual who is under 18 years of age;
- (b) a person who is a disqualified person within the meaning of section 260(4) of the Insolvency Act;
- (c) a person who is a restricted person within the meaning of section 409 of the Insolvency Act; and/or
- (d) an undischarged bankrupt.

13.10 Sections 114(2) and 114(3) of the Act shall not apply to the Company. A Director may be removed from office, with or without cause, by a Resolution of Members.

13.11 Sections 114(5) of the Act shall not apply to the Company. A Director may be removed from office, with or without cause, by a Resolution of Directors.

13.12 The Directors may at any time appoint any Eligible Person to be a Director either to fill a vacancy or as an addition to the existing Directors. Where the Directors appoint an Eligible Person as Director to fill a vacancy, the term shall not exceed the term that remained when the Eligible Person who has ceased to be a Director ceased to hold office.

13.13 A vacancy in relation to Directors occurs if a Director dies or otherwise ceases to hold office prior to the expiration of his or her term of office.

13.14 A Director does not have to hold any Shares, but nevertheless shall be entitled to attend and speak at any Director Meeting and at any Members Meeting and at any separate meeting of the holders of any class of Shares.

13.15 The Directors may, by Resolution of Directors, fix the emoluments of Directors with respect to services to be rendered in any capacity to the Company.

14 ALTERNATE DIRECTORS

14.1 Subject to Sub-Regulation 13.4, a Director may appoint an Eligible Person (who is not disqualified from being a director) to be his or her Alternate Director to:

- (a) exercise the powers of the Appointing Director; and
- (b) carry out the Appointing Director's responsibilities,
in relation to taking decisions by the Directors in the absence of the Appointing Director.

14.2 An Alternate Director has the same rights as the Appointing Director in relation to any Resolution of Directors.

14.3 Any exercise by an Alternate Director of the Appointing Director's powers in relation to the taking of decisions by the Directors, is as effective as if the powers were exercised by the Appointing Director.

14.4 The Appointing Director may, at any time, terminate the Alternate Director's appointment.

14.5 The appointment of an Alternate Director and the termination of an Alternate Director's appointment must be made in writing and written notice shall be given by the Appointing Director to the Company as soon as reasonably practicable so the appointment/termination can be noted on the Register of Directors.

14.6 An Alternate Director has no power to appoint an alternate, whether of the Appointing Director or of the Alternate Director.

14.7 An Alternate Director does not act as an agent of or for the Appointing Director.

15 RESERVE DIRECTORS

15.1 Subject to Sub-Regulation 13.4, a Controller may, by instrument in writing, nominate an Eligible Person (who is not disqualified from being a director) as a Reserve Director to act in his or her place in the event of his or her death.

15.2 The nomination of a Reserve Director ceases to have effect if before the death of the Controller:

- (a) he or she resigns as Reserve Director; or
- (b) the Controller revokes the nomination (in writing); or
- (c) the Controller ceases to be the sole Director and sole Member for any reason other than his or her death.

15.3 The nomination of a Reserve Director and the written cessation of a Reserve Director's nomination must be made in writing and written notice shall be given by the Controller to the Company as soon as reasonably practicable, so the nomination/cessation can be noted on the Register of Directors.

16 REGISTER OF DIRECTORS

16.1 The Company shall maintain a Register of Directors that shall contain such information as is prescribed in the Act, a copy of which must be filed with the Registrar within:

- (a) 14 days of the appointment of the first Director(s); and
- (b) 21 days of any changes occurring to the Register of Directors.

16.2 The Register of Directors may be kept in any such form as the Directors may approve, but if it is in magnetic, electronic or other data storage form, the Company must be able to produce legible evidence of its contents. Until a Resolution of Directors determining otherwise is passed, the magnetic, electronic or other data storage shall be the original Register of Directors.

16.3 The Register of Directors is *prima facie* evidence of any matters directed or authorised by the Act to be contained therein.

17 DUTIES OF DIRECTORS

17.1 When exercising his or her powers or performing his or her duties, a Director shall act honestly and in good faith and in a manner which he or she believes to be in the best interests of the Company.

17.2 Notwithstanding Sub-Regulation 17.1 (even though it may not be in the best interests of the Company) a Director may act in a manner which he or she believes is in the best interests of:

- (a) the Parent, if the Company is a wholly-owned Subsidiary;
- (b) the Parent, if the Company is a Subsidiary (but not a wholly-owned Subsidiary) and the Members (other than the Parent) have provided their prior agreement to the Director acting in this manner; and
- (c) the Member(s), if the Company is carrying out a joint venture between the Members and those actions are limited to actions connected to or with the joint venture.

17.3 Each Director shall exercise his or her powers as a Director for a proper purpose and shall not act, or agree to the Company acting, in a manner that contravenes the Act, the Memorandum or these Articles.

17.4 When exercising his or her powers and/or carrying out his or her duties, each Director must act in good faith, make proper inquiry where the need for the inquiry is indicated by the circumstances and have no knowledge that his or her reliance on the Company Records and/or such other information prepared for or supplied to him or her is not warranted.

17.5 When exercising his or her powers and/or carrying out his or her duties, each Director:

- (a) shall exercise the care, diligence, and skill that a reasonable director would exercise in the same circumstances taking into account, but without limitation the nature of the Company, the nature of the decision, the position of the Director and the nature of the responsibilities undertaken by him or her; and
- (b) is, subject to Sub-Regulation 17.5(a), entitled to rely upon:
 - (i) the Company Records and/or such other information prepared for or supplied to the Director;
 - (ii) professional or expert advice given, by: (A) an employee of the Company whom the Director believes on reasonable grounds to be reliable and competent in relation to the matters concerned; (B) a professional adviser or expert in relation to matters which the Director believes on reasonable grounds to be within the person's professional or expert competence; and/or (C) any other Director, or Committee upon which the Director did not serve, in relation to matters within the Director's or Committee's designated authority.

18 DISCLOSURE OF INTERESTS

18.1 A Director shall, forthwith after becoming aware of the fact that he or she is interested in a transaction entered into or to be entered into by the Company, disclose such interest to the other Directors, unless the transaction or proposed transaction:

- (a) is between the Director and the Company; and
- (b) is or is to be entered into in the ordinary course of the Company's business and on usual terms and conditions.

For the avoidance of doubt, a disclosure is only made when it is brought to the attention of every Director.

18.2 For the purposes of Sub-Regulation 18.1, the disclosure by a Director that he or she is a member, director, officer or trustee of another named entity or other Eligible Person, or has a fiduciary relationship with respect to the entity or other Eligible Person, and is to be regarded as interested in any transaction which may, after the date of the entry or disclosure of interest, be entered into with the Company or that Director, is a sufficient disclosure of interest in relation to that transaction.

18.3 A transaction entered into by the Company in respect of which a Director is interested is voidable by the Company unless the Director's interest was disclosed in accordance with Sub-Regulation 18.1 prior to the Company entering into the transaction.

18.4 Notwithstanding Sub-Regulation 18.3, a transaction entered into by the Company in respect of which a Director is interested is not voidable by the Company if:

- (a) the material facts of the interest of the Director in the transaction are known by the Members entitled to vote at a Members Meeting and the transaction is approved or ratified by a Resolution of Members; or
- (b) the Company received fair value for the transaction.

A determination as to whether or not the Company receives fair value for a transaction shall be made on the basis of the information known to the Company and the interested Director at the time that the transaction was entered into.

18.5 A Director who is interested in a transaction entered into or to be entered into by the Company may:

- (a) vote on a matter relating to the transaction;
- (b) attend a Director Meeting at which a matter relating to the transaction arises and be included among the Directors present at the Director Meeting for the purposes of a quorum; and

(c) sign a document on behalf of the Company, or do any other thing in his or her capacity as a Director, that relates to the transaction,

and, subject to compliance with the Act shall not, by reason of his office be accountable to the Company for any benefit which he derives from such transaction and no such transaction shall be liable to be avoided on the grounds of any such interest or benefit.

19 POWERS OF DIRECTORS

19.1 The business and affairs of the Company shall be managed by, or under the direction or supervision of, the Directors. The Directors have all the powers necessary for managing, and for directing and supervising, the business and affairs of the Company. The Directors may pay all expenses incurred preliminary to and in connection with the incorporation of the Company and may exercise all such powers of the Company as are not by the Act, by the Memorandum or by these Articles required to be exercised by the Members.

19.2 Any Director which is a body corporate may appoint any individual as its duly authorised representative for the purpose of representing it at Director Meeting, with respect to the signing of consents or otherwise.

19.3 The Directors may by Resolution of Directors exercise all the powers of the Company to incur indebtedness, liabilities or obligations and to secure indebtedness, liabilities or obligations whether of the Company or of any third party.

19.4 All cheques, promissory notes, drafts, bills of exchange and other negotiable instruments and all receipts for moneys paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed, as the case may be, in such manner as shall from time to time be determined by Resolution of Directors.

19.5 Section 175 of the Act shall not apply. The Directors may, by Resolution of Directors, determine that any sale, transfer, lease, exchange or other disposition is in the usual or regular course of the business carried on by the Company and such determination is, in the absence of fraud, conclusive.

19.6 The continuing Directors may act notwithstanding any vacancy in their body.

20 PROCEEDINGS OF DIRECTORS

20.1 The Directors or any Committee may meet at such times and in such manner and places within or outside the British Virgin Islands as the Directors may determine to be necessary or desirable.

20.2 Any Director may call a Director Meeting by sending a written notice to each other Director. Subject to Sub-Regulation 20.3, a Director shall be given not less than three (3) Business Days' notice of a Director Meeting.

20.3 A Director Meeting held without (or on less than) three (3) Business Days' notice being given to all of the Directors is valid if all of the Directors entitled to vote at the Director Meeting who do not attend have waived the notice of the Director Meeting. For the avoidance of doubt, the presence of a Director at the Director Meeting shall constitute a waiver by that Director (unless he or she objects in writing before or at the Director Meeting).

20.4 The inadvertent failure to give notice of a Director Meeting, or the fact that a Director has not received the notice, shall not invalidate the Director Meeting.

20.5 A Director Meeting is duly constituted for all purposes if at the commencement of the Director Meeting there are present in person (or by its Alternate Director) a Majority of the total number of Directors, unless there are only two (2) Directors in which case the quorum will be two (2).

20.6 A Director shall be deemed to be present at a Director Meeting if:

- (a) the Director (or by its Alternate Director) participates by telephone or other electronic means; and
- (b) all Directors (or by its Alternate Director) participating in the Director Meeting are able to hear each other.

20.7 If within half an hour from the time appointed for the Director Meeting a quorum is not present, the Director Meeting shall be dissolved.

20.8 At a Directors Meeting, the Directors may elect a Chairperson of the Board and determine the period for which he or she is to hold office. If no such Chairperson of the Board is elected, or if at any Director Meeting the Chairperson of the Board is not present at the time appointed for holding the Director Meeting, the Directors present may choose one of their number to be Chairperson of the Board for the Director Meeting. If the Directors are unable to choose a Chairperson of the Board, for any reason, then the longest serving Director present at the Director Meeting shall preside as the Chairperson of the Board.

20.9 Questions arising at any Director Meeting shall be decided by a Majority of votes. In case of an equality in votes the Chairperson of the Board shall have a second or casting vote.

20.10 Any action that may be taken by the Directors at a Directors Meeting or by a Committee Members at a Committee Meeting may also be taken by a Resolution of Directors or a resolution of a Committee Members consented to in writing by a Majority of Directors or by a Majority of Committee Members, as the case may be, without the need for any notice. The consent may be in the form of counterparts each counterpart being signed by one or more Directors. If the consent is in one or more counterparts, and the counterparts bear different dates, then the resolution shall take effect on the date upon which the last Director has consented to the resolution by signed counterparts.

20.11 If the Company has only one Director the provisions herein contained for Director Meetings do not apply and such sole Director has full power to represent and act for the Company in all matters as are not by the Act, the Memorandum or these Articles required to be exercised by the Members. In lieu of minutes of a Director Meeting the sole Director shall record in writing and sign a note or memorandum of all matters requiring a Resolution of Directors. Such a note or memorandum constitutes sufficient evidence of such Resolution of Directors for all purposes.

21 COMMITTEES

21.1 Subject to Sub-Regulation 21.2, the Directors may designate one or more Committees and delegate any one or more of their powers, including the power to affix the Seal, to the Committee.

21.2 The Directors have no power to delegate any of the Prohibited Powers to a Committee.

21.3 Where the Directors delegate their powers to a Committee, they remain responsible for the exercise of that power by the Committee, unless they believed on reasonable grounds that at all times before the exercise of the power that the Committee would exercise the power in conformity with the duties imposed on directors by the Act.

21.4 A Committee, where authorised by the Resolution of Directors appointing such Committee or by a subsequent Resolution of Directors, may appoint a sub-committee and delegate powers exercisable by the Committee to the sub-committee.

21.5 The Committee Meeting, consisting of 2 or more Directors, shall be governed *mutatis mutandis* by the provisions of these Articles regulating the proceedings of Directors so far as the same are not superseded by any provisions in the Resolution of Directors establishing the Committee.

21.6 The Board shall establish an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee as required in accordance with the Exchange Rules. Each of these Committees shall be empowered to do all things necessary to exercise the powers of such Committee delegated to that Committee in

accordance with these Articles. Each of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee shall consist of at least three Directors (or such larger minimum number as may be required from time to time by the Exchange Rules). The majority of the Committee Members on each of the Compensation Committee and Nominating and Corporate Governance committee shall be Independent Directors. The Audit Committee shall be made up of such number of Independent Directors as required from time to time by the Exchange Rules or otherwise required by applicable law.

22 OFFICERS

22.1 The Directors may, by a Resolution of Directors, appoint an Eligible Person to be an Officer at such times as shall be considered necessary or expedient.

22.2 The emoluments of all Officers shall be fixed by Resolution of Directors.

22.3 An Officer:

- (a) does not need be a Director or Member; and
- (b) may hold more than one office in the Company (e.g. it may be the secretary and the vice-president of the Company).

22.4 Each Officer shall:

- (a) consent (in writing) to their appointment as an Officer;
- (b) hold office until its successor is duly appointed or it is removed, with or without cause, by Resolution of Directors; and
- (c) perform such duties as shall be prescribed at the time of their appointment, subject to any modifications in such duties as may be prescribed by the Directors thereafter.

22.5 Any vacancy occurring in any office of the Company may be filled by Resolution of Directors.

22.6 An Officer that is a body corporate may appoint any person as its duly authorised representative for the purpose of representing it and of transacting any of the business of an Officer.

23 AGENTS

23.1 The Directors may, by Resolution of Directors, appoint an Eligible Person to be an Agent.

23.2 An Agent has no right to carry out any of the Prohibited Powers.

23.3 Subject to Sub-Regulation 23.2, an Agent shall have such powers and authority of the Directors, including the power and authority to affix the Seal and to exercise the power an authority granted in the Memorandum, these Articles or in the Resolution of Directors appointing the Agent, except that no Agent has any power or authority to:

- (a) change the Registered Agent of the Registered Office; or
- (b) fix emoluments of Directors; or
- (c) authorise the Company to continue as a company incorporated under the laws of a jurisdiction outside the British Virgin Islands.

23.4 The Resolution of Directors appointing an Agent may authorise the Agent to appoint one or more substitutes or delegates to exercise some or all of the powers conferred on the Agent by the Company.

23.5 The Directors may remove an Agent and may revoke or vary a power conferred on him or her by a Resolution of Directors.

24 INDEMNIFICATION AND INSURANCE

24.1 Subject to the limitations provided in this Regulation 24, the Company may indemnify against all expenses, including legal fees, and against all judgements, fines and amounts paid in settlement and reasonably incurred in connection with legal, administrative or investigative proceedings any Eligible Person who is or was:

(a) a party or is threatened to be made a party to any threatened, pending or completed proceedings, whether civil, criminal, administrative or investigative, by reason of the fact that the Eligible Person is or was a Director; or

(b) at the request of the Company, serving as a director of, or in any other capacity is or was acting for, another body corporate or a partnership, joint venture, trust or other enterprise.

24.2 Sub-Regulation 24.1 does not apply unless the Eligible Person acted honestly and in good faith and in what he or she believed to be in the best interests of the Company and, in the case of criminal proceedings, the Eligible Person had no reasonable cause to believe that his or her conduct was unlawful.

24.3 For the purposes of Sub-Regulation 24.2, a Director acts in the best interests of the Company if he or she acts in the best interests of the Parent or Member (or Members), in either case, in the circumstances specified in the Act, as the case may be.

24.4 The decision of the Directors as to whether the person acted honestly and in good faith and with a view to the best interests of the Company and as to whether the person had no reasonable cause to believe that his conduct was unlawful is, in the absence of fraud, sufficient for the purposes of these Articles, unless a question of law is involved.

24.5 The termination of any proceedings by any judgement, order, settlement, conviction or the entering of a *nolle prosequi* does not, by itself, create a presumption that the Eligible Person did not act honestly and in good faith and with a view to the best interests of the Company or that the Eligible Person had reasonable cause to believe that his or her conduct was unlawful.

24.6 Expenses, including legal fees, incurred by a Director (or a former director) in defending any legal, administrative or investigative proceedings may be paid by the Company in advance of the final disposition of such proceedings upon receipt of an undertaking by or on behalf of the Director (or a former director) to repay the amount if it shall ultimately be determined that the Director (or a former director) is not entitled to be indemnified by the Company in accordance with Sub-Regulation 24.1 and upon such other terms and conditions, if any, as the Company deems appropriate.

24.7 The indemnification and advancement of expenses provided by, or granted pursuant to, this Regulation 24 is not exclusive of any other rights to which the Eligible Person seeking indemnification or advancement of expenses may be entitled under any agreement, Resolution of Members, resolution of disinterested directors or otherwise, both as to acting in the Eligible Person's official capacity and as to acting in another capacity while serving as a Director.

24.8 If an Eligible Person referred to in Sub-Regulation 24.1 has been successful in defence of any proceedings referred to Sub-Regulation 24.1, the Eligible Person is entitled to be indemnified against all expenses, including legal fees, and against all judgements, fines and amounts paid in settlement and reasonably incurred by the Eligible Person in connection with the proceedings.

24.9 The Company shall not indemnify an Eligible Person in breach of Sub-Regulation 24.2, and any indemnity given in breach of Sub-Regulation 24.2 is void and of no effect.

24.10 The Company may purchase and maintain insurance in relation to any Eligible Person who is or was a Director, Officer or liquidator of the Company, or who at the request of the Company is or was serving as a Director, Officer or liquidator of, or in any other capacity is or was acting for, another body corporate or a partnership, joint venture, trust or other enterprise, against any liability asserted against the Eligible Person and incurred by the Eligible Person in that capacity, whether or not the Company has or would have had the power to indemnify the Eligible Person against the liability as provided in these Articles.

25 SEAL

25.1 The Company shall have a Seal and an imprint of the Seal shall be kept at the Registered Office.

25.2 The Company may have more than one Seal and references herein to the Seal shall be references to every Seal which shall have been duly adopted by Resolution of Directors.

25.3 Except as otherwise expressly provided herein the Seal when affixed to any written instrument shall be witnessed and attested to by the signature of any one Director or other Eligible Person so authorised from time to time by Resolution of Directors. Such authorisation may be before or after the Seal is affixed, may be general or specific and may refer to any number of sealings.

25.4 The Directors may provide for a facsimile of the Seal and of the signature of any Director or authorised Eligible Person which may be reproduced by printing or other means on any instrument and it shall have the same force and validity as if the Seal had been affixed to such instrument and the same had been attested to as hereinbefore described.

25.5 A document requiring authentication or attestation by the Company may be signed by a Director, a secretary or by an authorised Agent, and need not be under its Seal.

26 ENTRY INTO CONTRACTS AND DEEDS

26.1 A contract may be entered into by the Company as follows:

(a) a contract that, if entered into by an individual, would be required by law to be in writing and under seal, may be entered into by or on behalf of the Company in writing under the Seal, and may be varied or discharged in the same manner;

(b) a contract that, if entered into by an individual, would be required by law to be in writing and signed, may be entered into by or on behalf of the Company in writing and signed by an Eligible Person acting under the express or implied authority of the Company, and may be varied or discharged in the same manner; and

(c) a contract that, if entered into by an individual, would be valid although entered into orally, and not reduced to writing, may be entered into orally by or on behalf of the Company by an Eligible Person acting under the express or implied authority of the Company, and may be varied or discharged in the same manner.

26.2 A contract entered into in accordance with this Regulation 26 is valid and is binding on the Company and its successors and all other parties to the contract.

26.3 Notwithstanding Sub-Regulation 26.1, an instrument or deed executed by or on behalf of the Company by a Director or an authorised Agent is not invalid by reason only of the fact that the Seal is not affixed to the instrument or deed.

26.4 Notwithstanding Sub-Regulation 26.1, an instrument is validly executed by the Company as a deed or an instrument under seal if it is either:

- (a) sealed with the Seal and witnessed by a Director; or
- (b) is expressed to be, or is expressed to be executed as, or otherwise makes clear on its face that it is intended to be, a deed and it is signed by a Director or by an Eligible Person acting under the express or implied authority of the Company.

27 REGISTER OF CHARGES

27.1 The Company must maintain a Register of Charges at the Registered Office, which must confirm:

- (a) the name and address of each secured party;
- (b) details of each security document it has entered into that creates a charge over the Company's assets;
- (c) a short description of the liabilities secured and property charged by each security document; and
- (d) details of any prohibition or restrictions on the Company's power to create any future charges.

27.2 If a charge entered on the Register of Charges is amended, the Company must notify its Registered Agent within 14 days of such change, so the Register of Charges can be updated.

27.3 The Company may elect to file a copy of its Register of Charges with the Registrar, to make it available for public inspection and to obtain priority ranking for the secured party.

28 COMPANY RECORDS

28.1 The Company shall keep the following at the Registered Office:

- (a) the Memorandum and these Articles;
- (b) the Company Records;
- (c) copies of all notices and other documents filed by the Company in the previous ten years;
- (d) the Register of Charges; and
- (e) an imprint of the Seal.

28.2 The Company shall keep the Company Records at the Registered Office or at such other place(s) or places, within or outside the British Virgin Islands, as the Directors may determine. Until the Directors determine otherwise by Resolution of Directors, the Company shall keep the original Registers at the Registered Office.

28.3 If a copy of the Registers (rather than the original) is not maintained at the Registered Office, the Company must inform the Registered Agent (in writing) of any change to the Register and provide the Registered Agent with a copy of the updated Register, within 15 days of such change.

28.4 If any of the Company Records are kept in a location other than the Registered Office, the Company shall provide the Registered Agent with a written record of:

- (a) the physical address of the place at which each of the Company Records are kept; and

(b) the name of the person who maintains and controls each of the Company Records.

28.5 If the location at which any of the Company Records are kept, or the name of the person who maintains and controls any of the Company Records changes, the Company shall, within 14 days of the change provide its Registered Agent with:

(a) the physical address of the place at which each of the Company Records are kept; and

(b) the name of the person who maintains and controls each of the Company Records.

28.6 The Company Records shall be open to the inspection of the Directors at all times.

28.7 The Directors shall from time to time determine whether and to what extent and at what times and places and under what conditions the Company Records or any of them shall be open to the inspection of Members (not being Directors), and no Member (not being a Director) shall have any right to inspect any Company Records except as conferred by the Act or authorised by a Resolution of Directors.

28.8 The Company Records shall be in written form or either wholly or partly as electronic records complying with the requirements of the Electronic Transactions Act.

29 ACCOUNTS AND AUDITORS

29.1 The Company shall maintain records and documents (and underlying documentation), which are sufficient to show and explain the Company's transactions and enable the Company (at any time) to determine the financial position of the Company with reasonable accuracy (the "**Records and Documents**"), which for the avoidance of doubt includes accounts in relation to:

(a) all sums of money received and expended by the Company and the matters in respect of which the receipt and expenditure takes place;

(b) all sales and purchases of goods by the Company; and

(c) the assets and liabilities of the Company;

29.2 The Company may by Resolution of Shareholders call for the Directors to prepare periodically and make available a profit and loss account and a balance sheet (the "**Balance Sheet**"). The Balance Sheet shall be drawn up so as to give respectively a true and fair view of the profit and loss of the Company for a financial period and a true and fair view of the assets and liabilities of the Company as at the end of a financial period.

29.3 The Company may by Resolution of Shareholders call for the accounts to be examined by auditors.

29.4 The Company may appoint an auditor (the "**Auditor**"). The Auditors shall be appointed by Resolution of Shareholders or by Resolution of Directors.

29.5 A Member may be an Auditor. However, no Director or Officer can be an Auditor during their continuance in office.

29.6 The remuneration of the Auditors may be fixed by Resolution of Directors.

29.7 The Auditors shall examine each Balance Sheet required to be laid before a Members Meeting or otherwise given to Members and shall state in a written report whether or not:

(a) in their opinion the Balance Sheet give a true and fair view respectively of the profit and loss for the period covered by the accounts, and of the assets and liabilities of the Company at the end of that period; and

(b) all the information and explanations required by the Auditors have been obtained.

29.8 The report of the Auditors shall be annexed to the accounts and shall be read at the Members Meeting at which the accounts are laid before the Company or shall be otherwise given to the Members.

29.9 The Auditors shall be entitled to receive notice of, and to attend any Members Meeting at which the Balance Sheet is to be presented.

29.10 Each Auditor shall, at all times, have the right to access the Company Records, and shall be entitled to such information and explanations as he or she thinks necessary for the performance of his or her duties.

30 NOTICES

30.1 Any Notice or document, whether or not, to be given or issued under these Articles from the Company to a Member shall be in writing or by cable, telex or facsimile transmission message or other form of electronic transmission or communication and any such Notice and document may be served or delivered by the Company on or to any Member either personally or by sending it through the post in a prepaid envelope addressed to such Member at his registered address as appearing in the Registrar of Members or at any other address supplied by him to the Company for the purpose or, as the case may be, transmitting it to any such address or transmitting it to any telex or facsimile transmission number or electronic number or address or website supplied by him to the Company for the giving of Notice to him or which the person transmitting the notice reasonably and bona fide believes at the relevant time will result in the Notice being duly received by the Member or may also served by advertisement in appropriate newspaper in accordance with the requirements of the Designated Stock Exchange or, to the extent permitted by the applicable laws, by placing it on the Company's website and giving to the member a notice or other document is available there (a "notice of availability"). The notice of availability may be given to a Member by any of the means set out above. In the case of joint holders of a share all notices shall be given to that one of the joint holders whose name stands first in the Register and notice so given shall be deemed a sufficient service on or delivery to all the joint holders.

30.2 Any Notice or other document:

- (a) if served or delivered by post shall be deemed to have been served or delivered on the fifth (5th) day following that on which the envelope containing the same, properly prepaid and addressed, is put into the post; in providing such service or delivery shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly addressed and put into the post and a certificate in writing signed by Secretary or other officer of the Company or other person appointed by the Board that the envelope and wrapper containing the Notice or other document was so addressed and put into the post shall be conclusive evidence thereof.
- (b) if sent by electronic communication, shall be deemed to be given on the day on which it is transmitted from the server of the Company or its agent. A Notice placed on the Company's website is deemed given by the Company to a Member on the day following that on which a notice of availability is deemed served on the Member; and
- (c) if served or delivered in any other manner contemplated by these Articles, shall be deemed to have been served or delivered at the time of personal service or delivery or, as the case may be, at the time of the relevant despatch or transmission; and in proving such service or delivery a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the

30.3 Any Notice or other document delivered or sent by post to or left at the registered address of any Member in pursuance of these Articles shall, notwithstanding that such Member is then dead or bankrupt or that any other event has occurred, and whether or not the Company has notice of the death or bankruptcy or other event, be deemed to have been duly served or delivered in respect of any share registered in the name of such Member as sole or joint holder unless his name shall, at the time of the service of delivery of the Notice or document, have been removed from the Register as the holder of the share, and such service or delivery shall for all purposes be deemed a sufficient service or delivery of such Notice or document on all persons interested (whether jointly with or as claiming through or under him) in the share.

30.4 A Notice may be given by the Company to the person entitled to a share in consequence of the death, mental disorder or bankruptcy of a Member by sending it through the post in a prepaid letter, envelope or wrapper addressed to him by name, or by the title of representative of the deceased, or trustee of the bankrupt, or by any like description, at the address, if any, supplied for the purpose by the person claiming to be so entitled, or (until such an address has been so supplied) by giving the notice in any manner in which the same might have been given if the death, mental disorder or bankruptcy had not occurred.

30.5 Any person who by operation of law, transfer or other means whatsoever shall become entitled to any share shall be bound by every Notice on respect of such share which prior to his name and address being entered on the Register shall have been duly given to the person from whom he derives his title to such share.

30.6 For the purpose of these Articles, a cable or telex or facsimile or electronic transmission message purporting to come from a holder of shares or, as the case may be, a Director, or in the case of corporation which is a holder of shares from a director or the secretary thereof or a duly appointed attorney or duly authorised representative thereof for it or its behalf, shall in the absence of express evidence to the contrary available to the person relying thereon at the relevant time be deemed to be a document or instrument in writing signed by such holder or Director in the terms in which it is received.

31 CONTINUATION

The Company may, by a Resolution of Directors or by a Resolution of Members, continue as a company incorporated under the laws of a jurisdiction outside the British Virgin Islands in the manner provided under those laws and in accordance with the Act.

32 VOLUNTARY LIQUIDATION

32.1 The Company may be voluntarily liquidated under Part XII of the Act if it can satisfy the Solvency Test.

32.2 Subject to the Act, the Company may by Resolution of Shareholders or by Resolution of Directors appoint an eligible individual as voluntary liquidator (alone or jointly with one or more other voluntary liquidators).

33 EXCLUSIVE JURISDICTION

33.1 Subject to the Article 33.2, to the fullest extent permitted by applicable law:

- (a) each party hereby agrees that, unless the Board of Directors consents in writing to the selection of an alternative forum, the courts of the British Virgin Islands shall have exclusive jurisdiction to hear and determine all Disputes and, for such purposes, hereby irrevocably submits to the jurisdiction of the courts of the British Virgin Islands; and

- (b) each party hereby irrevocably waives any objection which it might now or hereafter have to the courts of the British Virgin Islands being nominated as the forum to hear and determine such Dispute and undertakes and agrees not to claim any such court is not convenient or appropriate forum.

33.2 To the fullest extent permitted by applicable laws, unless the Board of Directors consents in writing to the selection of an alternative forum, the federal district courts of the United States of America shall be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act or the Securities Exchange Act.

33.3 Each person who is or who at any time becomes a Member or otherwise acquires any interest in shares of the Company shall be deemed to have notice of, and to have consented to, the provisions of this Article 33.

33.4 For the purpose of these Article 33:

- (a) “**Dispute**” means (i) any dispute, suit, action, proceedings, controversy or claim of any kind arising out of or in connection with the Memorandum and/or these Articles, including, without limitation, claims for set-off and counterclaims and any dispute, suit, action, proceedings, controversy or claim of any kind arising out of or in connection with: (x) the creation, validity, effect, interpretation, performance or non-performance of, or the legal relationships established by, the Memorandum and/or these Articles; or (y) any non-contractual obligations arising out of or in connection with the Memorandum and/or these Articles; or (ii) any dispute, suit, action (including, without limitation, any derivative action or proceeding brought on behalf or in the name of the Company or any application for permissions to bring a derivative action), proceedings, controversy or claim of any kind relating or connected to the Company, the Board, the Company's officers, the Company's management or the Members arising out of or in connection with the Act, the Insolvency Act, 2003 of the British Virgin Islands, any other legalisation or common law of the British Virgin Islands affecting any relationship between the Company, its Members and/or its directors and officers (or any of them) or any rights and duties established hereby (including, without limitation, Division 3 of Part VI and Part XI of the Act and section 162(1)(b) of the Insolvency Act, 2003, and fiduciary or other duties owed by any director, officer or shareholder of the Company to the Company or the Company's shareholders); and
- (b) “**party**” means (i) the Company, (ii) each Member, (iii) each former Member (with intention and affect that each former Member shall continue to be bound by the Article 33 notwithstanding that such former Member has transferred all its Shares or otherwise ceased to be a Member); (iv) each director and officer of the Company; (v) each former director and officer (with the intention and affect that each former director and officer shall continue to be bound by this Article 33 notwithstanding such former Member has ceased to be a director or officer); and (vi) any successor, assignee or other person claiming through a person referred to in (i), (ii), (iii), (iv) or (v) above.

We, Sertus Incorporations (BVI) Limited of Sertus Chambers, P.O. Box 905, Quastisky Building, Road Town, Tortola, British Virgin Islands in our capacity as registered agent for the Company hereby apply to the Registrar of Corporate Affairs for the incorporation of the Company this 23rd day of November, 2018.

Incorporator

Sgd: Alyson Parker / Ann Penn

Alyson Parker / Ann Penn



**SHARE CERTIFICATE
OF
CN ENERGY GROUP. INC.
中北能源集团有限公司
(the “Company”)**

INCORPORATED IN THE BRITISH VIRGIN ISLANDS

Authorised to issue an unlimited number of no par value Shares divided into

- (a) Class A Ordinary Shares of no par value; and
(b) Class B Ordinary Shares of no par value.

THIS IS TO CERTIFY THAT THE UNDERMENTIONED PERSON IS THE REGISTERED HOLDER OF THE CLASS A ORDINARY SHARES SPECIFIED HEREUNDER SUBJECT TO THE RULES AND LAWS GOVERNING THE ADMINISTRATION OF THE COMPANY

Name & Address of Shareholder	Share Class	Certificate Number	No. of Shares	Date of Issue
[Name] [Address]	Class A Ordinary	***[Certificate Number]***	-[Number]-	[Date]

GIVEN UNDER THE COMMON SEAL OF THE COMPANY ON THE DATE STATED ABOVE AND IN THE PRESENCE OF

DIRECTOR/OFFICER/AUTHORISED PERSON

NO TRANSFER OF ANY OF THE ABOVE SHARES CAN BE REGISTERED UNLESS ACCOMPANIED BY THIS CERTIFICATE

Description of Rights of Each Class of Securities
Registered under Section 12 of the Securities Exchange Act of 1934, as Amended (the “Exchange Act”)

Class A ordinary shares, no par value (“Class A Ordinary Shares”), of CN Energy Group, Inc. (“we,” “our,” “our company,” or “us”) are listed and traded on the Nasdaq Capital Market, and in connection with this listing (but not for trading), its Class A Ordinary Shares are registered under Section 12(b) of the Exchange Act. This exhibit contains a description of the rights of the holders of Class A Ordinary Shares.

Description of Class A Ordinary Shares

The following is a summary of material provisions of our currently effective third amended and restated memorandum and articles of association as well as the BVI Business Companies Act, 2004, as amended from time to time (the “BVI Act”), insofar as they relate to the material terms of our Class A Ordinary Shares. Notwithstanding this, because it is a summary, it may not contain all the information that you may otherwise deem important. For more complete information, you should read the entirety of our third amended and restated memorandum and articles of association. A copy of our third amended and restated memorandum and articles of association is filed as Exhibit 1.1 to our annual report on Form 20-F (File No. 001-39978) filed with the U.S. Securities and Exchange Commission on January 27, 2023.

Type and Class of Securities (Item 9.A.5 of Form 20-F)

Each Class A Ordinary Share has no par value. The number of Class A Ordinary Shares that had been issued as of the last day of the fiscal year ended September 30, 2022 was 20,062,658. Our Class A Ordinary Shares may be held in either certificated or uncertificated form.

Preemptive Rights (Item 9.A.3 of Form 20-F)

Our Class A Ordinary Shares are not subject to any pre-emptive or similar rights under the BVI Act or pursuant to our third amended and restated memorandum and articles of association.

Limitations or Qualifications (Item 9.A.6 of Form 20-F)

We have a dual-class voting structure such that our ordinary shares consist of Class A Ordinary Shares and Class B ordinary shares (“Class B Ordinary Shares,” together “Ordinary Shares”). In respect of matters requiring a shareholder vote, each holder of Class A Ordinary Shares will be entitled to one vote per one Class A Ordinary Share and each holder of Class B Ordinary Shares will be entitled to 50 votes per one Class B Ordinary Share. The Class A Ordinary Shares are not convertible into shares of any other class. The Class B Ordinary Shares are convertible into Class A Ordinary Shares at any time after issuance at the option of the holder on a one-to-one basis. Due to the super voting power of holders of Class B Ordinary Shares, the voting power of the Class A Ordinary Shares may be materially limited.

Rights of Other Types of Securities (Item 9.A.7 of Form 20-F)

Not applicable.

Rights of Class A Ordinary Shares (Item 10.B.3 of Form 20-F)

Class A Ordinary Shares

We are authorized to issue an unlimited number of no par value Class A Ordinary Shares. All of our issued and outstanding Class A Ordinary Shares are fully paid and non-assessable. Our Class A Ordinary Shares are issued in registered form. Holders of Class A Ordinary Shares and Class B Ordinary Shares have the same rights except for voting and conversion rights.

Distributions

Shareholders holding shares in our Company are entitled to receive such dividends as may be declared by our board of directors subject to the BVI Act and the third amended and restated memorandum and articles of association.

Voting Rights

Any action required or permitted to be taken by the shareholders must be effected at a duly called meeting of the shareholders entitled to vote on such action or may be effected by a resolution of members in writing, each in accordance with the third amended and restated memorandum and articles. On a poll, every shareholder who is present in person and every person representing a shareholder by proxy shall have one vote for each Class A Ordinary Share and 50 votes for each Class B Ordinary Share of which he or the person represented by proxy is the holder. In addition, all shareholders holding shares of a particular class are entitled to vote at a meeting of the holders of that class of shares. Votes may be given either personally or by proxy.

Conversion Rights

Class A Ordinary Shares are not convertible. Class B Ordinary Shares are convertible, at the option of the holder thereof, into Class A Ordinary Shares on a one-to-one basis.

Calls on shares and forfeiture of Shares

Our board of directors may, on the terms established at the time of the issuance of such shares or as otherwise agreed, make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time of payment. The shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption of Shares

Subject to the provisions of the BVI Act, we may issue shares on terms that are subject to redemption, at our option or at the option of the holders, on such terms and in such manner as may be determined by our third amended and restated memorandum and articles of association and subject to any applicable requirements imposed from time to time by, the BVI Act, the SEC, or by any recognized stock exchange on which our securities are listed.

Transfer of Shares

Subject to the restrictions in our third amended and restated memorandum and articles of association and applicable securities laws, any of our shareholders may transfer all or any of his or her Class A Ordinary Shares by written instrument of transfer signed by the transferor and containing the name and address of the transferee or in any other manner as may be permitted in accordance with applicable exchange rules or requirements of the Nasdaq Capital Market or by any recognized stock exchange on which our securities are listed. Our directors may resolve to refuse or delay the registration of the transfer of Ordinary Shares. Where the directors do so, they must specify the reason(s) for this refusal or delay in a resolution of directors. The directors may refuse or delay the registration of a transfer of Ordinary Shares if the transferor has failed to pay an amount due in respect of those Ordinary Shares.

Liquidation

As permitted by the BVI Act and our third amended and restated memorandum and articles of association, we may be voluntarily liquidated under Part XII of the BVI Act by resolution of directors and resolution of shareholders if our assets exceed our liabilities and we are able to pay our debts as they fall due. We also may be wound up in circumstances where we are insolvent in accordance with the terms of the BVI Insolvency Act, 2003 (as amended).

If we are wound up and the assets available for distribution among our shareholders are more than sufficient to repay all amounts paid to us on account of the issue of shares immediately prior to the winding up, the excess shall be distributable pari passu among those shareholders in proportion to the amount paid up immediately prior to the winding up on the shares held by them, respectively. If we are wound up and the assets available for distribution among the shareholders as such are insufficient to repay the whole of the amounts paid to us on account of the issue of shares, those assets shall be distributed so that, to the greatest extent possible, the losses shall be borne by the shareholders in

proportion to the amounts paid up immediately prior to the winding up on the shares held by them, respectively. If we are wound up, the liquidator appointed by us may, in accordance with the BVI Act, divide among our shareholders in specie or kind the whole or any part of our assets (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as the liquidator deems fair upon any property to be divided and may determine how such division shall be carried out as between the shareholders or different classes of shareholders.

Requirements to Change the Rights of Holders of Class A Ordinary Shares (Item 10.B.4 of Form 20-F)

Variations of Rights of Shares

All or any of the rights attached to any class of shares may, subject to the provisions of the BVI Act, be varied only whether or not the Company is in liquidation, either by a resolution:

(a) approved at a duly convened and constituted meeting of shareholders by the affirmative vote of a majority of the votes of the Ordinary Shares of the class being varied and entitled to vote, which were present at the meeting (in person or by their duly appointed proxy) and were voted; or

(b) consented to in writing by a majority of the votes of the Ordinary Shares of the class being varied and entitled to vote, without the need for any notice, and may consist of several documents, including written electronic communication, in like form each signed or assented to by one or more shareholders.

Limitations on the Rights to Own Class A Ordinary Shares (Item 10.B.6 of Form 20-F)

There are no limitations under the BVI Act or imposed by our third amended and restated memorandum and articles on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares.

Provisions Affecting Any Change of Control (Item 10.B.7 of Form 20-F)

Anti-Takeover Provisions

Some provisions of our third amended and restated memorandum and articles of association may discourage, delay or prevent a change in control of our Company or management that shareholders may consider favorable. Under the BVI Act there are no provisions, which specifically prevent the issuance of preferred shares or any such other “poison pill” measures. Our third amended and restated memorandum and articles of association also do not contain any express prohibitions on the issuance of any preferred shares. Therefore, the directors without the approval of the holders of ordinary shares may issue preferred shares that have characteristics that may be deemed to be anti-takeover. Additionally, such a designation of shares may be used in connection with plans that are poison pill plans. However, under British Virgin Islands law, our directors in the exercise of their powers granted to them under our third amended and restated memorandum and articles of association and performance of their duties, are required to act honestly and in good faith in what the director believes to be in the best interests of our Company.

Ownership Threshold (Item 10.B.8 of Form 20-F)

There are no provisions under the BVI Act or under our third amended and restated memorandum and articles of association that govern the ownership threshold above which shareholder ownership must be disclosed.

Differences Between the Law of Different Jurisdictions (Item 10.B.9 of Form 20-F)

The BVI Act and the laws of the British Virgin Islands affecting British Virgin Islands companies like us and our shareholders differ from laws applicable to U.S. corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the laws of the British Virgin Islands applicable to us and the laws applicable to companies incorporated under the Delaware General Corporation Law in the United States and their shareholders.

Mergers and Similar Arrangements

Under the laws of the British Virgin Islands, two or more companies may merge or consolidate in accordance with Section 170 of the BVI Act. A merger means the merging of two or more constituent companies into one of the constituent companies (the “surviving company”) and a consolidation means the uniting of two or more constituent companies into a new company (the “consolidated company”). The procedure for a merger or consolidation between the company and another company (which need not be a British Virgin Islands company, and which may be the company’s parent or subsidiary, but need not be) is set out in the BVI Act. In order to merge or consolidate, the directors of each constituent company must approve a written plan of merger or consolidation, which with the exception of a merger between a parent company and its subsidiary, must also be approved by a resolution of a majority of the shareholders voting at a quorate meeting of shareholders or by written resolution of the shareholders of the British Virgin Islands company or British Virgin Islands companies which are to merge. While a director may vote on the plan of merger or consolidation, or any other matter, even if he has a financial interest in the plan, the interested director must disclose the interest to all other directors of the company promptly upon becoming aware of the fact that he is interested in a transaction entered into or to be entered into by the company. A transaction entered into by our Company in respect of which a director is interested (including a merger or consolidation) is voidable by us unless the director’s interest was (a) disclosed to the board prior to the transaction or (b) the transaction is (i) between the director and the company and (ii) the transaction is in the ordinary course of the company’s business and on usual terms and conditions. Notwithstanding the above, a transaction entered into by the company is not voidable if the material facts of the interest are known to the shareholders and they approve or ratify it or the company received fair value for the transaction. In any event, all shareholders must be given a copy of the plan of merger or consolidation irrespective of whether they are entitled to vote at the meeting to approve the plan of merger or consolidation. A foreign company which is able under the laws of its foreign jurisdiction to participate in the merger or consolidation is required by the BVI Act to comply with the laws of that foreign jurisdiction in relation to the merger or consolidation. The shareholders of the constituent companies are not required to receive shares of the surviving or consolidated company but may receive debt obligations or other securities of the surviving or consolidated company, other assets, or a combination thereof. Further, some or all of the shares of a class or series may be converted into a kind of asset while the other shares of the same class or series may receive a different kind of asset. As such, not all the shares of a class or series must receive the same kind of consideration. After the plan of merger or consolidation has been approved by the directors and authorized, if required, by a resolution of the shareholders, articles of merger or consolidation are executed by each company and filed with the Registrar of Corporate Affairs in the British Virgin Islands. The merger is effective on the date that the articles of merger are registered with the Registrar or on such subsequent date, not exceeding thirty days, as is stated in the articles of merger or consolidation.

As soon as a merger becomes effective: (a) the surviving company or consolidated company (so far as is consistent with its memorandum and articles of association, as amended or established by the articles of merger or consolidation) has all rights, privileges, immunities, powers, objects and purposes of each of the constituent companies; (b) in the case of a merger, the memorandum and articles of association of any surviving company are automatically amended to the extent, if any, that changes to its memorandum and articles of association are contained in the articles of merger or, in the case of a consolidation, the memorandum and articles of association filed with the articles of consolidation are the memorandum and articles of the consolidated company; (c) assets of every description, including choses-in-action and the business of each of the constituent companies, immediately vest in the surviving company or consolidated company; (d) the surviving company or consolidated company is liable for all claims, debts, liabilities and obligations of each of the constituent companies; (e) no conviction, judgment, ruling, order, claim, debt, liability or obligation due or to become due, and no cause existing, against a constituent company or against any member, director, officer or agent thereof, is released or impaired by the merger or consolidation; and (f) no proceedings, whether civil or criminal, pending at the time of a merger by or against a constituent company, or against any member, director, officer or agent thereof, are abated or discontinued by the merger or consolidation; but: (i) the proceedings may be enforced, prosecuted, settled or compromised by or against the surviving company or consolidated company or against the member, director, officer or agent thereof; as the case may be; or (ii) the surviving company or consolidated company may be substituted in the proceedings for a constituent company. The Registrar of Corporate Affairs shall strike off the register of companies each constituent company that is not the surviving company in the case of a merger and all constituent companies in the case of a consolidation. If the directors determine it to be in the best interests of the company, it is also possible for a merger to be approved as a Court approved plan of arrangement or scheme of arrangement in accordance with the BVI Act.

A shareholder may dissent from (a) a merger if the company is a constituent company, unless the company is the surviving company and the member continues to hold the same or similar shares; (b) a consolidation if the company

is a constituent company; (c) any sale, transfer, lease, exchange or other disposition of more than 50 per cent in value of the assets or business of the company if not made in the usual or regular course of the business carried on by the company but not including: (i) a disposition pursuant to an order of the court having jurisdiction in the matter, (ii) a disposition for money on terms requiring all or substantially all net proceeds to be distributed to the members in accordance with their respective interest within one year after the date of disposition, or (iii) a transfer pursuant to the power of the directors to transfer assets for the protection thereof; (d) a compulsory redemption of 10 per cent, or fewer of the issued shares of the company required by the holders of 90 percent, or more of the shares of the company pursuant to the terms of the BVI Act; and (e) a plan of arrangement, if permitted by the British Virgin Islands Court (each, an Action). A shareholder properly exercising his dissent rights is entitled to a cash payment equal to the fair value of his shares.

A shareholder dissenting from an Action must object in writing to the Action before the vote by the shareholders on the merger or consolidation, unless notice of the meeting was not given to the shareholder. If the merger or consolidation is approved by the shareholders, the company must give notice of this fact to each shareholder within 20 days who gave written objection. Such objection shall include a statement that the members proposes to demand payment for his or her shares if the Action is taken. These shareholders then have 20 days to give to the company their written election in the form specified by the BVI Act to dissent from the Action, provided that in the case of a merger, the 20 days starts when the plan of merger is delivered to the shareholder. Upon giving notice of his election to dissent, a shareholder ceases to have any shareholder rights except the right to be paid the fair value of his shares. As such, the merger or consolidation may proceed in the ordinary course notwithstanding his dissent. Within seven days of the later of the delivery of the notice of election to dissent and the effective date of the merger or consolidation, the company shall make a written offer to each dissenting shareholder to purchase his shares at a specified price per share that the company determines to be the fair value of the shares. The company and the shareholder then have 30 days to agree upon the price. If the company and a shareholder fail to agree on the price within the 30 days, then the company and the shareholder shall, within 20 days immediately following the expiration of the 30-day period, each designate an appraiser and these two appraisers shall designate a third appraiser. These three appraisers shall fix the fair value of the shares as of the close of business on the day prior to the shareholders' approval of the transaction without taking into account any change in value as a result of the transaction.

Shareholders' Suits

There are both statutory and common law remedies available to our shareholders as a matter of British Virgin Islands Law. These are summarized below:

Prejudiced Members

A shareholder who considers that the affairs of the company have been, are being, or are likely to be, conducted in a manner that is, or any act or acts of the company have been, or are, likely to be oppressive, unfairly discriminatory or unfairly prejudicial to him in that capacity, can apply to the court under Section 184I of the BVI Act, inter alia, for an order that his shares be acquired, that he be provided compensation, that the Court regulate the future conduct of the company, or that any decision of the company which contravenes the BVI Act or our third amended and restated memorandum and articles of association be set aside.

Derivative Actions

Section 184C of the BVI Act provides that a shareholder of a company may, with the leave of the Court, bring an action in the name of the company in certain circumstances to redress any wrong done to it. Such actions are known as derivative actions. The British Virgin Islands Court may only grant permission to bring a derivative action where the following circumstances apply:

- the company does not intend to bring, diligently continue or defend or discontinue proceedings; and
 - it is in the interests of the company that the conduct of the proceedings not be left to the directors or to the determination of the shareholders as a whole.
-

When considering whether to grant leave, the British Virgin Islands Court is also required to have regard to the following matters:

- whether the shareholder is acting in good faith;
- whether a derivative action is in the company's best interests, taking into account the directors' views on commercial matters;
- whether the action is likely to proceed;
- the cost of the proceedings; and
- whether an alternative remedy is available.

Just and Equitable Winding Up

In addition to the statutory remedies outlined above, shareholders can also petition the British Virgin Islands Court for the winding up of a company under the BVI Insolvency Act, 2003 (as amended) for the appointment of a liquidator to liquidate the company and the court may appoint a liquidator for the company if it is of the opinion that it is just and equitable for the court to so order. Save in exceptional circumstances, this remedy is generally only available where the company has been operated as a quasi-partnership and trust and confidence between the partners has broken down.

Indemnification of Directors and Executive Officers and Limitation of Liability

Our third amended and restated memorandum and articles of association provide that, subject to certain limitations, we indemnify against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred in connection with legal, administrative or investigative proceedings for any person who:

- is or was a party or is threatened to be made a party to any threatened, pending or completed proceedings, whether civil, criminal, administrative or investigative, by reason of the fact that the person is or was our director; or
- is or was, at our request, serving as a director or officer of, or in any other capacity is or was acting for, another body corporate or a partnership, joint venture, trust or other enterprise.

These indemnities only apply if the person acted honestly and in good faith with a view to our best interests and, in the case of criminal proceedings, the person had no reasonable cause to believe that his conduct was unlawful. The decision of the directors as to whether the person acted honestly and in good faith and with a view to the best interests of the company and as to whether the person had no reasonable cause to believe that his conduct was unlawful and is, in the absence of fraud, sufficient for the purposes of the memorandum and articles of association, unless a question of law is involved. The termination of any proceedings by any judgment, order, settlement, conviction or the entering of a nolle prosequi does not, by itself, create a presumption that the person did not act honestly and in good faith and with a view to the best interests of the company or that the person had reasonable cause to believe that his conduct was unlawful.

This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Anti-Takeover Provisions in Our Second Amended and Restated Memorandum and Articles of Association

Some provisions of our third amended and restated memorandum and articles of association may discourage, delay or prevent a change in control of our Company or management that shareholders may consider favorable. Under the BVI Act there are no provisions, which specifically prevent the issuance of preferred shares or any such other “poison pill” measures. Our third amended and restated memorandum and articles of association also do not contain any express prohibitions on the issuance of any preferred shares. Therefore, the directors without the approval of the holders of ordinary shares may issue preferred shares that have characteristics that may be deemed to be anti-takeover. Additionally, such a designation of shares may be used in connection with plans that are poison pill plans. However, under British Virgin Islands law, our directors in the exercise of their powers granted to them under our third amended and restated memorandum and articles of association and performance of their duties, are required to act honestly and in good faith in what the director believes to be in the best interests of our Company.

Directors’ Fiduciary Duties

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances.

Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction.

The duty of loyalty requires that a director act in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction and that the transaction was of fair value to the corporation.

Under British Virgin Islands law, our directors owe fiduciary duties both at common law and under statute including, among others, a statutory duty to act honestly, in good faith, for a proper purpose and with a view to what the directors believe to be in the best interests of the company. Our directors are also required, when exercising powers or performing duties as a director, to exercise the care, diligence and skill that a reasonable director would exercise in comparable circumstances, taking into account without limitation, the nature of the company, the nature of the decision and the position of the director and the nature of the responsibilities undertaken. In the exercise of their powers, our directors must ensure neither they nor the company acts in a manner which contravenes the BVI Act or our third amended and restated memorandum and articles of association. A shareholder has the right to seek damages for breaches of duties owed to us by our directors.

Pursuant to the BVI Act and our third amended and restated memorandum and articles of association, a director of a company who has an interest in a transaction and who has declared such interest to the other directors, may:

- (a) vote on a matter relating to the transaction;
- (b) attend a meeting of directors at which a matter relating to the transaction arises and be included among the directors present at the meeting for the purposes of a quorum; and
- (c) sign a document on behalf of the Company, or do any other thing in his capacity as a director, that relates to the transaction.

In certain limited circumstances, a shareholder has the right to seek various remedies against the company in the event the directors are in breach of their duties under the BVI Act. Pursuant to Section 184B of the BVI Act, if a company or director of a company engages in, or proposes to engage in or has engaged in, conduct that contravenes the provisions of the BVI Act or the memorandum or articles of association of the company, the British Virgin Islands

Court may, on application of a shareholder or director of the company, make an order directing the company or director to comply with, or restraining the company or director from engaging in conduct that contravenes the BVI Act or the memorandum or articles. Furthermore, pursuant to section 184I(1) of the BVI Act a shareholder of a company who considers that the affairs of the company have been, are being or likely to be, conducted in a manner that is, or any acts of the company have been, or are likely to be oppressive, unfairly discriminatory, or unfairly prejudicial to him in that capacity, may apply to the British Virgin Islands Court for an order which, inter alia, can require the company or any other person to pay compensation to the shareholders.

Shareholder Action by Written Consent

Under the Delaware General Corporation Law, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. British Virgin Islands law provides that, subject to the memorandum and articles of association of a company, an action that may be taken by members of the company at a meeting may also be taken by a resolution of members consented to in writing.

Shareholder Proposals

Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings. British Virgin Islands law and our third amended and restated memorandum and articles of association allow our shareholders holding 30% or more of the votes of the issued and outstanding voting shares to requisition a shareholders' meeting. There is no requirement under British Virgin Islands law to hold shareholders' annual general meetings, but our third amended and restated memorandum and articles of association do permit the directors to call such a meeting. The location of any shareholders' meeting can be determined by the board of directors and can be held anywhere in the world.

Cumulative Voting

Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. As permitted under the British Virgin Islands law, our third amended and restated memorandum and articles of association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

Removal of Directors

Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our third amended and restated memorandum and articles of association, directors can be removed from office, with or without cause, by a resolution of shareholders. Directors can also be removed by a resolution of directors passed at a meeting of directors called for the purpose of removing the director or for purposes including the removal of the director.

Transactions With Interested Shareholders

The Delaware General Corporation Law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or group who or which owns or owned 15% or more of the target's outstanding voting shares within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of

directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware public corporation to negotiate the terms of any acquisition transaction with the target's board of directors. British Virgin Islands law has no comparable statute and our third amended and restated memorandum and articles of association fails to expressly provide for the same protection afforded by the Delaware business combination statute.

Dissolution; Winding Up

Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a super-majority voting requirement in connection with dissolutions initiated by the board. Under the BVI Act and our third amended and restated memorandum and articles of association, we may appoint a voluntary liquidator by a resolution of the shareholders or directors, provided that the directors have made a declaration of solvency that the company is able to discharge its debts as they fall due and that the value of the company's assets exceed its liabilities.

Variation of Rights of Shares

Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under our third amended and restated memorandum and articles of association, if at any time our shares are divided into different classes of shares, the rights attached to any class may only be varied, whether or not our Company is in liquidation, with the consent in writing of or by a resolution passed at a meeting by a majority of the votes cast by those entitled to vote at a meeting of the holders of the issued shares in that class. For these purposes the creation, designation or issue of preferred shares with rights and privileges ranking in priority to an existing class of shares is deemed not to be a variation of the rights of such existing class and may in accordance with our third amended and restated memorandum and articles of association be effected by resolution of directors without shareholder approval.

Amendment of Governing Documents

Under the Delaware General Corporation Law, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. As permitted by British Virgin Islands law, our third amended memorandum and articles of association may be amended by a special majority (meaning a two thirds majority) resolution of shareholders and, subject to certain exceptions, by a special majority (meaning a two thirds majority) resolution of directors. An amendment is effective from the date it is registered at the Registry of Corporate Affairs in the British Virgin Islands.

Anti-Money Laundering Laws

In order to comply with legislation or regulations aimed at the prevention of money laundering we are required to adopt and maintain anti-money laundering procedures, and may require subscribers to provide evidence to verify their identity. Where permitted, and subject to certain conditions, we also may delegate the maintenance of our anti-money laundering procedures (including the acquisition of due diligence information) to a suitable person.

We reserve the right to request such information as is necessary to verify the identity of a subscriber. In the event of delay or failure on the part of the subscriber in producing any information required for verification purposes, we may refuse to accept the application, in which case any funds received will be returned without interest to the account from which they were originally debited.

If any person resident in the British Virgin Islands knows or suspects that another person is engaged in money laundering or terrorist financing and the information for that knowledge or suspicion came to their attention in the course of their business the person will be required to report his belief or suspicion to the Financial Investigation Agency of the British Virgin Islands, pursuant to the Proceeds of Criminal Conduct Act 1997 (as amended). Such a report shall not be treated as a breach of confidence or of any restriction upon the disclosure of information imposed by any enactment or otherwise.

Changes in Capital (Item 10.B.10 of Form 20-F)

Subject to the BVI Act and our third amended and restated memorandum and articles, we may from time to time by resolution of our board of directors or resolution of members (as may be appropriate):

- amend our memorandum to increase or decrease the maximum number of Class A Ordinary Shares we are authorized to issue;
- divide our authorized and issued Class A Ordinary Shares into a larger number of Class A Ordinary Shares;
- combine our authorized and issued Class A Ordinary Shares into a smaller number of Class A Ordinary Shares; and
- create new or additional Ordinary Shares of any class, or any bonds or debentures, or other evidences of indebtedness convertible into or exchangeable for Ordinary Shares of any class, to be issued and disposed of by the board of directors on such terms and for such consideration (to the extent permitted by law), and to such person or persons as the board of directors in its absolute discretion.

Debt Securities (Item 12.A of Form 20-F)

Not applicable.

Warrants and Rights (Item 12.B of Form 20-F)

Not applicable.

Other Securities (Item 12.C of Form 20-F)

Not applicable.

Description of American Depositary Shares (Items 12.D.1 and 12.D.2 of Form 20-F)

Not applicable.

Small Business Loan Agreement

This contract is entered into by and between the lender and the borrower on an equal and voluntary basis according to law. In order to safeguard the legitimate rights and interests of the borrower, the lender hereby requests the borrower to pay full attention to all the provisions concerning the rights and obligations of both parties, especially the contents in bold type.

Lender: Industrial and Commercial Bank of China - Tahe Branch

Legal representative: Miao Li

Contact person: Qingmei Fu

Address: No. 49, Jianshe Avenue, Tahe Town

Zip code: 165200

Telephone: [*]

Borrower: Greater Khingan Range Forasen Energy Technology Co., Ltd.

Legal representative: Wenhua Liu

Contact person: Jinwu Huang

Phone number: [*]

Address: No. 16, Industrial Park, Tahe Town, Tahe County

Zip code: 165299

Telephone: [*]

[The borrower must fill in information that is accurate and complete, in order for the timely delivery of the subsequent relevant notice and legal document.]

The lender and the borrower hereby make this agreement regarding the lending from the lender to the borrower after negotiation on and equal basis and consensus.

Part One: Basic Clauses

Article 1 Purpose of Loan

The loan shall be used for the following purposes. The borrower shall not use the loan for any other purpose without the written consent of the lender, and the lender shall have the right to supervise the purpose of the money.

Purpose of borrowing: Operation Activities and Raw Material Purchase.

Article 2 Amount and Term

2.1 The amount of the loan shall be RMB5 million.

2.2 The term of the loan shall be 12 months from next withdrawal date.

2.3 The withdraw date for each withdrawal transaction shall be the date on which the money is transferred into the loan account. The due date shall be the repayment date stipulated by the loan receipt. In case of installment repayment, the due date shall be stipulated by this agreement or determined by the repayment execution plan made by the lender and the borrower. No due date of any withdrawal transaction shall exceed the term of the loan stipulated by this agreement.

Article 3 Interest rates, Interest and Expenses

3.1 Determination of Interest Rate

The interest rate shall be determined in the following manner:

The interest rate is determined by the benchmark interest rate plus the floating range, of which the benchmark interest rate is the one-year loan prime rate (LPR) published by the National Interbank Lending Center on the prior business day of the withdrawal date, and the floating range is up 0.65%. If the National Interbank Lending Center does not publish the corresponding LPR on the prior business day of the withdrawal date, the interest rate shall be that on prior two business days and so on. The interest rate after each withdrawal transaction shall be adjusted in the ways specified in (A) below:

A. Each phase should be 12 months, and the interest rate should be adjusted and calculated at each individual phase. The interest rate determination date of the second and subsequent phases shall be the corresponding date on which the phase of each withdrawal transaction expires. The lender shall adjust the interest rate according to the LPR published by the National Interbank Lending Center on the prior business day and the floating rate.

B. No adjustment during the whole term.

3.2 Foreign Exchange Borrowing Rate

3.3. The interest rate shall be calculated daily and settled monthly from the date of withdrawal. When the loan is due, the interest should be paid off with the principal. The daily interest rate = the annual interest rate /360.

3.4 The overdue penalty interest rate under this contract shall be determined by adding 50.000000 % to the original loan interest rate, and the penalty interest rate for embezzlement shall be determined by adding 100.000000 % to the original loan interest rate.

Article 4 Withdrawal

4.1 The lender requests the following withdrawal method specified in (1) below:

(1) The borrower shall make one lump-sum withdrawal before December 30, 2022.

4.2 The lender may entitle to cancel part or all of the borrower's undrawn borrowing, if the borrower fails to withdraw money as agreed.

Article 5 Repayment

5.1 The borrower shall repay the loan in the ways specified in (1) below:

(1) Both principle and interest are due as a one lump-sum payment upon loan maturity date.

(2) Other: _____

Article 6 Guarantee

The _____ / _____ has provided maximum guarantee for the underlying loan, and the information of the corresponding guarantee contract is as follows: The Contact No: _____ / _____

Article 7 Financial Commitment

The borrower shall maintain following financial commitment: _____ / _____

Article 8 Dispute Resolution

Disputes under this contract will be resolved through litigation in the court where the lender is located.

Article 9 Other

9.1 This contract is in triplicate, where the borrower, the lender, and Heilongjiang Province Xinzheng Investment & Guarantee Group Co., Ltd. each holds one copy and all have the same legal effect.

9.2 The following attachments are agreed by both parties as inseparable part of this agreement, which have the same legal effect as this agreement:

Attachment 1: Withdrawal Notice (Format)

Attachment 2: Payment Entrustment Agreement

9.3 Please contact at 95588 or the lender's business office for relevant matters or complaints.

Article 10 Other Matters Agreed by Both Party

1. This loan is guaranteed by Heilongjiang Province Xinzheng Investment & Guarantee Group Co., Ltd.; 2. The borrower's legal representative Wenhua Liu shall guarantee contract with bank and provide unlimited joint and several liability guarantee; 3. The borrower shall provide dedicated machine equipment as collateral.

Part Two: Specific Clauses

Article 1 Interest rate and Interest

1.1 Borrowing currencies choose deadline for foreign currency and interest rate or floating pricing overnight interest rates way, interest rates determine day (T, such as interest rate to determine the day is not a working day, it is before the recent working day as a day of T) should be applied pricing benchmark for road first, or bloomberg financial telecommunication terminal page is shown in this contract pricing benchmark corresponding T - N workdays rate value. If the interest rate pricing benchmark for negative, press zero. The above working days refers to borrowing currencies pricing benchmark management mechanism of local working days. Applicable term interest rates, N values for 2; Suitable for floating overnight interest rates, the value of N is 5.

For the avoidance of doubt, this contract SOFR term interest rates, refers to the substitution rate board (ARRC) determined by the Chicago mercantile exchange (CME) release SOFR term interest rates; SONIA deadline of this contract interest rate, refers to by road first (Refinitiv) released by SONIA term interest rates.

If pricing benchmark has greatly changed, the then effective rules and regulations of the market shall apply. Related issues as when lenders require the borrower to sign supplementary agreement, the borrower should cooperate.

1.2 The interest rate is determined by the benchmark interest rate plus the floating range. The overdue interest rate shall be determined by the same manner.

1.3 If the interest is settled monthly, the settlement date shall be 20th of each month; if the interest is settled quarterly, the settlement date shall be 20th of the third month; if the interest is settled semi-annually, and the settlement date shall be June 20th and December 20th.

1.4 The first interest period is from the withdraw date to the first settlement date; the last interest period is from the second date of previous settlement to the repayment date. The rest interest periods are from the second date of previous settlement to the next settlement date.

1.5 Loan interest = loan principal × daily interest rate × actual days of use.

If equal principal and interest repayment method is adopted, the calculation formula of principal and interest shall be as follows:

Total principal and interest of each period = (financing principal × period interest rate × period repayment period) / ((period interest rate) repayment period - 1)

1.6 The new interest rate shall be adopted in case the People's Bank of China decides to adjust the determination method for the interest rate, and the lender is not obligated to notify the borrower.

1.7 If the interest rate on the signing date of this agreement is lower than the LPR published by the National Interbank Lending Center, the lender has the right to reevaluate annually and cancel part or all of the interest preference based the evaluation of policy change, the borrower's credit status, etc. and notify the borrower in a timely manner.

1.8 Unless otherwise stated, the loan interest rate in this contract is the annualized interest rate calculated by the simple interest method.

Article 2 Issuance and Transfer

2.1 The withdrawal of the loan must meet the following preconditions; otherwise the lender is not obligated to make any transfer to the borrower, except that the lender agrees to make the transfer in advance:

- (1) Other than the credit loan, the borrower has provided corresponding guarantees as required by the lender and has completed relevant guarantees procedures;
- (2) At the time of withdrawal, the borrower's statements and guarantees under this agreement are still true, accurate, and complete, and no breach of this agreement or any other agreements signed by the borrower or the lender has happened;
- (3) The proof of loan use provided is consistent with the agreed use;
- (4) Submit other information required by the lender.

2.2 If the borrower invests the loan under this agreement in fixed assets, in addition to satisfying the requirements under 2.1, the borrower must also satisfy the following requirements:

- (1) The invested project has obtained the examination, approval or filing from the relevant governmental agencies;
- (2) The invested project has obtained the capital base or other supporting funds in a timely manner and in full amount;
- (3) The borrower is able to cover the excess expense that has or has not been incurred;
- (4) The borrower has completed the project schedule as planned, where actual progress of the project matches the corresponding invested amount.

2.3 If the borrower withdraws the loan through the designated business outlet of the lender, it must submit a withdrawal notice to the lender at least five working days in advance. Once the withdrawal notice is submitted, it cannot be revoked without the written consent of the lender. The lender shall stamp on the loan receipt with lender's official seal or special financial seal by following the instructions on the withdrawal notice regarding the seal of holdback escrow signature. The lender hereby confirms that the loan receipt shall be valid if the holdback escrow signature contains both official and special financial seal or if a single or more seals are stamped on the loan receipt.

2.4 After the borrower satisfies the prerequisites for withdrawal or advances the loan with the consent of the lender, the lender will transfer the loan to the borrower's withdrawal account agreed in this contract, which means that the lender has issued the loan to the borrower in accordance with the contract.

2.5 According to the relevant regulatory regulations and lender management requirements, loans exceeding a certain amount or meeting other conditions should use the lender's entrustment payment method, and the lender will pay the loan to the person in accordance with the contract according to the borrower's withdrawal application and payment entrustment. For this purpose, the lender and the borrower shall sign an entrustment payment agreement as a

supporting document for this agreement. The borrower shall open or designate an account with the lender for entrustment matters.

Article 3 Repayment

3.1 The borrower is obligated to repay the principal, interest and other balances due for each period in a timely manner according to this agreement. On the repayment day and the prior of business day of the interest expiry date, the borrower shall transfer the interest, principal and other balances due to the lender's account. The lender has the right to take voluntary receipt of the transfer on the same days. If the funds sent to the lender's account are insufficient for full repayment of the borrower's balances due, the lender has the right to determine the discharge order.

3.2 The borrower may choose to repay part or all of the loan 10 business days in advance by submitting a written consent to the lender.

3.3 Once obtained the consent of the lender for advance repayment, the borrower shall make the full repayment before or on the advance date, in accordance with the principal, interest and other clauses of this agreement.

3.4 The lender has the right to recall the loan based on the borrower's return of funds.

3.5 If the borrower repays in advance or the lender withdraws the loan in advance in accordance with this contract and the actual borrowing period is shortened, the corresponding interest rate level will not be adjusted and the original borrowing interest rate will still be implemented.

Article 4 Guarantee

4.1 In addition to credit loans, the borrower shall provide legal and effective guarantees recognized by the lender for the performance of its obligations under this contract. The guarantee agreement shall be separately signed.

4.2 If the collateral under this contract is damaged, depreciates, involves in property rights disputes, being seized, or the pledger disposes of the collateral without authorization, or the guarantor experiences adverse change in his/her financial situation, or other changes adverse to the lender's claims occur, the borrower shall notify the lender in time and provide other guarantees approved by the lender.

4.3 The lender shall have the right to re-evaluate the value of the security property and the guarantee ability of the guarantor periodically or irregularly. If it is deemed that the value of

the security property is reduced or the guarantee ability of the guarantor is reduced, the borrower shall provide additional value reduction or guarantee ability. The reduced portion of the equivalent guarantee may also be provided in addition to other guarantees approved by the lender.

4.4 If the loan under this contract provides pledged security with accounts receivable, during the validity period of this contract, if one of the following situations occurs, the lender has the right to declare the loan to expire early and require the borrower to repay part or all of the loan principal and interest immediately Legal, valid and full guarantees approved by the lender:

- (1) The bad debt rate of accounts receivable from the pledger of the accounts receivable to the payer has been rising for 2 consecutive months;
- (2) The accounts receivable due from the pledgor of the accounts receivable to the payer accounted for more than 5% of the balance of accounts receivable to the payer; or
- (3) The pledgee of the account receivable has trade disputes (including but not limited to quality, technology and service disputes) or debt disputes with the payer or other third parties, which may cause the receivables to fail to be paid on time.

Article 5 Account Managements

5.1 If the loan proceeds are used for the borrower's operational activities and working capital requirement, the borrower shall designate an account with the lender for return on the funds, for the purpose of receiving the corresponding sales income or schedule repayment. If the corresponding sales income is not paid in cash, the borrower shall ensure that the cash is sent to the designated account in a timely manner once it is received.

5.2 The lender has the right to monitor and manage the designated account for return on the funds, including but not limited to the sales income and expense, with which the borrower shall cooperate. Upon the lender's request, the borrower and the lender shall sign special account management agreement.

Article 6 Representations and Warranties

The borrower makes the following representations and warranties to the lender, which shall remain valid throughout the term of this contract:

6.1 It is qualified as the subject of the borrower and has the qualification and ability to sign and perform this contract.

6.2 The signing of this contract has obtained all necessary authorization or approval, and the signing and performance of this contract does not violate the company's articles of association and relevant laws and regulations, and has no conflict with other obligations under this contract.

6.3 Other debts payable have been paid on schedule and there is no malicious default on the principal and interest of bank loans.

6.4 No major violations of rules and regulations have taken place in the production and operation process in the recent years, and the current senior managers have no major bad records.

6.5 All documents and materials provided to the lender are true, accurate, complete and valid, and there are no false records, material omissions or misleading statements.

6.6 The borrower does not conceal from the lender information about any litigation, arbitration or claims incidents involved.

6.7 Investment in fixed assets and irrelevant projects and loan clauses all comply with the law and regulations.

Article 7 Borrower's Commitment

7.1 The borrower shall withdrawal and use the loan proceeds in accordance with the duration and the use specified by this agreement. No loan proceeds shall enter the capital market, futures market and other uses which the relevant law and regulations prohibit or limit.

7.2 The borrower shall repay the principal, interest and other dues in accordance with this agreement.

7.3 The borrower shall cooperate with the lender on the supervision and inspection of the use of the funds borrowed under this agreement and of the business condition of the and that it will promptly provide all financial statements and related materials needed by the lender, which the borrower warrants to be true, complete and accurate.

7.4 The borrower shall accept the credit check from the lender, provide the lender authentic, accurate and complete financial documents and other documents that show the borrower's solvency, including all the borrower's opening bank, bank accounts, checking balances. The borrower shall provide active cooperation and assistance with the lender's investigation and supervision of the borrower's production, management, and financial activities.

7.5 If there is any outstanding principal and interest of borrowings and other payables that are due (including being immediately due) under this contract, dividends and bonuses will not be distributed in any form.

7.6 The merger, division, capital reduction, equity change, equity pledge, major asset and debt transfer, major foreign investment, substantial increase in debt financing, and other actions that may adversely affect the lender's equity should be carried out with prior written consent from the lender or arrangements that meet the lender's management requirements for the realization of the lender's claims.

7.7 The borrower shall issue written notices to Lender upon occurrence or possible occurrence of the following events in time:

(1) Borrower amends its articles of association, replaces its legal representative, reduces its registered capital or makes material changes in its finances or personnel;

(2) Suspension of business, dissolution, liquidation, suspension of business operations for rectification, revocation of business license, revocation or application for bankruptcy;

(3) Borrower involves or may involve major economic disputes, litigation, arbitration, or its assets are seized, or enforced, or judicial, taxation, industry and commerce, and other competent authorities have filed investigations or taken punishment;

(4) Shareholders, directors and current senior officers or shareholders and investors involved in major cases or economic disputes.

7.8 The borrower shall timely, comprehensively and accurately disclose related party relationships and related party transactions to lenders.

7.9 The borrower shall sign all kinds of notices sent by lenders or delivered in other ways in time.

7.10 The borrower shall not dispose of its own assets in a way that reduces its solvency; providing guarantees to third parties does not damage the rights and interests of the lender.

7.11 If the borrower defaults, the borrower shall bear the costs incurred by the lender in order to realize the claims under this contract, including but not limited to, attorney's fees, auction fees, notary fees, and the cost of applying for the issuance of an executive certificate, etc.

7.12 The order in which the borrower's debts are settled under this contract takes precedence over the borrower's debts to its shareholders, legal representatives or principals, partners, major investors or key management personnel, and the debts of the same type with the borrower's other creditors are at least equal status.

7.13 The borrower shall strengthen environmental and social risk management, and accept the supervision and inspection of lenders in this regard. Submit environmental and social risk reports to the lender if required by the lender.

Article 8 Lender's Commitment

8.1 The lender shall release the full loan on schedule under this agreement;

8.2 The lender shall protect the privacy of the unpublic information of the borrower's financial and production activities, except as otherwise specified by the law and regulation and other clauses under this agreement.

8.3 The lender shall not charge the borrower commitment fee, capital management fee, financial advisory fee, consulting fee, legal person account overdraft commitment fee and credit certificate fee and other regulatory bodies expressly require that commercial banks shall not charge fees for loans to small and micro enterprises.

Article 9 Breach of Contract

9.1. Any of the following events shall be considered a breach under this Article:

- (1) The borrower fails to repay the loan principal and interest and other payables under this contract as agreed, or fails to perform any other obligations under this contract, or violates the statements, guarantees or commitments under this contract;
 - (2) The guarantee under this contract has changed to the detriment of the lender's claims, and the borrower has not provided other guarantees that meet the lender's management ;
 - (3) Borrower or guarantor is involved in illegal activities;
 - (4) According to the stipulations in the loan terms, in case of the guarantor (guaranty) changed, which leads to the obligations performed by the guarantor ahead of schedule or the disposal of guaranty by the money lender in advance; or any actions the borrower may take which influence returning the principal and interests to the money lender;
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- (5) The borrower's financial indicators such as profitability, solvency, operating capacity and cash flow exceed the agreed standards, or the deterioration has or may affect the performance of its obligations under this contract;
- (6) The borrower's equity structure, production and operation, foreign investment, etc. have undergone significant adverse changes that have or may affect the performance of its obligations under this contract;
- (7) The borrower is involved or may be involved in major economic disputes, litigation, arbitration, or the assets are seized, seized, or enforced, or the judicial or administrative organs file the case for investigation and punishment, or take punitive measures according to law, or have been violated due to violation of relevant national regulations or policies, media exposure that has or may affect the performance of its obligations under this contract; Abnormal changes, disappearances of the main investor of the borrower, key management personnel, disappearance, or legal investigation by the judicial authority restrictions on personal freedom that have or may affect the performance of their obligations under this contract;
- (8) Borrowers use false contracts with related parties, use transactions without actual transaction background to borrow lender funds or credits, or intentionally evade the lender's claims through related party transactions;
- (9) The borrower has or may be closed, disbanded, liquidated, suspended for business rectification, revoked business license, revoked, or filed (applied for);
- (10) The borrower has caused liability accidents, major environmental and social risk events due to violations of laws and regulations, regulatory provisions or industry standards related to food safety, safe production, environmental protection and other environmental and social risk management, which have or may affect his performance of obligations;
- (11) The legal representative, responsible person, partner and major investors or key management personnel of the lender gets involved in gang-related, drug, gambling and smuggling or other kinds of crime;
- (12) The borrower defaults on taxes, fees or frequently fails to pay wages to employees in a timely manner;
- (13) The legal representative, responsible person, partner and major investors or key management personnel of the lender defaults on personal loan or breaches credit card contract.
- (14) There exist other circumstances that may cause the lender's realization of its claims under this contract to be adversely affected.

9.2. In the event of borrower's breach, the lender has the right to take the following steps:

- (1) Request the borrower to rectify the breach of contract within a time limit ;
- (2) Stop providing loan funds that Borrower has not yet used;
- (3) Unilaterally declare all principal already lent under the Loan Contract to be due ahead of the contract due date and require Borrower immediately to return the principal and pay all interest due; and
- (4) Require the Borrower to compensate the lender for the losses caused by its breach, including but not limited to the lawyer's fee, auction fee and other expenses incurred by the Lender to realize the creditor's rights under this Agreement;
- (5) Other measures are required by laws and regulations, agreed herein or deemed necessary by the lender.

9.3 If the borrower is due (including the immediate expiration of the loan) and the borrower fails to repay as agreed, the lender shall have the right to collect the penalty interest at the overdue penalty interest rate agreed in this contract from the date of overdue. For the interest (including penalty interest) that the borrower fails to pay on time, compound interest will be charged at the overdue penalty interest rate. Penalty / compound interest settlement rules apply to the interest settlement rules stipulated in this contract.

9.4 If the borrower fails to use the loan for the purposes stipulated in this contract, the lender has the right to collect the penalty interest on the embezzled portion of the embezzled loan penalty interest rate from the date the loan is embezzled. If the loan is not paid on time during the embezzlement For interest (including penalty interest), compound interest shall be collected at the penalty interest rate of embezzled loans. Penalty / compound interest settlement rules apply to the interest settlement rules stipulated in this contract.

9.5 If the borrower occurs at the same time as described in Articles 9.3 and 9.4 above, the penalty interest rate shall be determined by whichever is heavier and cannot be imposed concurrently.

9.6 If the borrower fails to repay the loan principal, interest (including penalty interest and compound interest) or other payables on time, the lender has the right to make announcements through the media.

9.7 The control or controlled relationship between the borrower's related party and the borrower has changed, or the borrower's related party has experienced other circumstances in addition to item (1) (2) in Article 9.1 above, which has or may If it affects the performance of the borrower's obligations under this contract, the lender shall have the right to take the measures agreed upon in this contract.

Article 10 Automatic cancellation of the lender's loan commitment

10.1 If the credit standing of the borrower deteriorates, the lender may automatically cancel all commitments to the borrower for the purpose of drawing the loan without prior notice.

10.2 Any of the circumstance described in Section 9.1 and 9.7 of Part Two of this contract shall constitute deterioration of the borrower's credit standing.

Article 11 Withhold

11.1 When the borrower fails to repay the debts due (including those declared to be due immediately) under this contract as agreed, the borrower agrees that the lender shall deduct the corresponding amount from all the local and foreign currency accounts opened by the borrower in Industrial and Commercial Bank of China for repayment until all the debts of the borrower under this contract are fully repaid.

11.2 If the withholding amount is inconsistent with the currency of this contract, it shall be converted according to the lender's applicable exchange rate on the date of withholding. The interest and other expenses incurred during the period from the date of withholding to the date of repayment (the date on which the Lender converts the deducted amount into the contract currency in accordance with the State Administration of Foreign Exchange control policy and actually pays off the debt hereunder) and the difference arising from exchange rate fluctuations during this period shall be borne by the borrower.

Article 12 Transfer of Rights and Duties

12.1 The lender may transfer his rights and interests under the contract to other people even if with no approval from borrower or guarantor, while the borrower and guarantor shall continue to finish their responsibilities or obligations stipulated in the contract; the borrower or guarantor shall not transfer his responsibilities or obligations stipulated in the contract to a third party if with no written approval from the money lender.

12.2 The lender or Industrial and Commercial Bank of China ("ICBC") may authorize or entrust its other branches to exercise the rights and responsibility under this agreement, or transfer the

relevant rights to other branches for takeover and management, pursuant to management needs. The lender approves this practice and the borrower does not need to obtain the lender's approval for the practice above. ICBC or its branch that takes over the lender's rights and responsibilities have the right to exercise all the rights of the lender under this agreement and the right to initiate legal proceedings, arbitration or forced execution.

Article 13 Take Effect, Change, Cancel and Terminate

13.1 This contract shall come into force when the following conditions are met and shall be valid until the date when the borrower's obligations here under have been fully fulfilled.

13.2 Any modification to this Agreement shall be negotiated and agreed upon by both parties, and be made in writing. Modifications to this Agreement shall constitute part of the Agreement and have the same legal effect. Prior to the effective date of a modification, the original clause remains legally effective.

13.3 There shall be no influences on the rights that each party has for its losses compensated after any changes or termination of the contract happened. The termination of the contract shall not affect the effectiveness of the clauses in the contract stipulated for settling disputes.

Article 14 Application of law and dispute resolution Article

The conclusion, validity, interpretation, performance and dispute settlement of this agreement shall be governed by the laws of the People's Republic of China. All disputes and disputes arising out of or in connection with this agreement shall be settled by the parties through negotiation. If no agreement can be reached through negotiation, the dispute shall be litigated in the People's Court where the lender is located with proper jurisdiction.

Article 15 The address of service of litigation/arbitration documents shall be sent

15.1 The borrower acknowledges that the address set forth on the first page of this contract shall be the service address of the litigation/arbitration documents involved in the disputes hereunder. Litigation/arbitration documents include but are not limited to summons, notice of hearing, judgment, order, conciliation statement and a notice of performance, etc.

15.2 The borrower agrees that arbitration/litigation documents may be served by the arbitration institution or the court by fax or E-mail as set forth in the first page of this contract, except the written judgment, order or conciliation statement.

15.3 The above provisions on service shall apply to all stages of first instance, second instance, retrial and execution of arbitration and litigation proceedings. For the above address of service, service may be made by the arbitration institution or the court directly by mail.

15.4 The borrower shall ensure the authenticity and validity of the address, contact person, fax, E-mail and other information recorded in this contract. If the relevant information is changed, the borrower shall promptly notify the lender in writing; otherwise, the borrower shall bear any legal consequences due to they fail to provide the valid address.

Article 16 Complete Agreement

This Loan Agreement is comprised of Part One: Basic Clauses and Part Two: Specific Clauses. Any phrase in both parts of Loan Agreement shall have the same meanings. Both parts apply to the loan made pursuant to this Loan Agreement.

Article 17 Notice

17.1 All notices shall be sent in writing (including electronic form). Unless otherwise agreed, the address in the contract shall be the contact address. Any change in the contact mode of either party shall be notified to the other party in writing in time.

17.2 In the event that any party to Loan Agreement rejects to receive notices, or any notice cannot be delivered due to other circumstances, notice shall be deemed to be given if the sender obtains notary certificate.

Article 18 Special provisions of value-added tax

18.1 The interest and fees paid by the borrower to the lender under this contract (as specified in the contract) are tax-inclusive.

18.2 If the borrower requires the lender to issue a VAT invoice, it shall first register the information at the lender, including the borrower's full name, taxpayer identification number or social credit code, address, telephone number, bank of deposit and account number. The borrower shall ensure that the relevant information provided to the lender is true, accurate and complete, and provide relevant proof materials as required by the lender. The specific requirements shall be published by the lender through the network notice or website announcement.

18.3 If the borrower collects the VAT invoice by itself, it shall provide the lender with the power of attorney with the stamp, designate the recipient and specify the recipient's ID card number and other information. The designated recipient shall collect the VAT invoice with the original ID card. If the person is changed, the borrower shall re-issue the power of attorney with seal to the lender. If the borrower chooses to receive the VAT invoice by mail, it shall also provide accurate and deliverable postal information; if the mailing information has been changed, it shall promptly notify the lender in writing.

18.4 If the lender fails to issue the VAT invoice in time due to force majeure such as natural disasters, governmental ACTS, social abnormal events or tax authorities, the lender shall have the right to delay the invoice issuance without any liability.

18.5 If the invoice is lost, damaged or overdue after the VAT invoice is received by the borrower or after the lender has handed it over to a third party, the borrower cannot receive the corresponding VAT invoice or the deduction cannot be credited. The person is not responsible for compensation for the borrower's related economic losses.

18.6 If the VAT invoice is received by the borrower or delivered by the lender to a third party by mailing, and the invoice is lost, damaged or overdue due to other non-lender reasons, which causes the borrower to fail to receive the corresponding VAT invoice or fail to offset the overdue VAT invoice, the lender shall not be responsible for compensating the borrower for the relevant economic losses.

18.7 During the performance of this contract, in case of national tax rate adjustment, the lender shall have the right to adjust the agreed price according to the change of national tax rate.

Article 19. Other Clauses

19.1 The non-exercise, partial exercise, or delay in the exercise of any rights that the borrower has under this Agreement shall not constitute the abandonment or alteration of such rights, nor

shall it impact the borrower's future exercise of such rights or any other rights it has under this Agreement.

19.2 The invalidity of any clause in the contract shall not affect the validity of other clauses, no shall it affect the validity of the whole contract.

19.3 In compliance with applicable laws and regulations, the money lender shall have the right to provide information related to this Agreement and related to the borrower to Credit Information System established by People's Bank of China.

19.4 In this Agreement and any modifications thereof, "Primary Management Personnel" shall be interpreted pursuant to the definition in Corporation Accounting Standards No.36.

19.5 The environmental and social risks mentioned in this contract refer to the harm and related risks that the borrower and its important related parties may bring to the environment and society during construction, production and business activities, including energy consumption, pollution, land, health and safety, resettlement, ecological protection, climate change and other environmental and social issues.

19.6 Any certificate or records kept by the creditor in its regular course of business shall have binding evidentiary effects on the borrower regarding its lender-borrower relationship with the money lender.

19.7 In this Agreement: (1) "Agreement" shall include any modifications or supplement made to the original Loan Agreement; (2) titles of the Articles shall be used for reference only and shall not be interpreted to explain or limit any contents of this Agreement.

Both parties confirm that: the lender and the borrower have undertaken sufficient negotiation over all of the clauses under this agreement. The lender has called the borrower's special attention to clauses about both parties' rights and responsibilities by understanding the clauses in an accurate and comprehensive manner, and has explained and illustrated the clauses in response to the borrower's request. The borrower has carefully read and understood all the clauses of this agreement (including the Part One: Basic Clauses and Part Two: Specific Clauses). Both parties have consistent understanding of the clauses under this agreement and have no objection.

Lender: /s/ Industrial and Commercial Bank of China Limited - Tahe Branch

Borrower: /s/ Greater Khingan Range Forasen Energy Technology Co., Ltd. Tahe Power Plant

I, as the legal representative / authorized representative of the borrower, hereby confirm that the borrower borrows from the lender in accordance with this agreement and the seal stamped on this agreement is authentic and valid, and have completed executing all of the procedures required by the borrowing.

Legal Representative: /s/ Fenghong Qu

Date: June 22, 2022

Business Express Loan Agreement

This contract is entered into by and between the lender and the borrower on an equal and voluntary basis according to law. In order to safeguard the legitimate rights and interests of the borrower, the lender hereby requests the borrower to pay full attention to all the provisions concerning the rights and obligations of both parties, especially the contents in bold type.

Lender: Industrial and Commercial Bank of China - Tahe Branch

Address: _____

Borrower: Greater Khingan Range Forasen Energy Technology Co., Ltd.

Legal representative: Wenhua Liu

Address: _____ Zip code: _____ Fax: _____

Email: _____ Contact Person: _____ Telephone: _____

[The borrower must fill in information that is accurate and complete, in order for the timely delivery of the subsequent relevant notice and legal document.]

Part One: Basic Clauses

Article 1 Purpose of Loan

The loan shall be used for the following purposes. The borrower shall not use the loan for any other purpose without the written consent of the lender, and the lender shall have the right to supervise the purpose of the money.

Purpose of borrowing: Production and management.

Article 2 Amount and Term

2.1 The amount of the loan shall be RMB 4.5 million. The term of the loan under this contract shall start from the date of withdrawal and shall be due Day for May 25, 2023. The withdrawal date is subject to the withdrawal order. The borrower shall make a one-time withdrawal amount.

2.2 The term of the loan under this contract is from June 27, 2022 to May 25, 2023.

Article 3 Interest rates, Interest and Expenses

3.1 Determination of Interest Rate

The interest rate shall be determined in the following manner:

The interest rate is determined by the benchmark interest rate plus the floating range, of which the benchmark interest rate is the one-year loan prime rate (LPR) published by the National Interbank Lending Center on the prior business day of the withdrawal date. If the loan term is less than 12 months (inclusive), the floating point is plus (plus/minus) 10.000000 basis points (one basis point is 0.01%, the

same below); If the loan term is more than 12 months and less than 60 months (inclusive), the floating point is plus (plus/minus) 10.000000 basis points. For loans with a term of more than 60 months, the pricing basis is the market quoted interest rate (LPR) of loans with a term of more than 5 years published by the National Inter-bank Lending Center one working day before the withdrawal date, and the floating point is plus (plus/minus) 10.000000 basis points. If the National Interbank Lending Center does not publish the corresponding LPR on the prior business day of the withdrawal date, the interest rate shall be that on prior two business days and so on. The interest rate after each withdrawal transaction shall be adjusted in the ways specified in (A) below:

A. Each phase should be 12 months, and the interest rate should be adjusted and calculated at each individual phase. The interest rate determination date of the second and subsequent phases shall be the corresponding date after the withdrawal of each loan. The lender shall adjust the interest rate according to the LPR published by the National Interbank Lending Center on the prior business day and the floating rate. If there is no date corresponding to the withdrawal date in the adjustment month, the last day of the month shall be the corresponding date.

B. No adjustment during the whole term.

3.2. The interest rate shall be calculated daily and settled monthly from the date of withdrawal. When the loan is due, the interest should be paid off with the principal. The daily interest rate = the annual interest rate /360.

3.3. The overdue penalty interest rate under this contract shall be determined by adding 50.000000 % to the original loan interest rate, and the penalty interest rate for embezzlement shall be determined by adding 50.000000 % to the original loan interest rate.

3.4. Annualized Cost of Capital

The borrower's annualized cost of funds includes the annualized borrowing rate and the annualized cost of funds for expenditures. The party receiving the foregoing/expenditure is not the lender, and the specific party receiving is /.

The specific interest rate and rate of the above-mentioned expenditure are as follows (the following is for reference only, the specific interest rate and rate may be adjusted with the terms of the contract, subject to the relevant contract) :

(1) The annualized loan interest rate calculated in accordance with Article 3.1-3.3 hereof;

(2) /;

Article 4 Withdrawal

4.1 The borrower shall make one lump-sum withdrawal. The lender may entitle to cancel part or all of the borrower's undrawn borrowing, if the borrower fails to withdraw money as agreed. After the lender has paid the loan funds to the borrower's withdrawal account agreed herein, the lender shall be deemed to have issued the loan to the borrower in accordance with the provisions herein.

4.2 The borrower may withdraw the loan hereunder through (2) as follows:

- (1) Draw the loan directly from the business outlets designated by the lender;
- (2) Self-service loan withdrawal through the electronic bank of Industrial and Commercial Bank of China.

Article 5 Repayment

5.1 The borrower shall repay the loan in the ways specified in (1) below:

- (1) Both principle and interest are due as a one lump-sum payment upon loan maturity date.
- (2) Other: _____

Article 6 Account

The borrower shall open or designate the following account with the lender as the special account for withdrawal and repayment:

Withdrawal account: [*]

Repayment account: [*]

Article 7 Guarantee

The Heilongjiang Province Xinzheng Investment & Guarantee Group Co., Ltd. has provided maximum guarantee for the underlying loan, and the information of the corresponding guarantee contract is as follows: The Contact No: 0091400036-2022 年塔河(保)字 0001 号.

In order to avoid any doubt, both parties confirm that, in addition to the guarantee methods and guarantee contract listed above, there may be other guarantee arrangements for the loan under this contract. The guarantee arrangement and guarantee content of the loan under this contract shall be subject to the specific provisions of the relevant guarantee legal documents.

Article 8 Complaint/consultation channels

Party A's complaint/consultation channels for this financial service (product) are as follows:

8.1 Business outlets

Report any problem to the customer service manager or person in charge of ICBC branch or leave a message on the customer comment book.

8.2 Customer Service Number

Call the customer service hotline (95588) and select human services to contact a customer service representative.

8.3 Online Banking and mobile banking

You can log in your personal online banking through the portal website (<http://www.icbc.com.cn>) or ICBC China Bank enterprise mobile banking “mobile APP, contact Industrial and Commercial Bank of China online customer service.

8.4 Other Channels /

Article 9 Other matters agreed upon by both parties

Part Two: Specific Clauses

Article 1 Interest rate and Interest

1.1 The interest rate is determined by the benchmark interest rate plus the floating range. The overdue interest rate shall be determined by the same manner.

1.2 If the interest is settled monthly, the settlement date shall be 20th of each month; if the interest is settled quarterly, the settlement date shall be 20th of the third month; if the interest is settled semi-annually, and the settlement date shall be June 20th and December 20th.

1.3 The first interest period is from the withdraw date to the first settlement date; the last interest period is from the second date of previous settlement to the repayment date. The rest interest periods are from the second date of previous settlement to the next settlement date.

1.4 Loan interest = loan principal × daily interest rate × actual days of use.

If equal principal and interest repayment method is adopted, the calculation formula of principal and interest shall be as follows:

Total principal and interest of each period = (financing principal × period interest rate × period repayment period) / ((period interest rate) repayment period - 1)

1.5 The new interest rate shall be adopted in case the People’s Bank of China decides to adjust the determination method for the interest rate, and the lender is not obligated to notify the borrower.

1.6 If the interest rate on the signing date of this agreement is lower than the LPR published by the National Interbank Lending Center, the lender has the right to reevaluate annually and cancel part or all of the interest preference based the evaluation of policy change, the borrower's credit status, etc. and notify the borrower in a timely manner.

1.7 Unless otherwise stated, the loan interest rate in this contract is the annualized interest rate calculated by the simple interest method.

Article 2 Issuance and Transfer

2.1 The withdrawal of the loan must meet the following preconditions; otherwise the lender is not obligated to make any transfer to the borrower, except that the lender agrees to make the transfer in advance:

- (1) Other than the credit loan, the borrower has provided corresponding guarantees as required by the lender and has completed relevant guarantees procedures;
- (2) At the time of withdrawal, the borrower's statements and guarantees under this agreement are still true, accurate, and complete, and no breach of this agreement or any other agreements signed by the borrower or the lender has happened;
- (3) The proof of loan use provided is consistent with the agreed use;
- (4) Submit other information required by the lender.
- (5) Where the borrower draws the loan through the e-bank of the Industrial and Commercial Bank of China, the "Enterprise Customer Service Agreement of the Industrial and Commercial Bank of China e-Bank" signed by the borrower and the lender shall remain valid during the loan term.

2.2 If the borrower invests the loan under this agreement in fixed assets, in addition to satisfying the requirements under 2.1, the borrower must also satisfy the following requirements:

- (1) The invested project has obtained the examination, approval or filing from the relevant governmental agencies;
- (2) The invested project has obtained the capital base or other supporting funds in a timely manner and in full amount;
- (3) The borrower is able to cover the excess expense that has or has not been incurred;
- (4) The borrower has completed the project schedule as planned, where actual progress of the project matches the corresponding invested amount.

2.3 If the borrower withdraws the loan through the designated business outlet of the lender, it must submit a withdrawal notice to the lender at least five working days in advance. Once the withdrawal notice is submitted, it cannot be revoked without the written consent of the lender. The lender shall stamp on the loan receipt with lender's official seal or special financial seal by following the

instructions on the withdrawal notice regarding the seal of holdback escrow signature. The lender hereby confirms that the loan receipt shall be valid if the holdback escrow signature contains both official and special financial seal or if a single or more seals are stamped on the loan receipt.

2.4 After the borrower satisfies the prerequisites for withdrawal or advances the loan with the consent of the lender, the lender will transfer the loan to the borrower's withdrawal account agreed in this contract, which means that the lender has issued the loan to the borrower in accordance with the contract.

2.5 According to the relevant regulatory regulations and lender management requirements, loans exceeding a certain amount or meeting other conditions should use the lender's entrustment payment method, and the lender will pay the loan to the person in accordance with the contract according to the borrower's withdrawal application and payment entrustment. For this purpose, the lender and the borrower shall sign an entrustment payment agreement as a supporting document for this agreement. The borrower shall open or designate an account with the lender for entrustment matters.

Article 3 Repayment

3.1 The borrower is obligated to repay the principal, interest and other balances due for each period in a timely manner according to this agreement. On the repayment day and the prior of business day of the interest expiry date, the borrower shall transfer the interest, principal and other balances due to the lender's account. The lender has the right to take voluntary receipt of the transfer on the same days. If the funds sent to the lender's account are insufficient for full repayment of the borrower's balances due, the lender has the right to determine the discharge order.

3.2 The borrower may choose to repay part or all of the loan 10 business days in advance by submitting a written consent to the lender.

3.3 Once obtained the consent of the lender for advance repayment, the borrower shall make the full repayment before or on the advance date, in accordance with the principal, interest and other clauses of this agreement.

3.4 The lender has the right to recall the loan based on the borrower's return of funds.

3.5 If the borrower repays in advance or the lender withdraws the loan in advance in accordance with this contract and the actual borrowing period is shortened, the corresponding interest rate level will not be adjusted and the original borrowing interest rate will still be implemented.

Article 4 Guarantee

4.1 In addition to credit loans, the borrower shall provide legal and effective guarantees recognized by the lender for the performance of its obligations under this contract. The guarantee agreement shall be separately signed.

4.2 If the collateral under this contract is damaged, depreciates, involves in property rights disputes, being seized, or the pledger disposes of the collateral without authorization, or the guarantor experiences adverse change in his/her financial situation, or other changes adverse to the lender's claims occur, the borrower shall notify the lender in time and provide other guarantees approved by the lender.

4.3 The lender shall have the right to re-evaluate the value of the security property and the guarantee ability of the guarantor periodically or irregularly. If it is deemed that the value of the security property is reduced or the guarantee ability of the guarantor is reduced, the borrower shall provide additional value reduction or guarantee ability. The reduced portion of the equivalent guarantee may also be provided in addition to other guarantees approved by the lender.

4.4 If the loan under this contract provides pledged security with accounts receivable, during the validity period of this contract, if one of the following situations occurs, the lender has the right to declare the loan to expire early and require the borrower to repay part or all of the loan principal and interest immediately. Legal, valid and full guarantees approved by the lender:

- (1) The bad debt rate of accounts receivable from the pledger of the accounts receivable to the payer has been rising for 2 consecutive months;
- (2) The accounts receivable due from the pledgor of the accounts receivable to the payer accounted for more than 5% of the balance of accounts receivable to the payer; or
- (3) The pledgee of the account receivable has trade disputes (including but not limited to quality, technology and service disputes) or debt disputes with the payer or other third parties, which may cause the receivables to fail to be paid on time.

Article 5 Representations and Warranties

The borrower makes the following representations and warranties to the lender, which shall remain valid throughout the term of this contract:

5.1 It is qualified as the subject of the borrower and has the qualification and ability to sign and perform this contract.

5.2 The signing of this contract has obtained all necessary authorization or approval, and the signing and performance of this contract does not violate the company's articles of association and relevant

laws and regulations, and has no conflict with other obligations under this contract.

5.3 Other debts payable have been paid on schedule and there is no malicious default on the principal and interest of bank loans.

5.4 The borrower has a stable organization and financial management system. No major violations of rules and regulations have taken place in the production and operation process in the recent years, and the current senior managers have no major bad records.

5.5 All documents and materials provided to the lender are true, accurate, complete and valid, and there are no false records, material omissions or misleading statements.

5.6 The financial and accounting statements provided to the lender are prepared in accordance with the Chinese accounting Standards and give a true, fair and complete picture of the borrower's operations and liabilities, and there has been no material adverse change in the borrower's financial position since the date of the most recent financial and accounting statement.

5.7 The borrower does not conceal from the lender any litigation, arbitration or claim it is involved in.

5.8 The borrower has known and fully understood the transaction rules of ICBC Online banking and other electronic banking systems related to this contract.

Article 6 Borrower's Commitment

6.1 The loan shall be withdrawn and used in accordance with the term and purpose agreed herein, and shall not flow into the securities market or futures market in any form or be used for the development of fixed assets, equity investment or real estate projects; shall not be used for the purchase of stocks, bonds, financial products, investment account trading products, financial derivatives or asset management products; and shall not be used for house purchase or mortgage repayment. Not to be used for lending, and other countries' laws and regulations clearly stipulate that business is not allowed.

6.2 The borrower shall repay the principal, interest and other dues in accordance with this agreement.

6.3 The borrower shall cooperate with the lender on the supervision and inspection of the use of the funds borrowed under this agreement and of the business condition of the and that it will promptly provide all financial statements and related materials needed by the lender, which the borrower warrants to be true, complete and accurate.

6.4 The borrower shall accept the credit check from the lender, provide the lender authentic, accurate and complete financial documents and other documents that show the borrower's solvency, including all the borrower's opening bank, bank accounts, checking balances. The borrower shall provide active cooperation and assistance with the lender's investigation and supervision of the borrower's production, management, and financial activities.

6.5 If there is any outstanding principal and interest of borrowings and other payables that are due (including being immediately due) under this contract, dividends and bonuses will not be distributed in any form.

6.6 The merger, division, capital reduction, equity change, equity pledge, major asset and debt transfer, major foreign investment, substantial increase in debt financing, and other actions that may adversely affect the lender's equity should be carried out with prior written consent from the lender or arrangements that meet the lender's management requirements for the realization of the lender's claims.

6.7 The borrower shall issue written notices to Lender upon occurrence or possible occurrence of the following events in time:

- (1) Borrower amends its articles of association, replaces its legal representative, reduces its registered capital or makes material changes in its finances or personnel;
- (2) Suspension of business, dissolution, liquidation, suspension of business operations for rectification, revocation of business license, revocation or application for bankruptcy;
- (3) Borrower involves or may involve major economic disputes, litigation, arbitration, or its assets are seized, or enforced, or judicial, taxation, industry and commerce, and other competent authorities have filed investigations or taken punishment;
- (4) Shareholders, directors and current senior officers or shareholders and investors involved in major cases or economic disputes.
- (5) Merger, division, capital reduction, equity change, equity pledge, entry into partnership, withdrawal from partnership, transfer of major assets and creditor's rights, major foreign investment, substantial increase in debt financing and other matters that may adversely affect the interests of the lender.

6.8 The borrower shall timely, comprehensively and accurately disclose related party relationships and related party transactions to lenders.

6.9 The borrower shall sign all kinds of notices sent by lenders or delivered in other ways in time.

6.10 The borrower shall not dispose of its own assets in a way that reduces its solvency; providing guarantees to third parties does not damage the rights and interests of the lender.

6.11 If the loan under this contract is issued on credit, report the external guarantee situation to the lender on a complete, true and accurate basis, and sign an account supervision agreement as required by the lender. Where the provision of guaranty may affect the performance of its obligations under this contract, written consent shall be obtained from the lender.

6.12 The order in which the borrower's debts are settled under this contract takes precedence over the borrower's debts to its shareholders, legal representatives or principals, partners, major investors or key management personnel, and the debts of the same type with the borrower's other creditors are at least equal status.

6.13 The borrower has known and fully understood the transaction rules of ICBC Online banking and other electronic banking systems in relation to this contract; Keep the customer's certificate and password properly. Any operation using the borrower's customer number (card number), password or customer's certificate shall be deemed to be done by the borrower himself, and the resulting electronic information records shall be used as the evidence to prove and handle the loan relationship under this contract.

6.14 If the repayment fund of the borrower (including but not limited to the amount obtained by the lender through the seizure, collection and disposal of the mortgaged items) is insufficient to repay all debts owed by the borrower to the lender under this contract or any other contract, the lender shall have the right to determine the order of repayment.

6.15 The borrower shall strengthen environmental and social risk management, and accept the supervision and inspection of lenders in this regard. Submit environmental and social risk reports to the lender if required by the lender.

Article 7 Lender's Commitment

7.1 The lender shall release the full loan on schedule under this agreement;

7.2 The lender shall protect the privacy of the unpublic information of the borrower's financial and production activities, except as otherwise specified by the law and regulation and other clauses under this agreement.

Article 8 Breach of Contract

8.1. Any of the following events shall be considered a breach under this Article:

- (1) The borrower fails to repay the loan principal and interest and other payables under this contract as agreed, or fails to perform any other obligations under this contract, or violates the statements, guarantees or commitments under this contract;
 - (2) The guarantee under this contract has changed to the detriment of the lender's claims, and the borrower has not provided other guarantees that meet the lender's management ;
 - (3) Borrower or guarantor is involved in illegal activities;
 - (4) According to the stipulations in the loan terms, in case of the guarantor (guaranty) changed, which leads to the obligations performed by the guarantor ahead of schedule or the disposal of guaranty by the money lender in advance; or any actions the borrower may take which influence returning the principal and interests to the money lender;
 - (5) The borrower's financial indicators such as profitability, solvency, operating capacity and cash flow exceed the agreed standards, or the deterioration has or may affect the performance of its obligations under this contract;
 - (6) The borrower's equity structure, production and operation, foreign investment, etc. have undergone significant adverse changes that have or may affect the performance of its obligations under this contract;
 - (7) The borrower is involved or may be involved in major economic disputes, litigation, arbitration, or the assets are seized, seized, or enforced, or the judicial or administrative organs file the case for investigation and punishment, or take punitive measures according to law, or have been violated due to violation of relevant national regulations or policies, media exposure that has or may affect the performance of its obligations under this contract; Abnormal changes, disappearances of the main investor of the borrower, key management personnel, disappearance, or legal investigation by the judicial authority restrictions on personal freedom that have or may affect the performance of their obligations under this contract;
 - (8) The borrower's major investors and key management personnel are abnormally changed, disappeared, or investigated or restricted by judicial organs according to law, which has or may affect the performance of its obligations under this contract;
 - (9) Borrowers use false contracts with related parties, use transactions without actual transaction background to borrow lender funds or credits, or intentionally evade the lender's claims through related party transactions;
 - (10) The borrower has or may be closed, disbanded, liquidated, suspended for business rectification, revoked business license, revoked, or filed (applied for);
 - (11) The borrower has caused liability accidents, major environmental and social risk events due to violations of laws and regulations, regulatory provisions or industry standards related to food safety, safe production, environmental protection and other
-

environmental and social risk management, which have or may affect his performance of obligations;

(12) If the loan under this contract is issued on credit, the borrower's credit rating, profit level, asset-liability ratio, net cash flow from operating activities and other indicators do not meet the lender's credit loan conditions; Or the borrower, without the written consent of the lender, uses its effective operating assets to set up collateral or provide guarantee or guarantee to others, which may affect the performance of its obligations under this contract;

(13) There exist other circumstances that may cause the lender's realization of its claims under this contract to be adversely affected.

8.2. In the event of borrower's breach, the lender has the right to take the following steps:

- (1) Request the borrower to rectify the breach of contract within a time limit ;
- (2) Stop providing loan funds that Borrower has not yet used;
- (3) Unilaterally declare all principal already lent under the Loan Contract to be due ahead of the contract due date and require Borrower immediately to return the principal and pay all interest due; and
- (4) Require the borrower to compensate the lender for the losses caused by its breach, including but not limited to the lawyer's fee, auction fee and other expenses incurred by the lender to realize the creditor's rights under this Agreement;
- (5) Other measures are required by laws and regulations, agreed herein or deemed necessary by the lender.

8.3 If the borrower is due (including the immediate expiration of the loan) and the borrower fails to repay as agreed, the lender shall have the right to collect the penalty interest at the overdue penalty interest rate agreed in this contract from the date of overdue. For the interest (including penalty interest) that the borrower fails to pay on time, compound interest will be charged at the overdue penalty interest rate. Penalty / compound interest settlement rules apply to the interest settlement rules stipulated in this contract.

8.4 If the borrower fails to use the loan for the purposes stipulated in this contract, the lender has the right to collect the penalty interest on the embezzled portion of the embezzled loan penalty interest rate from the date the loan is embezzled. If the loan is not paid on time during the embezzlement For interest (including penalty interest), compound interest shall be collected at the penalty interest rate of embezzled loans. Penalty / compound interest settlement rules apply to the interest settlement

rules stipulated in this contract.

8.5 If the borrower occurs at the same time as described in Articles 8.3 and 8.4 above, the penalty interest rate shall be determined by whichever is heavier and cannot be imposed concurrently.

8.6 If the borrower fails to repay the loan principal, interest (including penalty interest and compound interest) or other payables on time, the lender has the right to make announcements through the media.

8.7 The control or controlled relationship between the borrower's related party and the borrower has changed, or the borrower's related party has experienced other circumstances in addition to item (1) (2) in Article 8.1 above, which has or may affect the performance of the borrower's obligations under this contract, the lender shall have the right to take the measures agreed upon in this contract.

Article 9 Automatic cancellation of the lender's loan commitment

9.1 If the credit standing of the borrower deteriorates, the lender may automatically cancel all commitments to the borrower for the purpose of drawing the loan without prior notice.

9.2 Any of the circumstance described in Section 8.1 and 8.7 of Part Two of this contract shall constitute deterioration of the borrower's credit standing.

Article 10 Withhold

10.1 When the borrower fails to repay the debts due (including those declared to be due immediately) under this contract as agreed, the borrower agrees that the lender shall deduct the corresponding amount from all the local and foreign currency accounts opened by the borrower in Industrial and Commercial Bank of China for repayment until all the debts of the borrower under this contract are fully repaid.

10.2 If the withholding amount is inconsistent with the currency of this contract, it shall be converted according to the lender's applicable exchange rate on the date of withholding. The interest and other expenses incurred during the period from the date of withholding to the date of repayment (the date on which the lender converts the deducted amount into the contract currency in accordance with the State Administration of Foreign Exchange control policy and actually pays off the debt hereunder) and the difference arising from exchange rate fluctuations during this period shall be borne by the borrower.

Article 11 Transfer of Rights and Duties

11.1 The lender may transfer his rights and interests under the contract to other people even if with no approval from borrower or guarantor, while the borrower and guarantor shall continue to finish their responsibilities or obligations stipulated in the contract; the borrower or guarantor shall not transfer his responsibilities or obligations stipulated in the contract to a third party if with no written approval from the money lender.

11.2 The lender or Industrial and Commercial Bank of China ("ICBC") may authorize or entrust its other branches to exercise the rights and responsibility under this agreement, or transfer the relevant rights to other branches for takeover and management, pursuant to management needs. The lender approves this practice and the borrower does not need to obtain the lender's approval for the practice above. ICBC or its branch that takes over the lender's rights and responsibilities have the right to exercise all the rights of the lender under this agreement and the right to initiate legal proceedings, arbitration or forced execution.

Article 12 Take Effect, Change, Cancel and Terminate

12.1 This contract shall come into force when the following conditions are met and shall be valid until the date when the borrower's obligations here under have been fully fulfilled.

(1) electronically signed by the borrower and confirmed by the lender;

(2) The loan application submitted by the borrower meets the management requirements of the lender and is approved by the lender.

The lender may confirm this contract by, for example, displaying the validity status of the contract in the electronic banking system.

12.2 If any error occurs in the electronic banking system of ICBC as a result of system failure or force majeure, the lender shall have the right to make correction and inform the borrower in time.

12.3 The borrower has known and fully understood the transaction rules of ICBC Online Banking and other electronic banking systems in relation to this contract; The borrower shall properly keep the client's certificate and password. Any operation using the borrower's client number (card number), password or client's certificate shall be deemed to be done by the borrower, and the resulting electronic information records shall be used as the proof and handling of the financing relationship under this contract. Any electronic signature signed by the borrower on this contract through the e-Bank of ICBC with the e-banking certificate shall be deemed to be signed by the borrower himself or authorized by the borrower.

12.4 Any modification to this Agreement shall be negotiated and agreed upon by both parties, and be made in writing. Modifications to this Agreement shall constitute part of the Agreement and have the same legal effect. Prior to the effective date of a modification, the original clause remains legally effective.

12.5 In case of changes in national laws, regulations or policies, all or part of the terms of this contract no longer meet the requirements of national laws, regulations or policies, both parties shall timely negotiate and modify relevant terms as soon as possible.

12.6 The invalidity or unenforceability of any provision hereof shall not affect the validity and enforceability of other provisions nor the validity of the contract as a whole.

12.7 The modification and termination of this contract shall not affect the right of each party to claim compensation for losses. The termination of this contract shall not affect the validity of the relevant dispute resolution provisions of this contract.

Article 13 Application of law and dispute resolution Article

The conclusion, validity, interpretation, performance and dispute settlement of this agreement shall be governed by the laws of the People's Republic of China. All disputes and disputes arising out of or in connection with this agreement shall be settled by the parties through negotiation. If no agreement can be reached through negotiation, the dispute shall be litigated in the People's Court where the lender is located with proper jurisdiction.

Both parties agree that when a dispute arising under this contract is submitted to the court for litigation, the court may hold a hearing by means of audio-visual transmission technology, asynchronous hearing, etc., and neither party has any objection.

Article 14 The address of service of litigation/arbitration documents shall be sent

14.1 The borrower acknowledges that the address set forth on the first page of this contract shall be the service address of the litigation/arbitration documents involved in the disputes hereunder. Litigation/arbitration documents include but are not limited to summons, notice of hearing, judgment, order, conciliation statement and a notice of performance, etc.

14.2 The borrower agrees that arbitration/litigation documents may be served by the arbitration institution or the court by fax or E-mail as set forth in the first page of this contract, except the written judgment, order or conciliation statement.

14.3 The above provisions on service shall apply to all stages of first instance, second instance, retrial and execution of arbitration and litigation proceedings. For the above address of service,

service may be made by the arbitration institution or the court directly by mail.

14.4 The borrower shall ensure the authenticity and validity of the address, contact person, fax, E-mail and other information recorded in this contract. If the relevant information is changed, the borrower shall promptly notify the lender in writing; otherwise, the borrower shall bear any legal consequences due to they fail to provide the valid address.

Article 15 Complete Agreement

This Loan Agreement is comprised of Part One: Basic Clauses and Part Two: Specific Clauses. Any phrase in both parts of Loan Agreement shall have the same meanings. Both parts apply to the loan made pursuant to this Loan Agreement.

Article 16 Notice

16.1 Undertake that the address and relevant electronic contact information reserved for the lender are correct. The lender shall be deemed to have fulfilled its notification obligation to the borrower by sending the relevant documents to the address reserved for the borrower or to the address otherwise notified in writing by the borrower.

16.2 In addition to letters, the borrower agrees to accept telephone calls, emails, short messages, WeChat and other electronic means as the means of notification and collection by the lender. Where the borrower changes the address or relevant electronic contact information reserved by the lender, the borrower shall be obliged to promptly notify the lender in writing. If the notice or collection document sent by the lender at the original reserved address or the relevant electronic contact information is still valid due to the failure of timely notification, the borrower shall bear the legal consequences arising therefrom.

16.3 If the lender sends such notice to the borrower, such notice shall be deemed to have been served on all Borrowers when it is served on any Borrower.

Article 17 Special provisions of value-added tax

17.1 The interest and fees paid by the borrower to the lender under this contract (as specified in the contract) are tax-inclusive.

17.2 If the borrower requires the lender to issue a VAT invoice, it shall first register the information at the lender, including the borrower's full name, taxpayer identification number or social credit code, address, telephone number, bank of deposit and account number. The borrower shall ensure that the relevant information provided to the lender is true, accurate and complete, and provide relevant proof materials as required by the lender. The specific requirements shall be published by the lender through the network notice or website announcement.

17.3 If the borrower collects the VAT invoice by itself, it shall provide the lender with the power of attorney with the stamp, designate the recipient and specify the recipient's ID card number and other information. The designated recipient shall collect the VAT invoice with the original ID card. If the person is changed, the borrower shall re-issue the power of attorney with seal to the lender. If the borrower chooses to receive the VAT invoice by mail, it shall also provide accurate and deliverable postal information; if the mailing information has been changed, it shall promptly notify the lender in writing.

17.4 If the lender fails to issue the VAT invoice in time due to force majeure such as natural disasters, governmental ACTS, social abnormal events or tax authorities, the lender shall have the right to delay the invoice issuance without any liability.

17.5 If the invoice is lost, damaged or overdue after the VAT invoice is received by the borrower or after the lender has handed it over to a third party, the borrower cannot receive the corresponding VAT invoice or the deduction cannot be credited. The person is not responsible for compensation for the borrower's related economic losses.

17.6 If the VAT invoice is received by the borrower or delivered by the lender to a third party by mailing, and the invoice is lost, damaged or overdue due to other non-lender reasons, which causes the borrower to fail to receive the corresponding VAT invoice or fail to offset the overdue VAT invoice, the lender shall not be responsible for compensating the borrower for the relevant economic losses.

17.7 During the performance of this contract, in case of national tax rate adjustment, the lender shall have the right to adjust the agreed price according to the change of national tax rate.

Article 18. Other Clauses

18.1 The non-exercise, partial exercise, or delay in the exercise of any rights that the borrower has under this Agreement shall not constitute the abandonment or alteration of such rights, nor shall it impact the borrower's future exercise of such rights or any other rights it has under this Agreement.

18.2 The invalidity of any clause in the contract shall not affect the validity of other clauses, nor shall it affect the validity of the whole contract.

18.3 The annexes and any supplements, amendments or alterations to this contract shall form an integral part of this contract and have the same legal effect as the text of this contract.

18.4 In this Agreement and any modifications thereof, "Primary Management Personnel" shall be interpreted pursuant to the definition in Corporation Accounting Standards No.36.

18.5 The environmental and social risks mentioned in this contract refer to the harm and related risks that the borrower and its important related parties may bring to the environment and society during construction, production and business activities, including energy consumption, pollution, land, health and safety, resettlement, ecological protection, climate change and other environmental and social issues.

18.6 Any certificate or records kept by the creditor in its regular course of business shall have binding evidentiary effects on the borrower regarding its lender-borrower relationship with the money lender.

18.7 In this Agreement: (1) "Agreement" shall include any modifications or supplement made to the original Loan Agreement; (2) titles of the Articles shall be used for reference only and shall not be interpreted to explain or limit any contents of this Agreement.

Both parties confirm that: the lender and the borrower have undertaken sufficient negotiation over all of the clauses under this agreement. The lender has called the borrower's special attention to clauses about both parties' rights and responsibilities by understanding the clauses in an accurate and comprehensive manner, and has explained and illustrated the clauses in response to the borrower's request. The borrower has carefully read and understood all the clauses of this agreement (including the Part One: Basic Clauses and Part Two: Specific Clauses). Both parties have consistent understanding of the clauses under this agreement and have no objection.

Lender: /s/ Industrial and Commercial Bank of China Limited - Tahe Branch

Borrower: /s/ Greater Khingan Range Forasen Energy Technology Co., Ltd. Tahe Power Plant

Date: June 27, 2022

Loan Agreement

Contract Number: 30101000浙商银借字2022 No. 00468

Borrower: Hangzhou Forasen Technology Co., Ltd

Lender: Zheshang Bank Co., Ltd - Hangzhou Qiantang Branch

In accordance with the relevant national laws, regulations and rules, the borrower and lender have reached a consensus through full consultation and hereby enter into this contract for mutual compliance.

Article 1 Borrower's Commitment

1.1 The borrower is a lawfully established and approved by authority department approved the registration of enterprise legal person (matter) industry, or can be prescribed by the state as the other organizations of the borrower, in accordance with the law shall have the right to conclude a contract and have the ability to perform this.

1.2 All the required internal authorization process that the borrower needs to sign this contract has been completed; sign this contract is the legal representative of the borrower/head or authorized agent; and the effect of this contract is legally binding on the borrower.

1.3 The execution or performance by the borrower of this contract or of its obligations hereunder shall not contravene or result in a violation of the provisions of any other articles of association, any law or regulation, or any agreement entered into by the borrower.

1.4 The borrower's financial reporting system in accordance with the relevant state departments issued accounting standard and accounting system establishment, truthful and accurate to reflect the borrower in the report the financial position of the year, there are no false information and false statements, and since the recent report of the day, there was no sign of worsening the borrower's financial condition.

1.5 The loan application documents and materials provided by the borrower about the borrower, the guarantor and shareholder to the lender are true, complete, legal and valid. And the copies submitted are consistent with the originals.

1.6 Except as notified to the lender in writing prior to the date hereof, the borrower has not entered into or will soon enter into any litigation, arbitration or administrative proceedings affecting or likely to affect the borrower's performance hereof.

1.7 During the term of the loan, ensure that the relevant financial indicators are not lower than the agreed level. The specific financial indicators shall be agreed upon by both parties in "Other Matters" hereof.

1.8 The loan shall be used for the purpose agreed herein, and the loan funds shall be used in the manner agreed herein; Cooperate with the lender in loan payment management, post-loan management and

related inspection.

1.9 Timely, fully and accurately disclose related party relationships and related transactions to the lender.

1.10 If the loan under this contract is secured by house mortgage, it shall timely fulfill the obligation of informing the lender when it becomes aware of the information that the mortgaged house will be demolished. If the relocation adopts the compensation method of property right replacement, the borrower shall negotiate with the lender to pay off the debt or replace the mortgaged property in advance, and timely provide the guarantee approved by the lender before the original mortgaged house is lost and the new mortgage registration is not handled; If the demolition and relocation is compensated by means of compensation, the mortgagor shall ensure that the compensation proceeds shall continue to provide guarantee in the form of certificates of deposit pledged, or pay off debts in advance.

1.11 If the loan under this contract is issued on credit, complete, true and accurate report of the external guarantee to the lender on a regular basis.

1.12 Energy conservation and emission reduction are legal and compliant. If the borrower fails to perform its commitments or makes false promises or conceals facts, or if the risk of energy consumption or pollution becomes apparent, it agrees to bear the liability for breach of contract in accordance with Article 13.6 of this contract.

1.13 Obtain the consent of the lender before undertaking the material matters mentioned in Article 11.7 of this contract.

1.14 Notify the lender promptly of material adverse events affecting the solvency.

Article 2

The types of loans under this contract are as follows: See Article 21.1.

Article 3

The purposes of the loan hereunder are as follows: See Article 21.2.

Without the written consent of the lender, the borrower shall not change the purpose of the loan specified in this contract.

Article 4 Amount and term of the loan

4.1 The currency and amount of the loan hereunder are listed in 21.3.

4.2 See 21.4 for the term of loan under this contract. If a loan is drawn in installments, the maturity date of each loan shall not exceed the maturity date agreed in this paragraph.

The specific withdrawal date and amount shall be subject to the loan voucher, which is an integral part of this contract and has the same legal effect as this contract.

5.1 Interest rate on RMB borrowing please see Article 21.5.

5.2 Method of interest settlement please see Article 21.6.

Article 6 Withdrawal terms

The lender shall provide the loan under this contract if the borrower satisfies the following conditions:

6.1 The borrower shall open an account with the lender. See Article 21.7.

6.2 The borrower shall provide relevant documents and materials and complete relevant procedures as required by the lender.

6.3 If the loan under this contract is borrowed in foreign exchange, the borrower has completed approval, registration and other legal procedures related to the loan in accordance with relevant laws and regulations.

6.4 If the loan under this contract is secured by mortgage or pledge, the relevant registration and/or insurance and other legal procedures have been completed as required by the lender, and the guarantee and insurance shall remain valid. If the loan under this contract is guaranteed, the guarantee contract shall be signed and take effect in accordance with the law.

6.5 No breach has occurred under this contract or any other contract entered into between the borrower and the lender.

Article 7 Loan Payment

7.1 Payment of loans under this contract shall be made as follows: see 21.8.

(1) Entrusted payment by lender

The lender shall, in accordance with the borrower's withdrawal application and payment authorization, pay the borrowed funds to the borrower's transaction object conforming to the purposes specified in this contract and the Transaction Contract. If the borrower uses the Letter of Trust for Payment of Loan Funds of Zheshang Bank formulated by the lender, the borrower agrees that the letter of Trust shall be the basis for payment of loan funds, and the borrower shall not provide payment vouchers (or payment basis) or account password in addition.

Where payment is entrusted to the lender, the lender shall, according to the agreed purpose of the loan, examine whether the payment object, payment amount and other information listed in the payment application provided by the borrower are consistent with the corresponding business contracts (including but not limited to purchase and sales contracts, agreements, orders, freight waybills and other certification materials). After approval, the loan funds shall be paid to the borrower's transaction partner through the borrower's account. The lender shall have the right to reject the borrower's application for payment which is not in conformity with the purpose agreed herein, and all losses caused thereby shall be borne by the borrower.

Article 8 Sources of repayment funds and repayment

8.1 The borrower's sources of funds to repay the principal and interest of the loan hereunder include but are not limited to: see 21.9.

8.2 The borrower shall pay the interest in full and on time as agreed herein, and repay the loan principal as follows:

Repay the loan principal in one lump sum at maturity.

8.3 The borrower shall make sufficient amounts of interest or principal payable for the current period in the account opened with the lender on or prior to the settlement date agreed herein, and irrevocably authorize the lender to take the initiative to withdraw from the account on or prior to the settlement date agreed herein.

8.4 The lender has the right to recover the loan in advance according to the borrower's withdrawal of funds

Article 9 Account supervision

Borrower designated special fund withdrawal account, see 21.10.

The lender shall, as required by the lender, promptly provide information about the flow of funds into and out of the account. The lender shall have the right to monitor the fund withdrawal account and the borrower shall cooperate.

Article 10 Lender's rights and obligations

10.1 The lender shall have the right to inspect and supervise the borrower's production and operation, financial activities, material inventory and use of the loan by on-site and off-site means, and require the borrower to provide financial statements and other documents, materials and information on a regular basis.

10.2 When the loan principal, interest, penalty interest, compound interest and other expenses payable are withdrawn or recovered in advance in accordance with the law or as agreed herein, the borrower may directly transfer the money from all the accounts opened by the borrower in Zheshang Bank and all its branches.

10.3 If the borrower has any adverse acts or circumstances which may affect the security of the loan, including but not limited to those listed in Article 11 hereof, the lender may stop issuing the loan or withdraw the loan in advance.

10.4 Where there are several debts between the borrower and the lender, and the repayment by the borrower is not sufficient to satisfy all the debts, the repayment by the borrower and the order of repayment shall be determined by the lender.

Where the amount returned by the borrower is insufficient to repay the amount payable, the lender shall have the right to determine the priority of the amount to be used for the repayment of principal, interest, penalty interest, compound interest and the order of payment of expenses.

10.5 The borrower shall have the right to impose credit sanctions on the borrower for evading the supervision of the lender, defaulting on the principal and interest of the loan or other serious breaches of the loan, and shall have the right to notify the relevant departments or units and make public disclosure.

10.6 The lender shall have the right to transfer the Borrowings and security interests hereunder to third parties at any time without the consent of the borrower. Where the lender assigns the loan and security interest hereunder, the borrower shall still assume all obligations hereunder.

10.7 On the premise that the borrower satisfies Article 6 of this contract, the borrower shall issue the loan to the borrower on time and in full amount (except for the delay caused by the borrower or other reasons other than the lender).

Article 11 Borrower's rights and obligations

11.1 The right to obtain and use the loan in accordance with this contract.

11.2 If the loan under this contract is a foreign exchange loan, approval, registration and other legal procedures related to the loan shall be completed in accordance with relevant regulations.

11.3 Return the principal and interest of the loan on schedule. Where the borrower needs to extend the loan term, it shall submit a written application to the lender at least 15 days in advance before the expiration of the loan term and sign the loan extension agreement with the consent of the lender.

11.4 If the loan is used for the purpose specified in this contract, the borrowed money shall not be used for investment in fixed assets, equity or other fields and purposes prohibited by the State to produce or operate.

11.5 Consciously accept and actively cooperate with the lender and its entrusted units or individuals in investigating, understanding and supervising its production and operation, financial condition and use of the loan hereunder; Consciously accept and actively cooperate with the lender in monitoring the fund withdrawal account and managing and supervising the loan fund payment.

11.6 At the request of the lender, timely provide the lender with true, accurate and complete and effective financial statements and other documents, materials and information required by the lender.

11.7 Before the principal and interest of the loan under this contract are paid in full, if the borrower adopts contract, lease, joint-stock reform, joint venture, merger, merger, division, joint venture, reorganization, foreign investment, substantial increase of debt financing, transfer of assets (equity), capital reduction, application for business suspension for rectification, application for dissolution, application for bankruptcy, and other changes or influences in the creditor's debt relationship under this contract, to cancel the realization of the creditor's right of the lender, it shall notify the lender in writing 30 days in advance and obtain the written consent of the lender. At the same time, it shall fulfill the obligation to pay off the debts or pay off the debts in advance. Otherwise, it shall not perform such acts.

11.8 The borrower has any other event, other than the acts mentioned in the preceding paragraph, which poses a danger to its normal operation or materially adversely affects its performance of repayment obligations under this Agreement. In case of suspension of production, closure of business, cancellation of registration, revocation of business license, revocation or bankruptcy application, legal representative or main person in charge engaging in illegal activities, involving major litigation or arbitration, serious difficulties in production and operation, deterioration of financial condition, etc., the lender shall be notified in writing within 3 days and measures for repayment shall be implemented.

11.9 During the term hereof, if the borrower provides guarantee for the debts of others or pledges/pledges its main property to a third party, which may affect the repayment ability of the loan hereunder, it shall notify the lender in advance and obtain the written consent of the lender.

11.10 The borrower and its investors may not withdraw funds, transfer assets or transfer shares without authorization in order to evade obligations to the lender.

11.11 The borrower shall promptly notify the lender in writing of any change in its name, legal representative, domicile, business scope, etc.

11.12 If the guarantor of the loan amount under this contract stops production, goes out of business, has its registration cancelled, has its business license revoked, has been cancelled, has gone bankrupt, has been involved in major litigation or arbitration cases, has lost its guarantee ability corresponding to the loan in part or in whole, or if the value of the mortgaged property or the pledged property (right) used as the guarantee of the loan under this contract has been reduced, accidentally damaged or lost, the borrower shall promptly provide other security measures approved by the lender.

Article 12 Repayment in advance

The borrower shall obtain the consent of the lender for repayment in advance; If the lender agrees that the borrower makes the repayment in advance, the interest on the part of the repayment in advance shall be calculated and charged according to 21.14 below.

Article 13 Liability for breach of contract

13.1 On the premise that the borrower performs its obligations under this contract, if the lender fails to extend the loan to the borrower in accordance with this contract, resulting in losses to the borrower, it shall pay the borrower liquidated damages based on the amount of breach of contract and the number of days delayed. The amount of liquidated damages shall be calculated in the same way as the interest on the overdue loan during the same period.

13.2 If the borrower fails to repay the loan principal within the time limit stipulated in this contract, the lender shall have the right to charge penalty interest on the overdue loan from the overdue date up to see Article 21.12 percent above the execution interest rate of the loan agreed in this contract until the principal and interest are repaid. In case of an increase in the quoted interest rate in the loan market during the overdue period, the penalty interest rate shall be increased accordingly from the date of adjustment.

13.3 If the borrower fails to use the loan according to the purpose agreed herein, the lender shall have the right to charge penalty interest on the part in breach of the loan from the date of default, up to see Article 21.12 percent above the execution interest rate of the loan agreed herein, until the principal and interest are repaid. During this period, if the quoted interest rate of the loan market increases, the penalty interest rate will be increased accordingly from the date of adjustment.

13.4 For the unpaid interest (including penalty interest), the lender shall have the right to charge compound interest at the overdue penalty interest rate agreed herein until the interest (including penalty interest) is repaid.

13.5 If the same loan is overdue and not used according to the purpose agreed in this contract, the penalty interest rate shall be the higher.

13.6 Where the borrower fails to use the loan for the agreed purpose, disburse the loan funds in the agreed manner, has a material event of cross default or breaches other obligations under this contract, or breaches any of its commitments under this contract, such as distortion of information in the loan application documents or breach of the agreed financial index constraints, the lender shall have the right to require the borrower to correct the breach within a prescribed time limit. The borrower has the right to stop issuing loans, to recover loans already issued in advance, and to declare the loans under other loan contracts signed between the borrower and the lender to be immediately due or to take other asset preservation measures.

13.7 If the loan is issued on credit under this contract, and the borrower's credit rating, profit level, asset-liability ratio, net cash flow from operating activities and other indicators do not meet the lender's credit loan conditions, the lender has the right to stop the loan and withdraw the loan already issued in advance. The borrower has the right to declare the loan immediately due under other loan contracts signed between the borrower and the lender or to take other asset preservation measures.

13.8 If any of the guarantors of the loans under this contract violates the obligations agreed upon in the guarantee contract and fails to make corrections after being pointed out by the lender, or the guarantee ability is obviously weakened or lost, the lender has the right to take measures against the borrower to stop the loan issuance, withdraw the loans already issued in advance or take other asset preservation measures.

13.9 Where the borrower violates its obligations hereunder and causes economic losses to the lender, it shall compensate for the losses.

13.10 Where the borrower's default causes the lender to resort to litigation or arbitration to realize the creditor's right, the borrower shall bear the lawyer's fee, travel enforcement fee, appraisal fee and other expenses incurred by the lender for realizing the creditor's right.

Article 14 Loan Guarantee

The guarantee method of the loan under this contract is shown in 21.13. The guarantee contract shall be signed separately. If the guarantee of maximum amount is adopted, the guarantee contract number is 21.13.

Article 15 Service clause

15.1 The borrower confirms that the following address is the delivery address of the contract performance, dispute settlement and other relevant legal documents under this contract.

15.2 The lender or the court/arbitration institution may also serve the relevant legal documents through the following electronic service methods.

15.3 The address and method of service confirmed by the borrower shall be applicable from the establishment of the financial contract to the completion of the full performance of the debt, and shall be applicable to arbitration and litigation procedures (including the stages of first instance, second instance, retrial and execution).

15.4 Notices and litigation-related legal documents issued by the lender or the court/arbitration institution shall be deemed to have been delivered by mail to the above address; If it is served by electronic means, it shall be deemed to have been served as long as the relevant notice or legal instrument has been sent according to the specified code address. The borrower shall ensure that the above address or method of delivery and other information is accurate and effective, and shall promptly notify the lender or the court/arbitration institution in writing of any change in the relevant information, otherwise the original address or method of delivery shall remain in effect. If the information provided is inaccurate or untrue, or the changed information is not informed timely, or the borrower and the collection agent (whether or not a collection agent is appointed, the lender or the court/arbitration institution may serve the notice to its legal representative or person in charge) refuse to sign for receipt (including no one sign for receipt), so that the relevant notice or legal document cannot be actually received, the effect of service shall not be affected. The borrower shall bear the legal consequences arising therefrom.

15.5 The lender or the court/arbitration institution may serve the notice or legal document in one or more of the above-mentioned ways. If the notice or legal document is served in more than one way, it shall have the effect of service, and the time of service shall be the first served.

Article 16 Value-added Tax clause

16.1 The taxable income collected by the lender from the borrower under this contract has included VAT, and the relevant tax rate shall be determined and adjusted according to national laws and regulations. Each party shall bear all liabilities arising from the timely and full payment of taxes following national laws and regulations.

16.2 The lender will issue a VAT invoice to the borrower following national laws and regulations. The borrower shall provide the lender with all the information and materials necessary for the issuance of the VAT invoice. The borrower shall ensure that the information and materials provided are true, accurate, and complete, and shall provide relevant supporting materials as required by the lender. If the

borrower requires the lender to issue a special VAT invoice, the borrower shall be qualified as a “general VAT taxpayer” and comply with other conditions and procedures prescribed by national laws and regulations; otherwise, the lender shall have the right to refuse to issue a special VAT invoice to the borrower.

16.3 Where the lender issues a wrong VAT invoice to the borrower for reasons attributable to the borrower, the borrower shall be solely liable and the lender shall have the right to require the borrower to bear any losses or other adverse consequences caused to the lender. Where the original invoice needs to be annulled or the invoice with red letters is issued due to the wrong issuance of VAT invoice, or the VAT invoice is lost, the borrower shall be obliged to cooperate with the lender to complete the relevant processing following national laws and regulations.

Article 17 Settlement of disputes

Any dispute arising from the performance of this contract shall be settled by both parties through negotiation. If no agreement can be reached through negotiation, it shall be solved according to below:

1. Lawsuits. It shall be under the jurisdiction of the people’s court of the place where the lender has his domicile.

During the litigation or arbitration, the provisions of this contract which do not involve the disputed part shall still be performed.

Article 18 Other Matters

18.1 The term “maturity” in this contract includes the situation in which the lender declares the debt to be due early following provisions of this contract or national laws and regulations.

18.2 The lender shall have the right to provide the information related to this contract and other relevant information of the borrower to the credit investigation system of the People’s Bank of China or other credit information databases established according to law for inquiry and use by appropriately qualified institutions or individuals following the provisions of relevant laws and regulations or the requirements of financial regulatory authorities, and the lender shall have the right for concluding and performing this contract. Inquire about the relevant information of the borrower through the credit investigation system of the People’s Bank of China and other credit information databases established according to law.

Article 19 Validity of a contract

This contract shall come into force upon being signed or sealed by both parties. Please see Article 21.14.

Article 20 Tips

The lender has drawn the borrower’s attention to a comprehensive and accurate understanding of the terms of this contract, especially the parts in bold, and has made corresponding clause descriptions at the request of the borrower. The parties hereto agree on the meaning of this contract.

Article 21

21.1 Type of loan: Short-term working capital loans.

21.2 Purpose of loan: Goods payment.

21.3 The currency and the amount of the loan: 4,900,000 RMB.

21.4 Term of loan: From June 1, 2022 to May 31, 2023.

21.5 Borrowing rate: Fixed interest rate at 5.5% per annum, equivalent to 1 year LPR+180 basis points(BP).

21.6 Method of interest settlement

Interest is payable on a quarterly basis on the 20th day of the last month of each quarter.

21.7 The borrower opens a general settlement account with the lender.

21.8 Payment of loan: the lender is entrusted to pay.

21.9 Repayment source: fund withdrawal.

21.10 Withdrawal account:

Account: Hangzhou Forasen Technology Co., Ltd

Bank: Zheshang Bank Co., Ltd - Hangzhou Qiantang Branch

Account Number: [*]

21.11 The interest on the part of early repayment shall be calculated in the following manner.

Interest will be charged on the basis of the execution rate agreed in this contract, plus 0%.

21.12 From the overdue date, the penalty interest shall be calculated by increasing 50% on the basis of the execution interest rate of the loan agreed in this contract. From the date of default, the penalty interest shall be calculated and charged by 100% on the basis of the execution interest rate of the loan agreed in this contract.

21.13 The form of guarantee shall be guarantee, and the guarantee contract shall be signed separately. If the guarantee of maximum amount is adopted, the guarantee contract number are (30101000) 浙商银高保字 (2022) No. 00179 and (30101000) 浙商银高保字 (2022) No. 00175.

21.14 This contract is made in triplicate, with each party holding one copy. The lender shall hold another copy the all three copies shall have the same effect.

Lender: /s/ Zheshang Bank Co., Ltd - Hangzhou Qiantang Branch

Borrower: /s/ Hangzhou Forasen Technology Co., Ltd

Date: June 1, 2022

Loan Agreement

Contract Number: 30101000浙商银借字2022 No. 00435

Borrower: Hangzhou Forasen Technology Co., Ltd

Lender: Zheshang Bank Co., Ltd - Hangzhou Qiantang Branch

In accordance with the relevant national laws, regulations and rules, the borrower and lender have reached a consensus through full consultation and hereby enter into this contract for mutual compliance.

Article 1 Borrower's Commitment

- 1.1 The borrower is a lawfully established and approved by authority department approved the registration of enterprise legal person (matter) industry, or can be prescribed by the state as the other organizations of the borrower, in accordance with the law shall have the right to conclude a contract and have the ability to perform this.
 - 1.2 All the required internal authorization process that the borrower needs to sign this contract has been completed; sign this contract is the legal representative of the borrower/head or authorized agent; and the effect of this contract is legally binding on the borrower.
 - 1.3 The execution or performance by the borrower of this contract or of its obligations hereunder shall not contravene or result in a violation of the provisions of any other articles of association, any law or regulation, or any agreement entered into by the borrower.
 - 1.4 The borrower's financial reporting system in accordance with the relevant state departments issued accounting standard and accounting system establishment, truthful and accurate to reflect the borrower in the report the financial position of the year, there are no false information and false statements, and since the recent report of the day, there was no sign of worsening the borrower's financial condition.
 - 1.5 The loan application documents and materials provided by the borrower about the borrower, the guarantor and shareholder to the lender are true, complete, legal and valid. And the copies submitted are consistent with the originals.
 - 1.6 Except as notified to the lender in writing prior to the date hereof, the borrower has not entered into or will soon enter into any litigation, arbitration or administrative proceedings affecting or likely to affect the borrower's performance hereof.
 - 1.7 During the term of the loan, ensure that the relevant financial indicators are not lower than the agreed level. The specific financial indicators shall be agreed upon by both parties in Other Matters hereof.
 - 1.8 The loan shall be used for the purpose agreed herein, and the loan funds shall be used in the manner agreed herein; Cooperate with the lender in loan payment management, post-loan management and
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related inspection.

1.9 Timely, fully and accurately disclose related party relationships and related transactions to the lender.

1.10 If the loan under this contract is secured by house mortgage, it shall timely fulfill the obligation of informing the lender when it becomes aware of the information that the mortgaged house will be demolished. If the relocation adopts the compensation method of property right replacement, the borrower shall negotiate with the lender to pay off the debt or replace the mortgaged property in advance, and timely provide the guarantee approved by the lender before the original mortgaged house is lost and the new mortgage registration is not handled; If the demolition and relocation is compensated by means of compensation, the mortgagor shall ensure that the compensation proceeds shall continue to provide guarantee in the form of certificates of deposit pledged, or pay off debts in advance.

1.11 If the loan under this contract is issued on credit, complete, true and accurate report of the external guarantee to the lender on a regular basis.

1.12 Energy conservation and emission reduction are legal and compliant. If the borrower fails to perform its commitments or makes false promises or conceals facts, or if the risk of energy consumption or pollution becomes apparent, it agrees to bear the liability for breach of contract in accordance with Article 13.6 of this contract.

1.13 Obtain the consent of the lender before undertaking the material matters mentioned in Article 11.7 of this contract.

1.14 Notify the lender promptly of material adverse events affecting the solvency.

Article 2

The types of loans under this contract are as follows: See Article 21.1.

Article 3

The purposes of the loan hereunder are as follows: See Article 21.2.

Without the written consent of the lender, the borrower shall not change the purpose of the loan specified in this contract.

Article 4 Amount and term of the loan

4.1 The currency and amount of the loan hereunder are listed in 21.3.

4.2 See 21.4 for the term of loan under this contract. If a loan is drawn in installments, the maturity date of each loan shall not exceed the maturity date agreed in this paragraph.

The specific withdrawal date and amount shall be subject to the loan voucher, which is an integral part of this contract and has the same legal effect as this contract.

5.1 Interest rate on RMB borrowing please see Article 21.5.

5.2 Method of interest settlement please see Article 21.6.

Article 6 Withdrawal terms

The lender shall provide the loan under this contract if the borrower satisfies the following conditions:

6.1 The borrower shall open an account with the lender. See Article 21.7.

6.2 The borrower shall provide relevant documents and materials and complete relevant procedures as required by the lender.

6.3 If the loan under this contract is borrowed in foreign exchange, the borrower has completed approval, registration and other legal procedures related to the loan in accordance with relevant laws and regulations.

6.4 If the loan under this contract is secured by mortgage or pledge, the relevant registration and/or insurance and other legal procedures have been completed as required by the lender, and the guarantee and insurance shall remain valid. If the loan under this contract is guaranteed, the guarantee contract shall be signed and take effect in accordance with the law.

6.5 No breach has occurred under this contract or any other contract entered into between the borrower and the lender.

Article 7 Loan Payment

7.1 Payment of loans under this contract shall be made as follows: see 21.8.

(1) Entrusted payment by lender

The lender shall, in accordance with the borrower's withdrawal application and payment authorization, pay the borrowed funds to the borrower's transaction object conforming to the purposes specified in this contract and the Transaction Contract. If the borrower uses the Letter of Trust for Payment of Loan Funds of Zheshang Bank formulated by the lender, the borrower agrees that the letter of Trust shall be the basis for payment of loan funds, and the borrower shall not provide payment vouchers (or payment basis) or account password in addition.

Where payment is entrusted to the lender, the lender shall, according to the agreed purpose of the loan, examine whether the payment object, payment amount and other information listed in the payment application provided by the borrower are consistent with the corresponding business contracts (including but not limited to purchase and sales contracts, agreements, orders, freight waybills and other certification materials). After approval, the loan funds shall be paid to the borrower's transaction partner through the borrower's account. The lender shall have the right to reject the borrower's application for payment which is not in conformity with the purpose agreed herein, and all losses caused thereby shall be borne by the borrower.

Article 8 Sources of repayment funds and repayment

8.1 The borrower's sources of funds to repay the principal and interest of the loan hereunder include but are not limited to: see 21.9.

8.2 The borrower shall pay the interest in full and on time as agreed herein, and repay the loan principal as follows:

Repay the loan principal in one lump sum at maturity.

8.3 The borrower shall make sufficient amounts of interest or principal payable for the current period in the account opened with the lender on or prior to the settlement date agreed herein, and irrevocably authorize the lender to take the initiative to withdraw from the account on or prior to the settlement date agreed herein.

8.4 The lender has the right to recover the loan in advance according to the borrower's withdrawal of funds

Article 9 Account supervision

Borrower designated special fund withdrawal account, see 21.10.

The lender shall, as required by the lender, promptly provide information about the flow of funds into and out of the account. The lender shall have the right to monitor the fund withdrawal account and the borrower shall cooperate.

Article 10 Lender's rights and obligations

10.1 The lender shall have the right to inspect and supervise the borrower's production and operation, financial activities, material inventory and use of the loan by on-site and off-site means, and require the borrower to provide financial statements and other documents, materials and information on a regular basis.

10.2 When the loan principal, interest, penalty interest, compound interest and other expenses payable are withdrawn or recovered in advance in accordance with the law or as agreed herein, the borrower may directly transfer the money from all the accounts opened by the borrower in Zheshang Bank and all its branches.

10.3 If the borrower has any adverse acts or circumstances which may affect the security of the loan, including but not limited to those listed in Article 11 hereof, the lender may stop issuing the loan or withdraw the loan in advance.

10.4 Where there are several debts between the borrower and the lender, and the repayment by the borrower is not sufficient to satisfy all the debts, the repayment by the borrower and the order of repayment shall be determined by the lender.

Where the amount returned by the borrower is insufficient to repay the amount payable, the lender shall have the right to determine the priority of the amount to be used for the repayment of principal, interest, penalty interest, compound interest and the order of payment of expenses.

10.5 The borrower shall have the right to impose credit sanctions on the borrower for evading the supervision of the lender, defaulting on the principal and interest of the loan or other serious breaches of the loan, and shall have the right to notify the relevant departments or units and make public disclosure.

10.6 The lender shall have the right to transfer the Borrowings and security interests hereunder to third parties at any time without the consent of the borrower. Where the lender assigns the loan and security interest hereunder, the borrower shall still assume all obligations hereunder.

10.7 On the premise that the borrower satisfies Article 6 of this contract, the borrower shall issue the loan to the borrower on time and in full amount (except for the delay caused by the borrower or other reasons other than the lender).

Article 11 Borrower's rights and obligations

11.1 The right to obtain and use the loan in accordance with this contract.

11.2 If the loan under this contract is a foreign exchange loan, approval, registration and other legal procedures related to the loan shall be completed in accordance with relevant regulations.

11.3 Return the principal and interest of the loan on schedule. Where the borrower needs to extend the loan term, it shall submit a written application to the lender at least 15 days in advance before the expiration of the loan term and sign the loan extension agreement with the consent of the lender.

11.4 If the loan is used for the purpose specified in this contract, the borrowed money shall not be used for investment in fixed assets, equity or other fields and purposes prohibited by the State to produce or operate.

11.5 Consciously accept and actively cooperate with the lender and its entrusted units or individuals in investigating, understanding and supervising its production and operation, financial condition and use of the loan hereunder; Consciously accept and actively cooperate with the lender in monitoring the fund withdrawal account and managing and supervising the loan fund payment.

11.6 At the request of the lender, timely provide the lender with true, accurate and complete and effective financial statements and other documents, materials and information required by the lender.

11.7 Before the principal and interest of the loan under this contract are paid in full, if the borrower adopts contract, lease, joint-stock reform, joint venture, merger, merger, division, joint venture, reorganization, foreign investment, substantial increase of debt financing, transfer of assets (equity), capital reduction, application for business suspension for rectification, application for dissolution, application for bankruptcy, and other changes or influences in the creditor's debt relationship under this contract, to cancel the realization of the creditor's right of the lender, it shall notify the lender in writing 30 days in advance and obtain the written consent of the lender. At the same time, it shall fulfill the obligation to pay off the debts or pay off the debts in advance. Otherwise, it shall not perform such acts.

11.8 The borrower has any other event, other than the acts mentioned in the preceding paragraph, which poses a danger to its normal operation or materially adversely affects its performance of repayment obligations under this Agreement. In case of suspension of production, closure of business, cancellation of registration, revocation of business license, revocation or bankruptcy application, legal representative or main person in charge engaging in illegal activities, involving major litigation or arbitration, serious difficulties in production and operation, deterioration of financial condition, etc., the lender shall be notified in writing within 3 days and measures for repayment shall be implemented.

11.9 During the term hereof, if the borrower provides guarantee for the debts of others or pledges/pledges its main property to a third party, which may affect the repayment ability of the loan hereunder, it shall notify the lender in advance and obtain the written consent of the lender.

11.10 The borrower and its investors may not withdraw funds, transfer assets or transfer shares without authorization in order to evade obligations to the lender.

11.11 The borrower shall promptly notify the lender in writing of any change in its name, legal representative, domicile, business scope, etc.

11.12 If the guarantor of the loan amount under this contract stops production, goes out of business, has its registration cancelled, has its business license revoked, has been cancelled, has gone bankrupt, has been involved in major litigation or arbitration cases, has lost its guarantee ability corresponding to the loan in part or in whole, or if the value of the mortgaged property or the pledged property (right) used as the guarantee of the loan under this contract has been reduced, accidentally damaged or lost, the borrower shall promptly provide other security measures approved by the lender.

Article 12 Repayment in advance

The borrower shall obtain the consent of the lender for repayment in advance; If the lender agrees that the borrower makes the repayment in advance, the interest on the part of the repayment in advance shall be calculated and charged according to 21.14 below.

Article 13 Liability for breach of contract

13.1 On the premise that the borrower performs its obligations under this contract, if the lender fails to extend the loan to the borrower in accordance with this contract, resulting in losses to the borrower, it shall pay the borrower liquidated damages based on the amount of breach of contract and the number of days delayed. The amount of liquidated damages shall be calculated in the same way as the interest on the overdue loan during the same period.

13.2 If the borrower fails to repay the loan principal within the time limit stipulated in this contract, the lender shall have the right to charge penalty interest on the overdue loan from the overdue date up to see Article 21.12 percent above the execution interest rate of the loan agreed in this contract until the principal and interest are repaid. In case of an increase in the quoted interest rate in the loan market during the overdue period, the penalty interest rate shall be increased accordingly from the date of adjustment.

13.3 If the borrower fails to use the loan according to the purpose agreed herein, the lender shall have the right to charge penalty interest on the part in breach of the loan from the date of default, up to see Article 21.12 percent above the execution interest rate of the loan agreed herein, until the principal and interest are repaid. During this period, if the quoted interest rate of the loan market increases, the penalty interest rate will be increased accordingly from the date of adjustment.

13.4 For the unpaid interest (including penalty interest), the lender shall have the right to charge compound interest at the overdue penalty interest rate agreed herein until the interest (including penalty interest) is repaid.

13.5 If the same loan is overdue and not used according to the purpose agreed in this contract, the penalty interest rate shall be the higher.

13.6 Where the borrower fails to use the loan for the agreed purpose, disburse the loan funds in the agreed manner, has a material event of cross default or breaches other obligations under this contract, or breaches any of its commitments under this contract, such as distortion of information in the loan application documents or breach of the agreed financial index constraints, the lender shall have the right to require the borrower to correct the breach within a prescribed time limit. The borrower has the right to stop issuing loans, to recover loans already issued in advance, and to declare the loans under other loan contracts signed between the borrower and the lender to be immediately due or to take other asset preservation measures.

13.7 If the loan is issued on credit under this contract, and the borrower's credit rating, profit level, asset-liability ratio, net cash flow from operating activities and other indicators do not meet the lender's credit loan conditions, the lender has the right to stop the loan and withdraw the loan already issued in advance. The borrower has the right to declare the loan immediately due under other loan contracts signed between the borrower and the lender or to take other asset preservation measures.

13.8 If any of the guarantors of the loans under this contract violates the obligations agreed upon in the guarantee contract and fails to make corrections after being pointed out by the lender, or the guarantee ability is obviously weakened or lost, the lender has the right to take measures against the borrower to stop the loan issuance, withdraw the loans already issued in advance or take other asset preservation measures.

13.9 Where the borrower violates its obligations hereunder and causes economic losses to the lender, it shall compensate for the losses.

13.10 Where the borrower's default causes the lender to resort to litigation or arbitration to realize the creditor's right, the borrower shall bear the lawyer's fee, travel enforcement fee, appraisal fee and other expenses incurred by the lender for realizing the creditor's right.

Article 14 Loan Guarantee

The guarantee method of the loan under this contract is shown in 21.13. The guarantee contract shall be signed separately. If the guarantee of maximum amount is adopted, the guarantee contract number is 21.13.

Article 15 Service clause

15.1 The borrower confirms that the following address is the delivery address of the contract performance, dispute settlement and other relevant legal documents under this contract.

15.2 The lender or the court/arbitration institution may also serve the relevant legal documents through the following electronic service methods.

15.3 The address and method of service confirmed by the borrower shall be applicable from the establishment of the financial contract to the completion of the full performance of the debt, and shall be applicable to arbitration and litigation procedures (including the stages of first instance, second instance, retrial and execution).

15.4 Notices and litigation-related legal documents issued by the lender or the court/arbitration institution shall be deemed to have been delivered by mail to the above address; If it is served by electronic means, it shall be deemed to have been served as long as the relevant notice or legal instrument has been sent according to the specified code address. The borrower shall ensure that the above address or method of delivery and other information is accurate and effective, and shall promptly notify the lender or the court/arbitration institution in writing of any change in the relevant information, otherwise the original address or method of delivery shall remain in effect. If the information provided is inaccurate or untrue, or the changed information is not informed timely, or the borrower and the collection agent (whether or not a collection agent is appointed, the lender or the court/arbitration institution may serve the notice to its legal representative or person in charge) refuse to sign for receipt (including no one sign for receipt), so that the relevant notice or legal document cannot be actually received, the effect of service shall not be affected. The borrower shall bear the legal consequences arising therefrom.

15.5 The lender or the court/arbitration institution may serve the notice or legal document in one or more of the above-mentioned ways. If the notice or legal document is served in more than one way, it shall have the effect of service, and the time of service shall be the first served.

Article 16 Value-added Tax clause

16.1 The taxable income collected by the lender from the borrower under this contract has included VAT, and the relevant tax rate shall be determined and adjusted according to national laws and regulations. Each party shall bear all liabilities arising from the timely and full payment of taxes following national laws and regulations.

16.2 The lender will issue a VAT invoice to the borrower following national laws and regulations. The borrower shall provide the lender with all the information and materials necessary for the issuance of the VAT invoice. The borrower shall ensure that the information and materials provided are true, accurate, and complete, and shall provide relevant supporting materials as required by the lender. If the

borrower requires the lender to issue a special VAT invoice, the borrower shall be qualified as a general VAT taxpayer and comply with other conditions and procedures prescribed by national laws and regulations; otherwise, the lender shall have the right to refuse to issue a special VAT invoice to the borrower.

16.3 Where the lender issues a wrong VAT invoice to the borrower for reasons attributable to the borrower, the borrower shall be solely liable and the lender shall have the right to require the borrower to bear any losses or other adverse consequences caused to the lender. Where the original invoice needs to be annulled or the invoice with red letters is issued due to the wrong issuance of VAT invoice, or the VAT invoice is lost, the borrower shall be obliged to cooperate with the lender to complete the relevant processing following national laws and regulations.

Article 17 Settlement of disputes

Any dispute arising from the performance of this contract shall be settled by both parties through negotiation. If no agreement can be reached through negotiation, it shall be solved according to below:

1. Lawsuits. It shall be under the jurisdiction of the people's court of the place where the lender has his domicile.

During the litigation or arbitration, the provisions of this contract which do not involve the disputed part shall still be performed.

Article 18 Other Matters

18.1 The term maturity in this contract includes the situation in which the lender declares the debt to be due early following provisions of this contract or national laws and regulations.

18.2 The lender shall have the right to provide the information related to this contract and other relevant information of the borrower to the credit investigation system of the People's Bank of China or other credit information databases established according to law for inquiry and use by appropriately qualified institutions or individuals following the provisions of relevant laws and regulations or the requirements of financial regulatory authorities, and the lender shall have the right for concluding and performing this contract. Inquire about the relevant information of the borrower through the credit investigation system of the People's Bank of China and other credit information databases established according to law.

Article 19 Validity of a contract

This contract shall come into force upon being signed or sealed by both parties. Please see Article 21.14.

Article 20 Tips

The lender has drawn the borrower's attention to a comprehensive and accurate understanding of the terms of this contract, especially the parts in bold, and has made corresponding clause descriptions at the request of the borrower. The parties hereto agree on the meaning of this contract.

Article 21

21.1 Type of loan: Short-term working capital loans.

21.2 Purpose of loan: Goods payment.

21.3 The currency and the amount of the loan: 4,000,000 RMB.

21.4 Term of loan: From May 24, 2022 to May 23, 2023.

21.5 Borrowing rate: Fixed interest rate at 5.5% per annum, equivalent to 1 year LPR+180 basis points(BP).

21.6 Method of interest settlement

Interest is payable on a quarterly basis on the 20th day of the last month of each quarter.

21.7 The borrower opens a general settlement account with the lender.

21.8 Payment of loan: the lender is entrusted to pay.

21.9 Repayment source: fund withdrawal.

21.10 Withdrawal account:

Account: Hangzhou Forasen Technology Co., Ltd

Bank: Zheshang Bank Co., Ltd - Hangzhou Qiantang Branch

Account Number: [*]

21.11 The interest on the part of early repayment shall be calculated in the following manner.

Interest will be charged on the basis of the execution rate agreed in this contract, plus 0%.

21.12 From the overdue date, the penalty interest shall be calculated by increasing 50% on the basis of the execution interest rate of the loan agreed in this contract. From the date of default, the penalty interest shall be calculated and charged by 100% on the basis of the execution interest rate of the loan agreed in this contract.

21.13 The form of guarantee shall be guarantee, and the guarantee contract shall be signed separately. If the guarantee of maximum amount is adopted, the guarantee contract number are (30101000) 浙商银高抵字 (2022) No. 00180, (30101000) 浙商银高保字 (2022) No. 00179 and (30101000) 浙商银高保字 (2022) No. 00175.

21.14 This contract is made in triplicate, with each party holding one copy. The lender shall hold another copy the all three copies shall have the same effect.

Lender: /s/ Zheshang Bank Co., Ltd - Hangzhou Qiantang Branch

Borrower: /s/ Hangzhou Forasen Technology Co., Ltd

Date: May 24, 2022

Working Capital Loan Agreement

Lender: Hangzhou Xiaoshan Rural Commercial Bank Co., LTD. - Louta Branch

Borrower: Hangzhou Forasen Technology Co., Ltd

In accordance with the relevant national laws, regulations and rules, the borrower and lender have reached a consensus through full consultation and hereby enter into this contract for mutual compliance.

Article 1 Amount, Type and Purpose of the Loan

The amount of the loan is 3,000,000 RMB. The type of loan is medium-term loan, and the purpose of the loan is to purchase activated carbon.

Article 2 Term of Loan

From July 18, 2022 to July 17, 2025. If the actual loan date and maturity date are inconsistent with the above, the electronic data and vouchers generated by the debit note or the online debit bank shall prevail.

Article 3 Borrowing Rate

The loan interest rate under this contract shall be calculated by simple interest method, which shall be determined in the following way.

Floating interest rate. The interest rate of each loan under this contract shall be determined by the latest one-year LPR published on the natural day one day prior to the loan issuance date plus 261.000000 basis points. The specific interest rate shall be subject to the electronic data and vouchers generated by the debit note, the online bank and other electronic banks.

During the term of the loan, the interest rate on each loan shall be adjusted accordingly in the following manner without further notice by the Lender to the borrower. If there is no corresponding date in the current adjustment month, the last day of the current month shall be the adjustment day. From the adjustment date, the LPR of the term variety selected in this article in the latest period published on the natural day before the adjustment date shall be the new pricing basis, and the plus (minus) basis point shall remain unchanged.

Article 4 Loan Issuance and Payment

4.1 Withdrawal conditions. For the withdrawal hereunder, the borrower shall meet the following conditions:

- (1). The borrower does not violate its obligations and responsibilities hereunder;
 - (2). There is no adverse change in the borrower's financial condition which may harm, cause mishap or prevent it from performing its obligations and responsibilities under this contract;
 - (3). No breach of contract occurs under this contract;
 - (4). The guarantee shall continue to be effective, and the guarantee ability of the guarantor and the guarantee ability or value of the property have not changed adversely to the lender;
 - (5). The borrower has opened relevant accounts as required by the lender:
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(6). Other conditions required by the lender;

4.2 Loan.

The borrower applies to the lender for withdrawal before using the funds, and if the lender considers that the withdrawal conditions agreed herein are met after examination, the loan funds shall be transferred to the agreed borrower's account.

4.3 Payment of loans.

(1). Entrusted payment. A single payment of the loan fund exceeds RMB 0. The lender is entrusted to pay. The lender shall pay the loan funds to the borrower's transaction partner through the borrower's account after examination and approval according to the borrower's power of attorney for payment, relevant payment vouchers, business contracts and other supporting materials;

(2). Self-payment. If the lender does not meet the conditions of the entrusted payment method, the borrower shall make the payment independently. The borrower shall, within 30 days after the use of the loan funds, provide the lender with transaction information related to the payment of the loan funds and summarize and report the payment of the loan funds. The lender shall have the right to verify whether the loan payment is specifically for the specified purpose by means of account analysis, voucher inspection, on-site investigation, etc.

(3). In the process of payment of the loan hereunder, if the borrower's credit status declines, its ability to earn interest from its main business is not strong, or the loan fund is used abnormally, the Borrower shall negotiate with the lender to supplement the loan issuance and payment terms, or the lender shall have the right to change the payment method or stop the loan fund issuance and payment.

Article 5 Repayment

5.1 As agreed in the contract, the repayment method is monthly interest payment, the 20th day of each month is the interest settlement date, and the next day is the interest payment date. The late payment of interest shall be regarded as the default. The principal shall be repaid in one lump sum at the end of the loan term, and the interest shall be repaid with the principal. However, if the electronic data and vouchers generated by the e-bank, such as the debit note or online bank, specifically specify the repayment method of the loan, the repayment method of the loan shall follow this agreement.

5.2 If the borrower has multiple debts with the lender, the lender may independently determine the order of repayment of each debt.

5.3 The lender may independently determine the order of repayment of the principal, interest and expenses under a single debt item.

Article 6 Borrower's Commitment

6.1 The borrower has been approved and registered by the administrative department for industry and commerce or competent authorities in accordance with law, and the loan items meet the requirements of laws and regulations;

6.2 The borrower, its legal representative, shareholders and senior management personnel, etc., have good credit standing and no major bad record;

6.3 Timely provide the Lender with documents and vouchers related to the issuance, payment and use of the loan funds hereunder, and the materials, documents, data and information provided are true, accurate, complete, legal and effective;

6.4 Cooperate with the lender in payment management, and accept on-site and off-site investigations by the lender;

6.5 If the guarantor loses his or her guarantee ability in part or in whole, such as business suspension, bankruptcy, dissolution, revocation of business license, reorganization, merger (merger or acquisition) or serious operating loss, the guarantor shall be obliged to inform the lender in a timely manner and remove the lender's request for timely provision of the guarantee approved by the Lender;

6.6 All transactions between the Borrower and its affiliates shall be conducted in good faith, fairly and without directly or indirectly harming the interests of the Lender under this Contract;

6.7 The Borrower shall strengthen environmental and social risk management, accept the supervision of the lender, and promptly notify the lender of adverse events involving major environmental and social risks;

6.8 The borrower shall use the loan strictly in accordance with the purpose of the contract and shall not illegally transfer the loan funds into the real estate market, the stock market or other prohibited areas;

6.9 Timely notify the lender of material adverse events affecting the solvency.

Article 7 Extension of loan term

If the borrower needs to extend the loan term, it shall apply to the lender in writing prior to the maturity of the loan. Upon the consent of the lender and the guarantor, the lender, the borrower and the guarantor shall separately sign a loan extension repayment agreement. After the loan is extended, when the extended term of the loan plus the original term reaches the new interest rate term level, the interest rate shall be determined according to the current interest rate level of the accumulated term

Article 8 Breach or risk event

- (1) Failing to repay the loan principal or interest on schedule, or failing to repay the principal and interest of the loan according to the repayment method specially agreed upon in the electronic data and vouchers generated by the debit note, online banking and other electronic banks;
 - (2) Not using the loan according to the agreed purpose of the loan;
 - (3) Failure to pay the loan funds in the agreed manner;
 - (4) Failure to comply with commitments hereunder;
 - (5) Failing to pay off other debts due to the lender or debts due to any other financial institution or a third party on time;
 - (6) Property is subjected to robbery or other incidents;
 - (7) Being involved in a material adverse lawsuit;
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- (8) Being imposed heavy administrative penalties by an administrative organ;
- (9) Suspension of production or closure of business;
- (10) Concealing the financial and operating conditions of the enterprise or withdrawing funds (capital);
- (11) Contracting, entrusted operation, custody, leasing, joint venture, merger, merger, division, donation, joint-stock reform or reduction of registered capital without the written consent of the lender;
- (12) Failing to notify the lender in writing one month in advance of the alteration of the business registration items such as the name, legal representative, shareholder, domicile or business scope of the enterprise;
- (13) Stealing (evading) tax, going bankrupt, being dissolved, being ordered to stop business for rectification or being suspended (expelling) the business license;
- (14) The legal representative, shareholder or senior management personnel of the borrower or the guarantor participate in major gambling, drug taking or other illegal and disciplinary acts;
- (15) The occurrence of adverse events involving major environmental and social risks;
- (16) Other circumstances seriously affect the ability to repay debts or loss of credit.

During the term of this contract, in the event of the above breach or risk event occurring to the borrower, the lender has the right to take one or more of the following measures, including but not limited to:

1. Calculate and collect penalty interest and compound interest in accordance with regulations;
2. Stop the issuance of loans, declare the loans issued under this Contract to be due in advance, and require the Borrower to repay all the loans and the corresponding interest immediately;
3. Stop payment on the account opened by the borrower at any business institution of Zhejiang Xiaoshan Rural Commercial Bank Co., LTD., and directly deduct the corresponding amount to repay the loan principal and interest and fees;
4. Require the guarantor to perform the joint guaranty liability;
5. Demand the realization of mortgage;
6. Terminate this Contract in advance;
7. Require the borrower to provide new guarantees for the claims under this contract that meet the requirements of the lender, or take other measures to ensure that the legitimate rights and interests of the lender are not infringed;
8. Be included in the black and grey list;
9. Other acts permitted by law.

Article 9 Loan Guarantee

The guarantee provided by the borrower shall maintain its due guarantee ability before the expiration of the lender's rights under this contract. If the guarantee ability of the property is reduced or loses its guarantee function or the guarantor becomes addicted to one of the circumstances in Article 8 (5) to (16), the lender has the right to stop the loan that has not been issued hereunder and withdraw the loan that has not matured in advance.

Article 10 Liability for breach of contract:

10.1 Default of the borrower and liabilities for breach of contract:

(1). If the borrower fails to repay the loan principal on time (including extending the loan term), the penalty interest will be calculated and charged at the interest rate agreed in the loan contract plus 50% of the penalty interest rate from the overdue date.

(2). The loan interest and penalty interest shall be paid on schedule at the end, and compound interest shall be calculated according to the penalty interest rate.

(3). If the loan is not used in accordance with the provisions of the contract, the penalty interest rate of 100% plus penalty interest rate shall be levied on the embezzled loan during the period of embezzling.

(4). The borrower shall return the loan in advance only with the consent of the lender; The lender has the right to charge the borrower interest on the loan repaid in advance at the time limit and interest rate agreed herein, provided that, with the consent of the lender, the interest may be calculated and charged at the interest rate agreed herein and the actual number of days.

10.2 Breach by the lender and its liability for breach: Where the lender fails to provide the loan to the borrower in accordance with the contract, it shall pay liquidated damages to the borrower based on the amount in breach, the interest rate of overdue penalty and the number of days in default.

Article 11 Performance of a contract

11.1 The lender shall be deemed to have fulfilled its obligation to grant the loan when it transfers the loan into the borrower's account.

11.2 If the lender collects the principal and interest of the loan due or collects the principal and interest of the loan in advance as agreed, it may directly stop payment or directly deduct the corresponding amount from the account opened by the borrower at any business institution of Zhejiang Xiaoshan Rural Commercial Bank Co., Ltd. to repay the principal and interest of the loan and expenses.

Article 12 Formation, effectiveness and termination of a contract

12.1 This Contract shall come into force upon being signed (sealed) by both parties; And the borrower shall provide adequate guarantee for the creditor's rights of the lender. This contract shall come into force on the date when the guarantee contract is established and becomes effective. The borrower may require the lender to perform the loan obligation;

12.2 If, within thirty (30) days from the date of formation of this contract, the borrower should provide adequate security for the lender's claims as agreed but fails to do so, the lender shall have the right to terminate this contract.

Article 13 Miscellaneous

13.1 The guarantee contract corresponding to this contract is: Xiao Nong Commercial Bank (Louta) Maximum Guarantee Contract No. 8021320220015263 is an integral part of this contract.

13.2 The electronic data and vouchers generated by electronic banks such as loan notes or online banking and other documents and attachments are integral parts of this contract and have the same effect as this contract.

13.3 The borrower shall bear all reasonable expenses incurred in realizing the creditor's rights, such as litigation costs, attorney agency fees and remuneration of the bankruptcy administrator.

13.4 The terms of this contract, including the printed part and the handwritten part, have the same legal effect. The lender has requested the borrower to make a full and accurate understanding of the terms of this contract and to fully explain the terms as requested by the borrower; All terms of this contract were fully negotiated prior to conclusion; The borrower has fully known and understood the meaning of the terms of this contract and the corresponding legal consequences.

13.5 This contract is made in triplicate, with half held by the Lender and one held by the Borrower. Equivalent in effect.

Lender: /s/ Hangzhou Xiaoshan Rural Commercial Bank Co., LTD. - Louta Branch

Borrower: /s/ Hangzhou Forasen Technology Co., Ltd

Date: July 18, 2022

Lease Agreement

Party A : Lishui Yonglian Startup Services Co., Ltd.

Party B : Zhejiang CN Energy Technology Development Co., Ltd.

According to the Civil Code of the People's Republic of China and the relevant laws and regulations on housing management and leasing, and on the basis of mutual consensus, Party A and Party B reach the following agreement regarding the lease of the following houses:

1. Party A leases Building 2-B, Room 207, No. 268 Shiniu Road, Nanming Mountain Street, Liandu District, Lishui City, Zhejiang Province, to Party B. The area of the leased property is determined to be 30 square meters upon approval by both parties, and the leased property shall only be used for office purposes within the scope of business. Without Party A's written consent, Party B shall not change the purpose of the lease during the lease term.

2. After company registration, Party B shall provide Party A with copies of business license, legal person ID card, business license of legal person shareholder and ID card of natural person shareholder, so that Party A can establish business files and management. At the same time, Party B shall comply with the relevant regulations of the labor, tax and other departments and fulfill its due obligations on time. If Party B fails to provide relevant materials or violates relevant regulations, Party A will terminate the contract, and report to the Industrial and Commercial Bureau, and the annual inspection will not pass the next year.

3. Party A may provide Party B with business registration, investment and financing services, various management training, patent application, entrepreneurship mentor, scientific and technological project application, free talent recruitment and other services.

4. If Party B wants to renew the lease, it must notify Party A one month before the contract expires and go through the renewal procedures. If the lease is not renewed, Party B shall complete the address change procedures for industry and commerce and tax affairs within 10 days prior to the expiration of the contract. If Party B fails to complete the formalities on time, Party B shall be responsible for the liabilities and consequences arising therefrom.

5. The lease term under this agreement shall be from September 1, 2022 to August 31, 2023. A separate agreement shall be signed on rent, property fee and payment terms.

Party A: /s/ Lishui Yonglian Startup Services Co., Ltd.

Legal Representative:

Address: No. 268 Shiniu Road, Nanming Mountain Street, Liandu District, Lishui City, Zhejiang Province.

Telephone: [*]

Cell phone: [*]

Party B: /s/ Zhejiang CN Energy Technology Development Co., Ltd.

Legal Representative:

Address: Building 2-B, Room 207, No. 268 Shiniu Road, Nanming Mountain Street, Liandu District, Lishui City, Zhejiang Province

Telephone:

Cell phone: [*]

September 1, 2022

Lease Agreement

Party A : Lishui Yonglian Startup Services Co., Ltd.

Party B : CN Energy Industrial Development Co., Ltd.

According to the Civil Code of the People's Republic of China and the relevant laws and regulations on housing management and leasing, and on the basis of mutual consensus, Party A and Party B reach the following agreement regarding the lease of the following houses:

1. Party A leases Building 2-B, Room 206, No. 268 Shiniu Road, Nanming Mountain Street, Liandu District, Lishui City, Zhejiang Province, to Party B. The area of the leased property is determined to be 30 square meters upon approval by both parties, and the leased property shall only be used for office purposes within the scope of business. Without Party A's written consent, Party B shall not change the purpose of the lease during the lease term.

2. After company registration, Party B shall provide Party A with copies of business license, legal person ID card, business license of legal person shareholder and ID card of natural person shareholder, so that Party A can establish business files and management. At the same time, Party B shall comply with the relevant regulations of the labor, tax and other departments and fulfill its due obligations on time. If Party B fails to provide relevant materials or violates relevant regulations, Party A will terminate the contract, and report to the Industrial and Commercial Bureau, and the annual inspection will not pass the next year.

3. Party A may provide Party B with business registration, investment and financing services, various management training, patent application, entrepreneurship mentor, scientific and technological project application, free talent recruitment and other services.

4. If Party B wants to renew the lease, it must notify Party A one month before the contract expires and go through the renewal procedures. If the lease is not renewed, Party B shall complete the address change procedures for industry and commerce and tax affairs within 10 days prior to the expiration of the contract. If Party B fails to complete the formalities on time, Party B shall be responsible for the liabilities and consequences arising therefrom.

5. The lease term under this agreement shall be from September 1, 2022 to August 31, 2023. A separate agreement shall be signed on rent, property fee and payment terms.

Party A: /s/ Lishui Yonglian Startup Services Co., Ltd.

Legal Representative:

Address: No. 268 Shiniu Road, Nanming Mountain Street, Liandu District, Lishui City, Zhejiang Province.

Telephone: [*]

Cell phone: [*]

Party B: /s/ CN Energy Industrial Development Co., Ltd.

Legal Representative:

Address: Building 2-B, Room 206, No. 268 Shiniu Road, Nanming Mountain Street, Liandu District, Lishui City, Zhejiang Province.

Telephone:

Cell phone: [*]

September 1, 2022

Lease Agreement

Party A : Sigma Holdings (Hangzhou) Co., Ltd

Party B : Hangzhou Forasen Technology Co., Ltd

The following agreements are reached after friendly negotiation based on the reciprocal principle of both parties :

Article 1:

Party A leases the real estate located at RM 1804-1 Dikai Ginza, No.29 East Jiefang Road, Jianggan District, Hangzhou with a construction area of 93.5 square meters to Party B.

Article 2:

Parties B agrees that the real estate shall be leased for office use only.

Article 3:

The lease period is from February 15, 2022 to August 04, 2023.

Upon expiration of the lease term agreed herein, if Party B intends to renew the lease, it shall propose the renewal to Party A two months prior to the expiration date of the lease. If both parties agree upon the renewal of the lease, they shall conclude a contract separately.

If Party A or Party B intends to terminate the contract in advance, it shall notify the other party two months in advance.

Article 4:

The rent for the leased real estate is RMB 283,258.25 per year, RMB 8.3 per square meters per day. The rent shall be paid semi-annually.

Article 5:

Party A is responsible for the repair and maintenance of the real estate caused by non-artificial reasons during the lease term.

Any third party will be held liable for cause damages to the real estate and attached facilities.

Party B shall make proper use of the real estate.

Party B is responsible for the repair and maintenance of the real property caused by its own or affiliates.

Article 6:

Party B shall not sublet or exchange the leased real estate to a third party without the consent from Party A.

If Party B needs to sublet the premises during the sublease period due to special circumstances, Party B shall notify Party A in writing in advance and Party A shall obtain the written consent of the lessor according to the provisions of the lease contract.

Article 7:

Any matter not covered herein shall be agreed upon separately by both parties in the amendment of this agreement.

This agreement is made in duplicate with one copy held by each party with the same legal force.

Party A (Signature & Seal): /s/ Sigma Holdings (Hangzhou) Co., Ltd

Date: February 10, 2022

Party B (Signature & Seal): /s/ Hangzhou Forasen Technology Co., Ltd.

Date: February 10, 2022

CN ENERGY GROUP. INC.
中北能源集团有限公司

LIST OF SUBSIDIARIES OF THE REGISTRANT

<u>Name of Subsidiary</u>	<u>Jurisdiction of Incorporation or Organization</u>
CN Energy USA Inc.	Delaware
CLEAN ENERGY HOLDINGS LIMITED	Hong Kong
MZ Mining International Co., Ltd	Hong Kong
Zhejiang CN Energy Technology Development Co., Ltd.	People's Republic of China
Manzhouli CN Energy Industrial Co., Ltd.	People's Republic of China
Manzhouli CN Energy Technology Co., Ltd.	People's Republic of China
CN Energy Industrial Development Co., Ltd.	People's Republic of China
Hangzhou Forasen Technology Co., Ltd.	People's Republic of China
Greater Khingan Range Forasen Energy Technology Co., Ltd.	People's Republic of China
Manzhouli Zhongxing Energy Technology Co., Ltd.	People's Republic of China
Ningbo Nadoutong Trading Co., Ltd.	People's Republic of China
Zhejiang CN Energy New Material Co., Ltd.	People's Republic of China

Zhoushan Xinyue Trading Co., Ltd.

People's Republic of China

Zhejiang Yongfeng New Material Technology Co., Ltd.

People's Republic of China

MZ Pintai Mining (Zhejiang) Co., Ltd

People's Republic of China

Yunnan Honghao Forestry Development Co., Ltd.

People's Republic of China

Yunnan Yuemu Agriculture and Forestry Technology Co.,
Ltd

People's Republic of China

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Kangbin Zheng, certify that:

1. I have reviewed this annual report on Form 20-F of CN ENERGY GROUP. INC. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: January 27, 2023

By: /s/ Kangbin Zheng

Name: Kangbin Zheng

Title: Chief Executive Officer

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Jinwu Huang, certify that:

1. I have reviewed this annual report on Form 20-F of CN ENERGY GROUP. INC. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: January 27, 2023

By: /s/ Jinwu Huang

Name: Jinwu Huang

Title: Chief Financial Officer

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of CN ENERGY GROUP, INC. (the “Company”) on Form 20-F for the year ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Kangbin Zheng, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 27, 2023

By: /s/ Kangbin Zheng

Name: Kangbin Zheng

Title: Chief Executive Officer

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of CN ENERGY GROUP, INC. (the “Company”) on Form 20-F for the year ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jinwu Huang, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 27, 2023

By: /s/ Jinwu Huang

Name: Jinwu Huang

Title: Chief Financial Officer



Date: January 27, 2023

To: **CN ENERGY GROUP, INC.**
Building 1-B, Room 303, No. 268 Shiniu Road
Liandu District, Lishui City, Zhejiang Province
The People's Republic of China

Dear Mesdames/Sirs,

We consent to the references to our firm under the mentions of "PRC Counsel" in connection with the annual report on Form 20-F of CN ENERGY GROUP, INC. (the "Company") for the fiscal year ended September 30, 2022, including all amendments or supplements thereto (the "Annual Report"), filed by the Company with the Securities and Exchange Commission (the "SEC") on January 27, 2023 under the U.S. Securities Act of 1933 (as amended). We also consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the U.S. Securities Act of 1933, or under the U.S. Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Sincerely yours,

/s/ Chaoqun Tu
Chaoqun Tu
Attorney at Law
Yingke Wuxi Law Firm

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邮编：214000 网址：www.yingkelawyer.com P. C. : 214000 Website : www.yingkelawyer.com
电话：0510-81833288 传真：0510-81833287 Tel. : 0510-81833288 Fax. : 0510-81833287

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form F-3 (File No. 333-264579) of our report dated January 27, 2023, with respect to our audit of the consolidated financial statements of CNEY Energy Group, Inc. and its subsidiaries as of and for the year ended September 30, 2022, which appears in the Annual Report on Form 20-F for the year ended September 30, 2022.

We also consent to the reference to our firm under the caption “Experts” in such Registration Statement.

Very truly yours,

/s/ENROME LLP

ENROME LLP

January 27, 2023

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement of CN Energy Group, Inc. on Form F-3 (File No. 333-264579) of our report dated February 15, 2022, which contains an explanatory paragraph regarding the effects of the adjustments to retrospectively apply the change in accounting related to the share re-designation as described in Note 19, which were audited by other auditors, with respect to our audits of consolidated balance sheet of CN Energy Group, Inc. as of September 30, 2021, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for each of the two years in the period ended September 30, 2021, which appears in this Annual Report on Form 20-F for the year ended September 30, 2022.

/s/ Friedman LLP

New York, New York

January 27, 2023
