Dongming Qianhai Chemical Co., Ltd.

Audit Report and Financial Statements

(From January 1, 2023 to December 31, 2023)

Contents

Auditors' Report

TYTTS [2024] No. 1099

Dongming Qianhai Chemical Co., Ltd.:

I. Audit Opinion

We have audited the financial statements of Dongming Qianhai Chemical Co., Ltd. (hereinafter referred to as "the Company"), including the balance sheet on December 31, 2023, income statement of 2023, cash flows statement and statement of changes in owner's equity as well as related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Company's financial situation as at December 31, 2023 and operating results and cash flows in 2023 in accordance with the Accounting Standards for Business Enterprises.

II. Basis for Audit Opinion

We conducted our audit in accordance with Chinese Certified Public Accountants Auditing Standards. Our responsibilities under those standards are further described in the "Certified Public Accountant's Responsibilities for the Audit of the Financial Statements" section of the audit report. We are independent of the Company in accordance with the China Code of Ethics for Certified Public Accountants, and we have fulfilled our other responsibilities in terms of professional ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. Responsibilities of the Management and Those Charged with Governance for Financial Statements

The Management is responsible to prepare financial statements in accordance with the Accounting Standards for Business Enterprises to fairly reflect the financial situation, and to design, implement and maintain the necessary internal controls so that there is no material misstatement risk of the financial statements caused by frauds or mistakes.

During preparing the financial statements, the Management is responsible for assessing the ability to continue as a going concern of the Company, disclosing events related to ability to continue as a going concern (if applicable) and applying the going concern assumption, unless the Management is planning to liquidate the Company and terminate its operation, or has no other realistic choice.

Those charged with governance are responsible for overseeing the financial reporting process of the Company.

VI. Certified Public Accountant's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes an audit opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Chinese Certified Public Accountants Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

During the process of an audit conducted in accordance with audit standards, we exercise professional judgment and maintain professional scepticism throughout the audit. Meanwhile, we also implement the following work:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Understand internal controls relevant to the audit in order to design appropriate audit procedures. But there is no purpose to express opinions on the effectiveness of internal controls.

3. Evaluate the appropriateness of accounting policies adopted by the Management, and the reasonableness of accounting estimates and related disclosures.

4. Conclude on the appropriateness of the Management's use of the going concern basis of accounting. Based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of Dongming Qianhai Chemical Co., Ltd. to continue as a going concern. If we conclude that a material uncertainty exists, we are required to, in our auditors' report, draw attention of the users of statements to the related disclosures in the financial statements; if

such disclosures are inadequate, we should modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content (including the disclosures) of the financial statements, and evaluate whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Shandong Tianyuan Tongtai
Certified Public Accountants
(Special General Partnership)

Chinese Certified Public Accountant: Xu Jian

Chinese Certified Public Accountant: HaoLinwei

Jinan • China

April 25, 2024

BALANCE SHEET

December 31, 2023

Prepared by: Dongming Qianhai Chemical Co., Ltd.

Unit: Yuan Currency: CNY

Item	Notes	December 31, 2023	January 1, 2023
Current assets:			
Cash and Cash equivalents	V. (I)	77,567,833.61	284,368,042.48
Financial assets held for trading			
Derivative financial assets			
Notes receivable			
Accounts receivable	V. (II)	9,343,243.05	6,981,480.22
Financing receivables			
Prepayments	V. (III)	869,308.00	12,714,294.45
Other receivables	V. (IV)	2,746,300.21	41,965.97
Including: Interest receivable			
Dividends receivable			
Inventories	V. (V)	99,923,178.42	93,122,530.88
Contract assets			
Assets classified as held for sale			
Non-current assets due within one year			
Other current assets			
Total current assets		**190,449,863.29**	**397,228,314.00**
Non-current assets:			
Debt investment			
Other debt investments			
Long-term receivables			
Long-term equity investments	V. (VI)	9,000,000.00	9,000,000.00
Other equity instrument investments			
Other non-current financial assets			
Investment properties			
Fixed assets	V. (VII)	854,066,510.17	947,084,633.44
Construction in progress	V. (VIII)		9,272,727.56
Productive biological assets			
Oil and gas assets			
Right-of-use assets			
Intangible assets	V. (IX)	26,732,383.27	27,617,634.21
Development expenditures			
Goodwill			
Long-term prepaid expenses	V. (X)	110,580,617.85	47,970,565.81
Deferred tax assets	V. (XI)	3,450.12	17,630.00
Other non-current assets			
Total non-current assets		**1,000,382,961.41**	**1,040,963,191.02**
Total assets		**1,190,832,824.70**	**1,438,191,505.02**

Notes to financial statements attached are components of the financial statement.

Legal Representative: 雅贤印玨 **Chief Accountant:** 张丑 **Head of Accounting Department:** 良缪印学

BALANCE SHEET (CONTINUED)

December 31, 2023

Prepared by: Dongming Qianhai Chemical Co., Ltd.

Unit: Yuan Currency: CNY

Item	Notes	December 31, 2023	January 1,2023
Current liabilities:			
Short-term borrowings			
Financial liabilities held for trading			
Derivative financial liabilities			
Notes payable			
Accounts payable	V. (XII)	45,177,940.22	31,015,433.57
Receipts in advance			
Contract liabilities	V. (XIII)	6,607,873.75	
Payroll and employee benefits payable	V. (XIV)	3,080,176.29	2,911,768.84
Taxes payable	V. (XV)	80,291,317.14	25,020,864.64
Other payables	V. (XVI)	75,650,324.46	358,494.56
Including: Interest payable			
Dividends payable		70,851,253.97	
Liabilities classified as held for sale			
Non-current liabilities due within one year			
Other current liabilities	V. (XVII)	859,023.59	
Total current liabilities		**211,666,655.45**	**59,306,561.61**
Non-current liabilities:			
Long term borrowings	V. (XVIII)	250,000,000.00	450,000,000.00
Bonds payable			
Including: Preferred share			
Perpetual bond			
Lease liabilities			
Long-term payable			
Long-term payroll and employee benefits payable			
Estimated liabilities			
Deferred income			
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities		**250,000,000.00**	**450,000,000.00**
Total liabilities		**461,666,655.45**	**509,306,561.61**
Owners' equity (or shareholders' equity):			
Paid-in capital (or share capital)	V. (XIX)	400,000,000.00	400,000,000.00
Other equity instruments			
Including: Preferred share			
Perpetual bond			
Capital reserve			
Less: Treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve	V. (XX)	86,269,545.88	53,262,672.73
Retained earnings	V. (XXI)	242,896,623.37	475,622,270.68
Total owners' equity (or shareholders' equity)		**729,166,169.25**	**928,884,943.41**
Total liabilities and owners' equity (or shareholders' equity)		**1,190,832,824.70**	**1,438,191,505.02**

Notes to financial statements attached are components of the financial statement.

Legal Representative: 胜黄印迁 **Chief Accountant:** 张丑 **Head of Accounting Department:** 良缪印学

INCOME STATEMENT

For the year ended 31 December 2023

Prepared by: Dongming Qianhai Chemical Co., Ltd.　　　　Unit: Yuan Currency: CNY

Item	Notes	2023	2022
I. Total revenue	V. (XXII)	2,996,634,982.95	3,101,192,398.33
Including: Total cost of sales	V. (XXII)	2,614,599,409.77	2,893,191,378.93
Taxes and surcharges	V. (XXIII)	18,205,957.75	17,796,079.70
Selling expenses			
Administrative expenses	V. (XXIV)	5,683,281.08	8,906,670.46
Research and development expenses	V. (XXV)	1,984,094.20	1,542,038.36
Financial expenses	V. (XXVI)	15,024,939.43	24,774,742.84
Including: Interest expenses		18,023,611.11	27,361,979.17
Interest income		3,027,388.55	2,614,480.67
Plus: Other income	V. (XXVII)	1,255.72	2,439.08
Investment income (loss expressed with a minus sign "-")	V. (XXVIII)	38,861,889.78	
Including: Share of profits or loss of associates and joint ventures			
Gain from derecognition of financial assets measured at amortized cost			
Net exposure hedging gains (loss expressed with a minus sign "-")			
Gain on the changes in fair value (loss expressed with a minus sign "-")			
Credit impairment losses (loss expressed with a minus sign "-")	V. (XXIX)	56,719.50	105,171.74
Assets impairment losses (loss expressed with a minus sign "-")			
Gain from disposal of assets (loss expressed with a minus sign "-")			
II. Operating profit (loss expressed with a minus sign "-")		**380,057,165.72**	**155,089,098.86**
Add: Non-operating income	V. (XXX)	54,066,022.98	246,158.51
Less: Non-operating expenses	V. (XXXI)	3,817,013.39	77,504.06
III.Profit before tax (total loss expressed with a minus sign "-")		**430,306,175.31**	**155,257,753.31**
Less: Income tax expense	V. (XXXII)	100,237,443.80	38,863,225.55
IV. Net Profit (net loss expressed with a minus sign "-")		**330,068,731.51**	**116,394,527.76**
1. Net profit from continuing operations ("-" indicates net loss)		330,068,731.51	116,394,527.76
2. Net profit from discontinuing operations ("-" indicates net loss)			
V. Other comprehensive income, net of tax		-	-
(I) Other comprehensive income that will not be reclassified to profit or loss		-	-
1. Remeasurement gains or losses of a defined benefit plan			
2. Other comprehensive income using the equity method that will not be reclassified to profit or loss			
3. Changes in fair value of other equity instrument investments			
4. Changes in fair value of enterprise's own credit risk			
(II) Other comprehensive income to be reclassified to profit or loss		-	-
1. Other comprehensive income that can be reclassified to profit or loss in equity method			
2. Changes in fair value of other debt investments			
3. Change in the fair value of available-for-sale financial assets			
4. Amount of financial assets reclassified into other comprehensive income			
5. Reclassification of held-to-maturity investments as available-for-sale financial assets			
6. Provision for credit impairment of other debt investments			
7. Cash flow hedging reserves (effective part of profit and loss of cash flow hedging)			
8. Exchange differences on translation of foreign currency financial statements			
9. Others			
VI. Total comprehensive income		**330,068,731.51**	**116,394,527.76**

Notes to financial statements attached are components of the financial statement.

Legal Representative: 胜贵印迁　　**Chief Accountant:** 张亚　　**Head of Accounting Department:** 良缪印学

CASH FLOWS STATEMENT

For the year ended 31 December 2023

Prepared by: Dongming Qianhai Chemical Co., Ltd. Unit: Yuan Currency: CNY

Item	Notes	2023	2022
I. Cash flows from operating activities:			
Cash receipts from the sale of goods and the rendering of services		3,438,020,422.33	3,597,757,545.94
Refunds of tax and levies		3,737,172.32	
Cash received relating to other operating activities		58,189,153.86	22,255,100.26
Sub-total of Cash Inflows		**3,499,946,748.51**	**3,620,012,646.20**
Cash paid for purchase of goods and services		2,724,917,978.19	3,086,950,590.17
Cash paid to and on behalf of employee		35,174,138.17	25,493,795.75
Taxes and fees paid		213,132,862.68	195,080,361.45
Cash paid relating to other operating activities		4,522,529.87	7,552,325.22
Sub-total of Cash Outflows		**2,977,747,508.91**	**3,315,077,072.59**
Net cash flows from operating activities	V. (XXXIII)	**522,199,239.60**	**304,935,573.61**
II. Cash flows from investing activities:			
Cash received from disposal of investments			
Cash received from investment income		38,861,889.78	
Net proceeds from disposal of property, plant and equipment, intangible assets and other long-term assets			
Cash received from disposal of subsidiaries and other business units			
Cash received relating to other investing activities			
Sub-total of Cash Inflows		**38,861,889.78**	
Purchase of property, plant and equipment, intangible assets and other non-current assets		90,901,475.44	19,322,254.60
Cash paid for investments			
Net cash paid for acquisition of a subsidiary and other operating units			
Cash paid relating to other investing activities			
Sub-total of Cash Outflows		**90,901,475.44**	**19,322,254.60**
Net cash flows from investing activities		**-52,039,585.66**	**-19,322,254.60**
III. Cash flows from financing activities:			
Cash received from investment			
Proceeds from borrowings			
Cash receipts relating to other financing activities			
Sub-total of Cash Inflows		**-**	**-**
Repayments for debts		200,000,000.00	175,000,000.00
Cash payments for distribution of dividends or profit and interest expenses		476,959,862.81	27,361,979.17
Cash payments relating to other financing activities			
Sub-total of Cash Outflows		**676,959,862.81**	**202,361,979.17**
Net cash flows from financing activities		**-676,959,862.81**	**-202,361,979.17**
IV. Effect of Exchanges on Cash and Cash Equivalents			
V. Net Increase in Cash and Cash Equivalents		**-206,800,208.87**	**83,251,339.84**
Add:Cash and cash equivalents at beginning of the year		284,368,042.48	201,116,702.64
VI. Cash and Cash Equivalents at the End of the Year		**77,567,833.61**	**284,368,042.48**

Notes to financial statements attached are components of the financial statement.

Legal Representative: 黄胜 廷印 **Chief Accountant:** 张丑 **Head of Accounting Department:** 缪良 学印

STATEMENT OF CHANGES IN OWNER'S EQUITY

For the year ended 31 December 2023

Prepared by: Dongming Qianhai Chemical Co., Ltd

Unit: Yuan Currency: CNY

Item	2023										
	Paid-in capital (Or Share capital)	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Special Reserve	Surplus reserve	Retained earnings	Total owners' equity
		Preferred shares	Perpetual bond	Others							
I. Balance at the end of previous year	**400,000,000.00**	-	-	-	-	-	-	-	**53,262,672.73**	**475,622,270.68**	**928,884,943.41**
Add: Changes in accounting policies											-
Corrections of prior period errors											-
Others											
II. Beginning balance of the year	**400,000,000.00**	-	-	-	-	-	-	-	**53,262,672.73**	**475,622,270.68**	**928,884,943.41**
III. Increase/(decrease) during the period (Decrease is filled with "-")	-	-	-	-	-	-	-	-	**33,006,873.15**	**-232,725,647.31**	**-199,718,774.16**
(I) Total comprehensive income										330,068,731.51	**330,068,731.51**
(II) Shareholders' contributions and reduction	-	-	-	-	-	-	-	-	-	-	-
1. Shareholders' contributions in ordinary share											-
2. Other equity instruments contributions											-
3. Amount of share-based payments recognized in equity											-
4. Others											-
(III) Profit distribution	-	-	-	-	-	-	-	-	33,006,873.15	-562,794,378.82	**-529,787,505.67**
1. Transfer to surplus reserve									33,006,873.15	-33,006,873.15	-
2. Distribution to shareholders										-529,787,505.67	**-529,787,505.67**
3. Others											-
(IV) Transfer within equity	-	-	-	-	-	-	-	-	-	-	-
1. Capital reserves converted to share capital											-
2. Surplus reserves converted to share capital											-
3. Loss made up by surplus reserves											-
4. Changes in the defined benefit plan transferred to retained earnings											-
5. Other comprehensive income transferred to retained earnings											-
6. Others											-
(V) Special reserve	-	-	-	-	-	-	-	-	-	-	-
1. Additions											-
2. Utilisation											-
(VI) Others											-
IV. Balance at the end of the period	**400,000,000.00**	-	-	-	-	-	-	-	**86,269,545.88**	**242,896,623.37**	**729,166,169.25**

Notes to financial statements attached are components of the financial statement.

Legal Representative: 黄迁胜印

Chief Accountant: 张亚

Head of Accounting Department: 缪良学印

STATEMENT OF CHANGES IN OWNER'S EQUITY

For the year ended 31 December 2023

Prepared by: Dongying Qianhai Chemical Co., Ltd.

Unit: Yuan Currency: CNY

Item	2022										
	Paid-in capital (Or Share capital)	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Special Reserve	Surplus reserve	Retained earnings	Total owners' equity
		Preferred shares	Perpetual bond	Others							
I. Balance at the end of previous year	**400,000,000.00**								**41,623,219.95**	**370,867,195.70**	**812,490,415.65**
Add:Changes in accounting policies											-
Corrections of prior period errors											-
Others											-
II. Beginning balance of the year	**400,000,000.00**	-	-	-	-	-	-	-	**41,623,219.95**	**370,867,195.70**	**812,490,415.65**
III. Increase/(decrease) during the period (Decrease is filled with "-")	-	-	-	-	-	-	-	-	**11,639,452.78**	**104,755,074.98**	**116,394,527.76**
(I) Total comprehensive income										116,394,527.76	**116,394,527.76**
(II) Shareholders' contributions and reduction	-	-	-	-	-	-	-	-	-		-
1. Shareholders' contributions in ordinary share											-
2. Other equity instruments contributions											-
3. Amount of share-based payments recognized in equity											-
4. Others											-
(III) Profit distribution	-	-	-	-	-	-	-	-	11,639,452.78	-11,639,452.78	-
1. Transfer to surplus reserve									11,639,452.78	-11,639,452.78	-
2. Distribution to shareholders											-
3. Others											-
(IV) Transfer within equity	-	-	-	-	-	-	-	-	-	-	-
1. Capital reserves converted to share capital											-
2. Surplus reserves converted to share capital											-
3. Loss made up by surplus reserves											-
4. Changes in the defined benefit plan transferred to retained earnings											-
5. Other comprehensive income transferred to retained earnings											-
6. Others											-
(V) Special reserve	-	-	-	-	-	-	-	-	-	-	-
1. Additions											-
2. Utilisation											-
(VI) Others											-
IV. Balance at the end of the period	**400,000,000.00**	-	-	-	-	-	-	-	**53,262,672.73**	**475,622,270.68**	**928,884,943.41**

Notes to financial statements attached are components of the financial statement.

Legal Representative: 胜黄印迁 **Chief Accountant:** 张亚 **Head of Accounting Department:** 良缪印学

Dongming Qianhai Chemical Co., Ltd.
From January 1, 2023 to December 31, 2023
Notes to the Financial Statements

(Unit: Yuan Currency: CNY)

I. Basic Information

(I) Overview

1. Name: Dongming Qianhai Chemical Co., Ltd. (hereinafter referred to as "the Company")
2. Legal representative: Huang Qiansheng
3. Unified social credit code: 913717283128852588
4. Date of establishment: September 29, 2014
5. Company address: Industrial Park, Caiyuanji Town, Dongming County
6. Type: Other limited liability company
7. Registered capital: CNY 400.00 million
8. Investor and investment ratio: Dongming Hengchang Chemical Co., Ltd. has subscribed a capital contribution of CNY 280 million accounting for 70% of the registered capital, while Shandong Dongming Petrochemical Group Co., Ltd. has subscribed a capital contribution of CNY 120 million, accounting for 30% of the registered capital.

(II) Business scope

The business scope of the Company covers the production and sales of propylene, isobutylene, hydrogen, methyl tert-butyl ether (MTBE) dry gas, heavy components (pentane 40%, hexane 40%, C8 above 20%), and steam. (For business items subject to approval according to law, business activities cannot be carried out before approved by competent authorities).

II. Preparation Basis of Financial Statements

(I) Preparation basis

The Company prepares its financial statements based on actual transactions and events, in accordance with the *Accounting Standards for Business Enterprises - Basic Standards* issued by the Ministry of Finance, as well as subsequently issued and revised specific accounting standards, guidelines for the application of accounting standards for business enterprises, interpretations of accounting standards for business enterprises, and other relevant regulations (collectively referred to as "Accounting Standards for Business Enterprises").

(II) Going concern

The Company has evaluated the ability to continue as a going concern of the 12 months from the end of the reporting period, and there is no matter or condition that has significant doubt on the ability to continue as a going concern. Therefore, the financial statements are prepared based on the going concern assumption.

III. Material Accounting Policies and Accounting Estimates

(I) Declaration of compliance with the Accounting Standards for Business Enterprises

The financial statements have been prepared by the Company in accordance with the Accounting Standards for Business Enterprises, and present the financial situation, operating results and cash flows of the Company in the reporting period truly and completely.

(II) Accounting period

The accounting year of the Company starts from January 1, and ends on December 31 of the Gregorian calendar.

(III) Operating cycle

The Company takes 12 months as an operating cycle and uses such a period as a standard for classifying the liquidity of assets and liabilities.

(IV) Recording currency

The Company uses CNY as the recording currency and also to compile financial statements. The Company selects the recording currency based on valuation and settlement currency of their main business incomes and expenses.

(V) Classification of joint arrangements and accounting treatment method for joint operation

"Joint arrangement" refers to an arrangement jointly controlled by two or more participants. Joint control refers to the control that is common to an arrangement in accordance with the relevant agreement, and the relevant activities of the arrangement must be agreed by the participants sharing the control right before making a decision. When judging whether the joint control exists, whether all participants or participant portfolios collectively control the arrangement will be judged firstly, and then whether the decision-making for related activities of the arrangement must be approved with the consensus of all participants collectively controlling the arrangement will be judged.

The Company classifies joint arrangements in accordance with its rights and obligations in such joint arrangements. Joint arrangements are classified into joint operation and joint ventures.

Joint operation refers to any joint arrangement under which a joint enterprise enjoys underlying asset and undertakes underlying liabilities. The Company recognizes the following items related to the share of interest in joint operation and conducts accounting treatment in accordance with the Accounting Standards for Business Enterprises:

1. Assets separately held by the Company and jointly held as per the share of the Company;
2. Liabilities separately undertaken by the Company and liabilities jointly undertaken as per the share of the Company;
3. Incomes from selling shares arising from joint operation attributable to the Company;
4. Incomes from sales in joint operation as per the share of the Company;
5. Expenses incurred separately and in joint operation as per the share of the Company.

(VI) Criteria for determining cash and cash equivalents

When preparing the cash flow statement, the Company's cash on hand and deposit that can be used for payment at any time are recognized as cash. "Cash equivalents" refer to short-term (generally due within three months from the date of acquisition), and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant value change risk.

(VII) Financial instruments

Financial instruments refer to any contracts that form a financial asset of one party but financial liabilities or equity instrument of other parties.

1. Recognition and derecognition of financial instruments

A financial asset or financial liability is recognized when the Company becomes a party to a financial instrument contract.

A financial asset that is derecognized (or a part of a financial asset or part of a group of similar financial assets) is written off from its account and balance sheet if the following conditions are met:

(1) The right to receive cash flows from financial assets reaches maturity;

(2) The right to receive cash flow from financial assets is transferred or, under the "hands-over agreement", the Company assumes the obligation to pay the full amount of cash flow received to third parties in a timely manner; and (a) virtually all of the risks and rewards of the ownership of the financial assets are substantially transferred, or (b) the Company relinquishes the control of the financial assets while the Company does neither substantially transfer nor retain virtually all of the risks and rewards of the ownership of the financial assets.

A financial liability will be derecognized if its liability has been fulfilled, revoked or expired. If the existing financial liability is replaced by another financial liability with substantially different terms by the same creditor, or the terms of the existing liability are substantially modified almost entirely, such replacement or modification is treated by derecognizing the original liability and recognizing the new liability, and the difference is recognized through current profits and losses.

Financial assets traded in the regular manner are recognized and derecognized by accounting on the trading day. The regular manner of trading financial assets refers to the collection or delivery of financial assets within the time limit stipulated by regulations or common practices in accordance with the terms of the contract. Trading day refers to the date when the Company promises to buy or sell financial assets.

2. Classification and measurement of financial assets

Financial assets of the Company are classified as follows at the time of initial recognition according to the business model of the Company's enterprise management of financial assets and the contractual cash flow characteristics of financial assets: financial assets measured at amortized cost, financial assets measured at fair value with their changes included in other comprehensive incomes, and financial assets measured at fair value recognized through current profits and losses. Financial assets are measured at their fair value at the time of initial recognition, provided that accounts receivable or notes receivable arising from the sale of goods or the provision of services do not contain significant financing components or that the financing components not exceeding one year are not considered, in which case the initial measurement is carried out at the transaction price.

For financial assets measured at fair value with their changes recognized through current profits and losses, relevant transaction expenses are recognized through current profits and losses directly; and for financial assets of other categories, relevant transaction expenses are recognized through the initial recognition amount.

The subsequent measurement of financial asset depends on their classification:

(1) Financial assets measured at amortized cost

Financial assets that meet the following conditions at the same time are classified as financial assets measured at amortized cost: The business model to manage such financial assets is to collect contractual cash flows; the contractual terms of such financial assets provide that the cash flows generated on a specific date are only payments only to the principal and interest based on the outstanding principal amount. The interest income of such financial assets is recognized by the effective interest method, and the profits or losses arising from the derecognition, modification or impairment of them are recognized through current profits and losses. Such financial assets primarily include monetary capital, accounts receivable, notes receivable, other receivables, debt investments, and long-term receivables, among others. The Company reports debt investments and long-term receivables that shall be due within one year from the balance sheet date as non-current assets due within one year, while debt investments originally due within one year are classified as other current assets.

(2) Financial assets measured at fair value with their changes included in other comprehensive incomes

① Investment in debt instruments at fair value recognized through other comprehensive income

Financial assets that meet the following conditions at the same time are classified as financial assets measured at fair value with their changes included in other comprehensive incomes: the Company aims to take the collection of contractual cash flow and selling of the financial asset as the business model for managing the financial assets; the contractual terms of such financial assets provide that the cash flows generated on a specific date are only payments only to the principal and interest based on the outstanding principal amount. The interest incomes of these financial assets will be recognized by effective interest method. The interest income, impairment loss and exchange difference are recognized as current profits and losses, and other changes in fair value shall be recognized through other comprehensive income. Upon derecognition of the financial assets, the accumulated profits or losses previously recognized through other comprehensive incomes are transferred from other comprehensive incomes and recognized through current profits and losses. Such financial assets include accounts receivable financing and other debt investments. Other debt investments that shall be due within one year from the balance sheet date are reported as non-current assets that shall be due within one year, while other debt investments that shall be originally due within one year are reported as other current assets.

② Equity instrument investment at fair value recognized through other comprehensive income

The Company irrevocably elects to designate certain non-trading equity instrument investments as financial assets measured at fair value with their changes included in other comprehensive incomes. Only the relevant dividend income (excluding dividend income that is clearly identified as a recovery of investment cost) is recognized through current profits and losses. Subsequent changes in fair value are recognized in other comprehensive income, and impairment provision calculation is required. Upon derecognition of the financial assets, the accumulated profits or losses previously recognized through other comprehensive incomes are transferred from other comprehensive incomes and included into retained earnings. Such financial assets are presented as other equity instrument investments.

(3) Financial assets at fair value recognized through current profits and losses

The Company classifies financial assets except for above-mentioned financial assets measured at amortized cost and financial assets measured at fair value with their changes included in other comprehensive incomes into financial assets at the fair value recognized through current profits and losses. For such financial assets, the subsequent measurement is carried out at fair value, and all fair value changes are recognized through current profits and losses. Such financial assets are presented as trading financial assets and those with maturities exceeding one year from the balance sheet date and which are expected to be held for more than one year are presented as other non-current financial assets. At initial recognition, to eliminate or significantly reduce accounting mismatches, the Company may irrevocably designate financial assets as financial assets measured at fair value recognized through current profits and losses. Such designation cannot be revoked once made.

3. Classification and measurement of financial liabilities

The Company's financial liabilities are classified at the time of initial recognition as Financial liabilities measured at the fair value with its changes recognized through current profits and losses, other financial liabilities, and derivative instruments that are designated as effective hedging instruments. For financial liabilities measured at fair value with their changes recognized through current profits and losses, relevant transaction expenses are recognized through current profits and losses directly; and for other financial liabilities, relevant transaction expenses are recognized through the initial recognition amount.

The subsequent measurement of financial liability depends on their classification:

(1) Financial liabilities at fair value recognized through current profits and losses

Financial liabilities measured at fair value recognized through current profits and losses include trading financial liabilities (containing derivative instruments falling in financial liabilities) and those financial liabilities measured at fair value recognized through current profits and losses at the time of initial recognition.

If one of the following conditions is met, they belong to trading financial liabilities: The purpose of obtaining the financial liabilities is to sell or purchase them in the recent period; Belong to part of the identifiable portfolio of financial instruments under centralized management,

and there is objective evidence that the Company recently adopted a short-term profit model; Belong to derivative instruments, except for derivatives that are designated as effective hedging instruments and derivatives that comply with financial guarantee contracts. Trading financial liabilities (including derivative instruments belonging to financial liabilities) is subject to subsequent measurement as per fair value. Except for being related to hedge accounting, the changes in fair value are recognized through current profits and losses.

(2) Other financial liabilities

Such financial liabilities are measured subsequently at amortized cost by the effective interest method.

4. Offset of financial instruments

When all the following conditions are met, financial assets and financial liabilities are included in the balance sheet in the form of the net amount resulted from the offset. The legal right is entitled to offset the recognized amount and such legal right is currently enforceable. As planned, the settlement is conducted using the net amount or by realizing the financial assets and paying off the financial liabilities at the same time.

5. Financial guarantee contract

A financial guarantee contract refers to a contract where the issuer agrees to pay a specified amount to the contract holder who suffers losses if a specific debtor fails to repay the due debt in accordance with the terms of the debt instrument. Financial guarantee contracts are measured at fair value at initial recognition. Except for those designated as financial liabilities measured at fair value recognized through current profits and losses, other financial guarantee contracts are subsequently measured at the higher of the expected credit loss provision amount determined on the balance sheet date and the balance after deducting the accumulated amortization amount determined in accordance with the income recognition principle from the initial recognition amount.

6. Financial asset transfer

If almost all risks and rewards about the financial assets ownership have been transferred by the Company to the transferee, the financial assets shall be subject to the derecognition; if almost all risks and rewards of financial asset ownership are reserved, the derecognition will not be conducted for such financial assets.

If the Company neither transfers nor retains almost all risks and rewards of the financial asset ownership, they should be dealt with as follows: if the control of the financial asset is abandoned, the financial assets are derecognized and the assets and liabilities are recognized; for those not abandon the control of the financial asset, the relevant financial asset and liability are recognized as per the degree of continued involvement of the transferred financial asset.

For those who continue to be involved by providing financial guarantee for the transferred financial assets, the assets formed by continuing to be involved will be recognized according to the book value of the financial assets or the amount of financial guarantee, whichever is lower. The amount of financial guarantee refers to the highest amount of repayment to be demanded among the considerations receives.

(VIII) Recognition method and accounting treatment method of expected credit losses

Based on expected credit losses, the Company carries out the impairment treatment and recognizes the loss provision of financial assets at amortized costs, accounts receivables and debt investments at fair value recognized through other comprehensive incomes, contract assets, lease receivables, loan commitments classified other than financial liabilities at fair value recognized through current profits and losses, financial guarantee contracts that do not belong to financial liabilities at fair value recognized through current profits and losses or financial liabilities that arise when the financial asset transfer does not qualify for derecognition or when the continuing involvement approach applies defined in the *Accounting Standards for Business Enterprises No. 14 - Income*.

1. Determination of the expected credit losses

Expected credit loss refers to the weighted average of credit losses of financial instruments weighed by the risk of default.

Credit loss refers to the difference between all contractual cash flows discounted as per the original effective interest rate and receivable from the contract and all cash flows expected to be received by the Company, namely, the present value of a shortage of cash. The purchased or underlying financial assets with credit impairment of the Company shall be discounted as per effective interest rate based on credit adjustment.

Considering the reasonable and well-founded information, such as, relevant past events, current situation and forecast to the future economic conditions, and by taking the risks of default as the weight, the Company calculates the probability weighted amount of the present value of the difference between the receivable cash flow and the cash flow expected to be received, and recognizes it as the expected credit losses.

The Company measures the expected credit loss of the financial instrument in different stages, respectively. After the initial recognition, if the credit risk of the financial instrument is not increased significantly, it is in stage 1, and the Company should measure the loss provisions according to the expected credit loss of the future 12 months; The financial instruments are in stage 2, and the Company should measure the loss provision according to the expected credit loss in the entire duration of the instrument if the credit risk has been increased significantly after the initial recognition, but the financial instrument does not have credit impairment and is at the second stage; The financial instruments are in stage 3 since the initial recognition, and the Company should measure the loss provision according to the expected credit loss in the entire duration of the instrument if the credit impairment occurs after the initial recognition.

For a financial instrument with low credit risk as of the balance sheet date, the Company assumes that its credit risk has not increased significantly since the initial recognition.

Expected credit losses of the entire duration refer to those arising from all possible events of default regarding financial instruments during the whole duration. Expected credit losses within the next 12 months refer to those arising from possible events of default regarding financial instruments within the 12 months after the balance sheet date (expected duration, if the expected duration of the financial instruments is less than 12 months), which are part of the expected credit losses during the entire duration.

When the expected credit loss is measured, the longest period to be considered by the Company is the longest contract period when the enterprise faces the credit risk (including considering the renewal option).

For the financial instruments that are in stage 1 and stage 2 and in a lower credit risk, the Company should calculate the interest income in accordance with the book balance that the impairment provisions are not deducted and the effective interest rate. For the financial instrument in stage 3, the interest income should be calculated according the amortized cost after its book balance minus the calculated impairment provisions and the effective interest rate.

Notes receivable, accounts receivable and contract assets

For notes, accounts and contract assets receivable, the Company always measures their loss provision based on the amount of expected credit losses during the entire duration whether they contain significant financing components or not.

When the expected credit loss of the single financial assets cannot be evaluated at the reasonable cost, the Company shall divide and combine the notes receivable and accounts receivable according to the credit risk characteristics, and calculate the expected credit losses based on the combination. The basis to determine the portfolios are as follows:

A. Notes receivable

Notes receivable portfolio 1: Bank acceptance bill

Notes receivable portfolio 2: Commercial acceptance bill

Item	Basis for portfolio determination
Bank acceptance bill	The acceptor is the bank with lower credit risk
Commercial acceptance bill	The acceptor is the Company with lower credit risk

For notes receivable and contract assets divided into portfolios, by referring to the historical credit loss experience and combined with the current situations and future economic conditions, the Company calculates the expected credit losses according to the exposure at default and the expected credit loss rate in the entire duration.

B. Receivables and contract assets

1) For accounts receivable not containing significant financing components and contract assets, the Company measures their loss provisions based on the amount of expected credit losses during the entire duration. For accounts receivable containing significant financing components and contract assets, the Company measures their loss provisions based on the amount of expected credit losses during the entire duration.

Confirmation standards for accounts receivables and contract assets with significant single amount and singly withdrawn bad debt provision: The specific criteria for a single significant amount are: The amount is equal or greater than CNY 5 million (including).

The method for calculating and accruing bad debt provisions for individually significant accounts receivables and contract assets is as follows: Separately carry out impairment test, and withdraw bad debt provisions based on the difference between the present value of expected future cash flow and its book value and recognize it through current profits and losses

2) Withdrawal of bad debt provision receivable in portfolios

Receivables and contract assets with single amount being not big together with amounts receivable without impairment after individual testing shall be divided into several portfolios in accordance with the characteristics of credit risk, and bad debt provisions to be calculated and withdrawn shall be determined based on the actual loss rate of receivables portfolio with same credit risk characteristics as it in the previous year.

For accounts receivable and contract assets divided into portfolios, by referring to the historical credit loss experience and combined with the current situations and future economic conditions, the Company prepares the comparison table of the account aging and the expected credit loss rate in the entire duration.

Item	Basis for portfolio determination	Description
Riskless portfolio	Related parties, employee transactions, etc.	Based on the current situation and forecasts of future economic conditions, taking into account the exposure at default and the expected credit loss rate over the entire duration of the instrument, the expected credit loss rate for this portfolio is determined to be 0%.
Credit risk characteristic portfolio	Combination of account aging analysis method	Taking into consideration the current situation and forecasts of future economic conditions, the Company calculates the expected credit loss by referring to the aging of accounts receivable and the expected credit loss rate comparison table over the entire duration of the receivables.

For accounts receivable divided into portfolios, by referring to the historical credit loss experience and combined with the current situations and future economic conditions, the Company prepares the comparison table of the account aging and the expected credit loss rate in the entire duration.

Withdraw bad debt provision based on aging analysis method

Aging	Withdrawing proportion of the total trade receivable (%)	Withdrawal proportion of other receivables (%)
Within 1 year (including)	0.50	0.50
1-2 years (including 2 years)	1.00	1.00
2-3 years (including 3 years)	5.00	5.00
Over 3 years	10.00	10.00

C. Debt investments and other debt investments

As for debt investments and other debt investments, the Company calculates the expected credit loss pursuant to the investment nature, all kinds of counterparties and risk exposures and exposure at default and expected credit loss rate in the next 12 months or during the entire duration

2. Assessment of the significant increase of the credit risks

The Company compares the risk of default of the financial instrument on the balance sheet date and the risk of default of the financial instrument on the initial recognition date to recognize the relative change in default risk of the financial instrument within the expected duration and evaluate whether the credit risk of financial instrument has remarkably increased after the initial recognition.

At the time of confirming whether the credit risk has obviously increased after initial recognition, the Company considers that it is unnecessary to pay unnecessary extra costs or make efforts to get the reasonable and evidence-based information, including forward-looking information. The information considered by the Company includes:

(1) The situation that the debtor failing to pay the principal and interest pursuant to the due date in the contract;

(2) Serious deterioration of external or internal credit rating (if any) of the financial instrument incurred or expected;

(3) Serious deterioration of debtor operating results incurred or expected;

(4) Current or expected changes in technology, market or economic or legal environment which will produce a material adverse effect on the debtor's ability of repayment to the Company.

The Company will assess whether the credit risk significantly increases on the basis of single financial instrument or financial instrument portfolio pursuant to financial instrument nature. When the assessment is based on financial instrument portfolio, the Company can classify the financial instruments based on common credit risk characteristics, such as overdue information and credit risk rating.

In case of exceeding the time limit for more than 30 days, the Company confirms the credit risk of the financial instrument has obviously increased.

The Company considers a financial asset to be in default when:

It becomes improbable that the borrower will pay the full amount owed to the Company, without considering any recovery actions such as liquidating collateral (if held) that the Company might take; or

Financial assets are over 90 days overdue.

3. Financial assets with credit impairment

The Company assesses whether the credit impairment happens as per the financial assets measured by amortized cost and the debt investments measured at fair value recognized through other comprehensive income on the balance sheet date. When one or several events having an adverse effect on the expected future cash flow of financial assets occur, these financial assets become those with credit impairment. The evidences showing the credit impairment of financial assets include the observable information that meet one of the following conditions:

(1) When a major financial difficulty occurs to the issuer or the debtor;

(2) When the debtor breaches the contract, such as failing or delaying paying interests and principal;

(3) In consideration of economy or contract relating to the debtor's financial difficulty, the Company gives concessions which will not be given in any other case to the debtor;

(4) When the debtor is likely to go bankrupt or carries out other financial restructuring;

(5) The financial difficulty of the issuer or the debtor makes the active market of such financial assets disappear.

(6) And when the discount reflects the fact of credit loss as a financial asset is purchased or sourced based on a big discount.

4. Presentation for expected credit loss provisions

To reflect the changes in the credit risk of financial instruments after the initial recognition, the

Company recalculates the expected credit losses on each balance sheet date, and the increased or reversed amount of loss provisions formed should be recognized through current profits and losses as impairment losses or gains. For financial assets at amortized costs, the loss provision reduces the book value of such financial assets presented in the balance sheet. As for debt investments at fair value recognized through other comprehensive income, the Company shall recognize their loss provision in other comprehensive incomes and shall not deduct the book value of such financial assets.

5. Written-off

If the Company doesn't reasonably expect the contractual cash flow of financial assets that can be taken back in whole or in part any more, the book balance of such financial assets will be directly written down. Such write-down constitutes the derecognition of related financial assets.

(IX) Inventories

1. Classification of inventories

Inventories are classified into: Materials in transit, raw materials, revolving materials, inventory goods, in-process goods, goods shipped in transit, consigned processing materials, consumptive biological assets, etc.

2. Valuation methods for acquiring and delivering inventories

Measure according to the actual cost when obtaining the inventories. The inventory cost includes the purchasing cost, processing cost and other costs.

When the inventories are shipped, they will be valued by the weighted average method.

3. Recognition basis for net realizable value of inventories and withdrawing method of inventory falling price provisions

At the end of the period, the inventory falling price provisions are withdrawn or adjusted according to the comparison of the inventory cost and the net realizable value after a thorough review of the inventory.

The net realizable value of commodity inventories that can be directly used for sales, such as finished goods, inventory goods and materials ready for sales is recognized during the normal production and operation process by deducting the estimated sales expenses and relevant taxes and dues from the estimated selling price of such inventories. The net realizable value of material inventories to be processed is recognized during the normal production and operation process by deducting the estimated cost to be incurred, estimated sales expenses and relevant taxes and dues until the completion date from the estimated selling price of finished goods in routine activities. The net realizable value of inventories held for the execution of sales or labor contracts is calculated on the basis of the contract price. If the quantity of inventories held is greater than that ordered in the sales contract, the net realizable value of the excess inventories is calculated on the basis of the general selling price.

The inventory falling price provisions are withdrawn based on each single inventory item at the end of the period, provided that, for inventories of large quantity and low price, the inventory falling price provisions will be withdrawn by category. For inventories that are related to the product series produced and sold in the same area, have the same or similar final uses or purposes, and are difficult to be separately measured from other items, their falling price provisions will be withdrawn in a consolidated manner.

If the factors causing any depreciation of inventory value have disappeared, the amount of depreciated inventory value will be resumed and reversed from the inventory falling price provisions that have been made. The reversed amount is recognized through current profits and losses.

4. Inventory stocktaking system

The perpetual stocktaking system is applied.

5. Amortization method of low-value consumables and package materials

(1) The one-off write-off method is adopted for low-value consumables;

(2) The one-off write-off method is adopted for package materials.

(X) Contract assets

The right of collecting any consideration as the Company has transferred goods or rendering services to clients and such right depends on other factors except for the passage of time is recognized through contract assets. The right enjoyed by the Company (only depends on time lapses) to receive consideration unconditionally from the client shall be presented under receivables.

The Company's recognition method and accounting treatment method of expected credit losses of contract assets is detailed in the Notes III. (VIII), "Recognition method and accounting treatment method of expected credit losses".

(XI) Assets classified as held for sale

1. Recognition standards of held-for-sale non-current assets or disposal portfolios

If the Company collects the book value mainly through selling (including exchange of substantially commercial non-monetary assets, the same hereinafter) rather than continuously using one non-current asset or disposal portfolio, it will be recognized through the held-for-sale category.

The Company recognizes non-current assets or disposal portfolios that meet the following conditions at the same time through the held-for-sale category:

(1) Those that can be sold immediately under the current situations in accordance with the practice of selling such assets or disposal portfolios in similar transactions;

(2) When the sale is highly likely to occur, that is, the Company has made a decision for a sales plan and obtained an acknowledged purchase commitment, and such a sale is predicted to be completed within one year. Where it is required in applicable regulations to be sold after approval by competent authorities or supervision departments of the Company, such approval has been obtained.

"Acknowledged purchase commitment" refers to a legally-binding purchase agreement signed between the Company and other parties, which includes such important articles as transaction price, time and strict violation punishment to minimize the possibility for significant adjustment or cancellation of the agreement.

2. Accounting treatment method for held-for-sale non-current assets or disposal portfolios

If there are held-for-sale non-current assets or disposal portfolios during initial measurement or on the balance sheet date based on remeasurement of the Company, when the book value is higher than the net amount by deducting the selling expenses from the fair value, the book value shall be written down and be equal to the net amount by deducting the selling expenses from the fair value. The write-down amount shall be recognized as the asset impairment losses and recognized through current profits and losses. At the same time, the impairment provision of held-for-sale assets should be calculated and withdrawn.

(1) The Company will adjust the expected net residual value of the held-for-sale fixed assets in order to make it reflect the amount of the fair value thereof deducting the disposal expenses, provided that such amount shall not exceed the original book value of the fixed assets when they meet the conditions for sale, and the difference between the original book value and the expected net residual value after adjustment will be recognized through current profits and losses as asset impairment losses. The depreciation of held-for-sale fixed assets will not be accrued, but measured according to the net

amount after the book value and the fair value subtracts the disposal expenses, whichever is lower.

(2) Equity investments in associated enterprises or joint ventures held-for-sale will not be calculated based on the equity method from the date when they are classified into the held-for-sale category.

3. Accounting treatment under the dissatisfaction of the recognition conditions of the held-for-sale category

(1) If any asset or disposal portfolio set has been classified as held-for-sale, but fails to meet the conditions of the held-for-sale category of fixed assets later, the Company will stop classifying it as held-for-sale and calculate by the lower one of the following two amounts:

① The book value of the asset or disposal portfolio before it is classified as held-for-sale according to the amount after adjustment of recognized depreciation, amortization or impairment assuming that it is not classified as held-for-sale;

② The amount recovered on the date when it is decided not to sell again.

(2) Where any equity investment in an associated enterprise or joint venture held-for-sale no longer meets the classification conditions of assets held for sale, the Company adopts the equity method for retroactive adjustment from the date when it is classified as a held-for-sale asset.

4. Accounting treatment for other non-current assets held for sale

Intangible assets and other non-current assets which conform to the conditions for being held-for-sale will be disposed according to the above principles, but do not include deferred income tax assets, employee remuneration assets, regulated financial assets in the *Accounting Standards for Business Enterprises No. 22 - Financial Instruments Recognition and Measurement*, investment real estate and biological assets at fair value, and contractual rights generated in insurance contracts.

(XII) Long-term equity investments

1. Classification of long-term equity investments and its judgment basis

(1) Classification of long-term equity investments

Long-term equity investments are divided into those that the investor implements control and significant influence on the investee, as well as the equity investment to the joint venture.

(2) Judgment basis for classification

① Basis of determining that the investee is only under the control:

Control right means that an investor may control an investee; the investor may participate in relevant activities of the investee to obtain variable returns and is also able to use the control rights for the investee to influence its amount of returns. "Related activities" refer to those that can exert a significant influence on the return of the investee.

Related activities of the investee are judged according to the specific conditions, generally including sales and purchase of goods or services, financial asset management, asset purchase and disposal, research and development activities and financing activities.

Whether the Company controls the investee is judged on the basis of comprehensively considering the purpose of establishment, related activities of the investee, how to make decisions concerning related activities, whether the rights enjoyed by the Company can enable it to dominate related activities of the investee at present, whether the Company can enjoy variable returns by mean of participating in related activities of the investee, whether the Company is capable of exerting its power over the investee to influence its return amounts and relationships with other parties. Once changes occur to the related factors due to the changes of related facts and conditions, reassessment is required.

To judge whether possessing power over the investee or not, only the substantive rights related to the investee will be considered, including substantive rights enjoyed by its own and other parties.

② Basis for recognizing significant influence on the investee:

"Significant influence" refers to the situation where the Company has the right to participate in the decision-making about finance and operation of an enterprise, but cannot control, or jointly control with other parties, the formulation of these decisions.

The Company will take advantage of one or several situations listed below to decide if there is any significant influence on the investee:

A. Representatives are assigned in the board of directors or equivalent competent authorities of the investee. In this case, the investor can participate in the formulation of policies regarding the financial and management of the investee by means of representatives assigned to the board of directors or equivalent competent authorities of the investee who are entitled to the rights of substantial participation of decision-making correspondingly, in order to exert significant influence on the investee.

B. The Company participates in making financial and operating policies of the investee. In this case, suggestions and advice can be put forward for the sake of the Company's own interest in the course of policy formulation to exert significant influence on the investee.

C. The Company conducts important deals with the investee. As these deals are of significance to the routine operation of the investee, they can influence operating decisions of the investee to some extent.

D. Management personnel are assigned to the investee. In this case, such management personnel fare entitled to lead related activities of the investee to exert significant influence.

E. The Company provides key technical data to the investee. The investee relies on technologies or technical data of the investor, indicating that the investor has significant influence on the investee.

The basis for the Company to identify any significant influence on the investee is not limited to one or several situations aforementioned, and all of the facts and conditions will be considered comprehensively to make an integrated judgment.

The investor makes any equity investment that can exert significant influence on the investee, i.e., investment in an associated enterprise.

③ Basis to decide whether the investee is a joint venture:

"Joint venture" of the Company refers to that in which the Company only has right to net assets of the joint arrangement.

See the Notes III. (V) for the definition and classification of joint arrangement and judgment standard for joint control.

2. Recognition of initial cost of long-term equity investments

The long-term equity investment obtained in the form of cash payment is taken as initial investment cost based on the actually paid purchase price. The initial investment costs include expenses, taxes and other necessary expenditures directly related to the acquisition of long-term equity investments.

For the long-term equity investment obtained from issuing equity securities, the initial investment cost is based on the fair value of issued equity securities.

If the non-monetary asset exchange is provided with commercial essence and the fair value of swap-in assets or swap-out assets can be reliably measured, the initial investment cost of the long-term equity investment swapped from non-monetary asset is recognized based on the fair value of swap-out assets, unless otherwise there is unambiguous evidence proving that the fair value of swap-in assets is more reliable. For non-monetary asset exchange not meeting the above premise, the book value of swap-out assets and relevant payable taxes and dues are taken as the initial investment cost of swap-in long-term equity investment.

The initial investment cost of long-term equity investments acquired through debt restructuring includes the fair value of the waived creditor's rights, taxes directly attributable to the assets and other costs.

3. Subsequent measurement and profits and losses recognition method of long-term equity investments

Long-term equity investment for the investee that the Company actually controls is subject to the cost method for accounting.

Long-term equity investments accounted with the cost method are valued at the initial investment cost. Additional or recovered investment is used to adjust the cost of long-term equity investment. The cash dividends or profits declared and distributed by the investee are recognized as current investment incomes.

For long-term equity investments in joint ventures and associated enterprises, the equity method is employed for accounting. If the initial investment cost of long-term equity investment is more than the attributable fair value share of the investee's identifiable net assets at the time of the investment, the initial investment cost of the long-term equity investment shall be not adjusted. If the initial investment cost is less than the difference of the fair value share of the investee's identifiable net assets at the time of the investment, the difference shall be recognized through current profits and losses and the long-term equity investment cost shall be adjusted simultaneously.

After obtaining long-term equity investment, the Company shall respectively recognize the investment income and other comprehensive incomes according to the net profits and losses realized by the investee and other comprehensive incomes which it shall enjoy or undertake, and adjust the book value of long-term equity investment at the same time. The Company shall calculate the part to be enjoyed according to the profits or cash dividends declared to be distributed by the investee, and reduce the book value of the long-term equity investment. Concerning other changes in owners' equities in the investee except for net profits and losses, other comprehensive incomes and profit distribution, the book value of long-term equity investment shall be adjusted and recognized through the owners' equities by the Company.

When the Company recognizes the portion of the investee's shares of net profits and losses which shall be enjoyed, the investee's net profits after adjustment will be recognized on the basis of the fair value of the investee's identifiable net assets at the time of obtaining the investment.

If the accounting policies and accounting periods adopted by the investee are different from those adopted by the Company, the adjustment shall be made for the financial statements of the investee in accordance with the accounting policies and accounting periods of the Company to recognize the investment income and other comprehensive incomes.

When recognizing the net losses incurred by the investee, the Company shall reduce the book value of the long-term equity investment and other long-term equities that substantially constitute the net investment in the investee to the extent of zero, unless the Company assumes the obligation to undertake the additional loss.

If the investee realizes net profits in the future, the Company shall resume the recognition of the income sharing amount after its income sharing amount makes up for the unrecognized loss shares.

In the calculation and recognition of net profits and losses of the investee to be shared or assumed by the Company, unrealized internal transaction profits and losses among associated enterprises and joint ventures shall be calculated based on the attributable proportion, the part attributable to the parent company shall be offset and the investment income shall be recognized on such a basis.

In accordance with the Accounting Standards for *Business Enterprises No. 8 - Impairment of Assets*, the transaction loss shall be recognized in full if the unrealized internal transaction losses between the Company and the investee are asset impairment losses.

If significant influence or joint control can be implemented for the investee due to additional investment of the Company but no control is constituted, the sum of fair value of the original equity investment recognized in accordance with the *Accounting Standards for Business Enterprises No. 22 - Financial Instruments Recognition and Measurement* plus the new investment cost shall be regarded as the initial investment cost as per the equity method. If the equity investment originally held is classified as a non-trading equity instrument investment measured at fair value with changes recognized through other comprehensive income, the accumulative fair value changes previously recognized in other comprehensive income related to it shall be transferred to retained earnings when accounting for it using the equity method.

If the Company loses joint control or significant influence on the investee due to disposing part of equity investment, the residual equity shall be measured according to the *Accounting Standards for Business Enterprises No. 22 - Financial Instruments Recognition and Measurement*. The difference between fair value and book value shall be recognized through current profits and losses on the date of losing joint control or major impact. Other comprehensive incomes of original equity investment recognized by the equity method shall be treated on the same basis as the direct disposal of related assets or liabilities by the investee.

If the Company loses control to the investee due to disposing partial equity investment, and the residual equity may exert joint control or significant influence on the investee while preparing individual financial statements, it shall be measured and adjusted with equity method. If the disposed residual equity cannot implement joint control or impose significant influences on the investee, the accounting treatment shall be conducted in accordance with the *Accounting Standards for Business Enterprises No. 22 - Financial Instruments Recognition and Measurement*.

When disposing of a long-term equity investment, the difference between its book value and the actual acquisition price shall be recognized through current profits and losses. In case the long-term equity investment is calculated with equity method, the same basis applied by the investee for directly handling with relevant assets or liabilities shall be used to handle the investment, and the accounting treatment shall be conducted for the part originally recognized through other comprehensive incomes at the corresponding proportion.

(XIII) Fixed assets

1. Recognition and measurement of fixed assets

Fixed assets refer to tangible assets held for producing goods, rendering services, renting or operation management, with a service life exceeding one accounting year. Fixed assets are classified into: houses and buildings, machinery and equipment, electronic equipment, transportation equipment and other equipment. The fixed assets may be recognized when they simultaneously meet the conditions as follows: (1) where relevant economic interests of the fixed assets are likely to flow into the Company; (2) where the costs of the fixed assets can be measured reliably.

Fixed assets of the Company shall be initially measured at actual cost as obtained.

Subsequent expenditures related to fixed assets shall be recognized through the cost of fixed assets when the relevant economic interests are likely to flow into the Company and the cost can be measured reliably. The daily repair expenses of fixed assets that do not meet the conditions for subsequent expenditure of fixed asset capitalization shall be recognized through current profits and losses or the cost of related assets according to the beneficiary when incurred. The book value of the substituted part will be derecognized.

2. Depreciation method

The provision of depreciation of fixed assets is made by category with the straight-line depreciation, and the depreciation rate is defined according to the fixed asset type, expected service life and expected net residual value rate. If the service life of each component of fixed assets is different or provides economic interests to the Company in different ways, different depreciation rates or depreciation methods will be employed to withdraw depreciation respectively.

Category	Depreciation method	Depreciation life (year)	Residual value rate (%)	Annual depreciation rate (%)
Houses and buildings	Straight-line method	20	5	4.75
Machinery and equipment	Straight-line method	6-10	5	9.5-15.83
Transportation equipment	Straight-line method	4-5	5	19.00-23.75
Electronic equipment, instruments and apparatus	Straight-line method	3-5	5	19.00-31.67

3. Impairment test and withdrawal methods of impairment provisions for fixed assets are available in this Notes III (XVIII).

4. Disposal of fixed assets

When a fixed asset is disposed or cannot be expected to produce economic interests through use or disposal, it shall be derecognized. The amount obtained by deducting book value and relevant taxes and dues from the disposal incomes from the sales, transfer, scrapping or damage of fixed assets shall be recognized through current profits and losses.

(XIV) Construction in progress

Construction-in-progress projects should be classified and accounted as approved project.

For construction in progress, all expenditures incurred before the asset reaching the expected serviceable conditions are taken as the entry value of fixed assets. If any construction in progress of constructed fixed assets has reached the preset serviceable conditions, but has not handled with final settlement of completion, it shall be transferred to fixed asset as per the evaluated value since the date of reaching the preset serviceable conditions based on project budget, construction cost or actual cost of the project, and depreciation of the fixed asset shall be withdrawn based on the Company's fixed asset depreciation policies. The original estimated value shall be adjusted based on the actual cost after the final settlement of completion to be settled, without adjusting originally withdrawn depreciation amount.

(XV) Loan costs

1. Recognition principle for the loan cost capitalization

Loan costs include loan interest, discount or amortization and auxiliary expenses of depreciation or premium, and exchange difference resulted from foreign currency loans, etc.

Loan costs incurred by the Company that can be directly attributable to the purchase and construction or production of assets meeting capitalization conditions will be capitalized and recognized through the relevant asset costs. Other loan costs will be recognized as expenses on the basis of the accrual at the time of occurrence, and will be recognized through current profits and losses.

Assets eligible for capitalization refer to fixed assets, investment real estate, inventories, and other assets that require a considerable amount of time for acquisition and construction or production to reach the expected serviceable or marketable conditions.

Loan costs will be capitalized when they simultaneously meet the conditions as follows:

(1) Where asset expenditures have already occurred, including expenditures incurred in the form of cash payments, transfer of non-cash assets or taking on interest-bearing debts for the acquisition and construction or production of assets eligible for capitalization;

(2) Where loan costs have occurred;

(3) Where the acquisition and construction or production, which is necessary to make assets reach the expected serviceable or marketable conditions, has already started.

2. Capitalization period of loan costs

"Capitalization period" of loan costs refers to the period from the commencement to the cessation of capitalization of loan costs, excluding the period of suspension of capitalization of them.

The capitalization of loan costs will be stopped when the assets eligible for capitalization acquired from acquisition and construction or production reach the expected serviceable or marketable conditions.

When some items of the assets obtained from the acquisition and construction or production meeting capitalization conditions are separately completed and can be separately used, capitalization of loan costs of this asset part shall be stopped.

If each part of the assets obtained from the acquisition and construction or production is separately completed, but it can be used or sold to others only after overall completion, capitalization of loan costs of this asset shall be stopped at overall completion.

3. Period for capitalization suspension of loan costs

If assets eligible for capitalization in the process of acquisition and construction or production are interrupted abnormally and the interruption lasts for more than 3 consecutive months, the capitalization of loan costs will be suspended. If such interruption constitutes a procedure required to enable assets eligible for capitalization acquired from acquisition and construction or production to reach the expected serviceable or marketable conditions, the capitalization of loan costs will be continued. Loan costs incurred during the interruption will be recognized as current profits and losses. The capitalization of loan costs will be resumed after the acquisition and construction or production activities of assets are restarted.

4. Calculation method of capitalization amount of loan costs

The capitalization amount of loan costs of special loans for the acquisition and construction or production of assets eligible for capitalization will be recognized by the amount of the actual loan costs incurred in the current period deducting the amount of interest incomes obtained from the deposit of the unused loan funds into the bank or the investment income from temporary investment.

The capitalization amount of loan costs of general loans for the acquisition and construction or production of assets eligible for capitalization will be recognized by the weighted average of the excess part of accumulative asset expenditures compared with the asset expenditures for special loans being multiplied by the capitalization interest rate of the general loans. The capitalization rate is defined based on the weighted average interest rate of the general loan.

If there is any discount or premium of loans, the discount or premium amount to be allocated will be determined based on the effective interest method in each accounting period, and interest of each period will be adjusted.

(XVI) Right-of-use assets

The categories of the Company's right-of-use assets mainly include houses and buildings, machinery and equipment, and land use rights.

On the commencement date of the lease term, the Company recognizes the right-of-use assets for leases, except for short-term leases and low-value asset leases that adopt simplified treatment. The commencement date of the lease term refers to the date from which the lessor provides the leased asset to make it available for use by the Company.

The initial measurement of right-of-use assets shall be based on the costs. The costs include

(1) Initial measurement amount of lease liabilities;

(2) Lease payment made on or before the commencement date of the lease term; in case of any lease incentive, the related amount of such lease incentive having been enjoyed shall be deducted;

(3) Initial direct expenses of the Company;

(4) The Company's estimated costs for dismantling and removing the leased assets, restoring the site where the leased assets are located, or restoring the leased assets to the agreed state under the lease terms, excluding the costs incurred for the production inventory.

For the ownership of the leased assets can be reasonably recognized at the expiration of the lease term by the Company, the depreciation of the right-of-use assets shall be calculated and accrued within the remaining service life of the leased assets. Where the ownership of the leased assets that may be acquired at the expiration of the lease term cannot be reasonably recognized, the Company will withdraw the depreciation within the lease term or the remaining service life thereof, whichever is shorter.

The Company determines whether the right-of-use assets have been impaired and performs accounting treatment in accordance with the provisions of the Notes III. (XVIII) "Impairment of long-term assets".

Following the commencement date of the lease term, in case of the following circumstances, the Company shall remeasure the lease liabilities and adjust the corresponding right-of-use assets, and, if the book value of the right-of-use assets is already adjusted to zero, while the lease liabilities shall be further reduced, the amount of difference shall be recognized through current profits and losses:

(1) When there is a change in the evaluation results or actual exercise of the purchase option, renewal option, or termination option, the Company shall remeasure the lease liability based on the present value calculated by the modified lease payment amount and the revised discount rate;

(2) When there is a change in the substantive fixed payment, amount expected to be payable for the guaranteed residual value, or the index or rate used to determine the lease payment amount, the Company remeasures the lease liabilities at the present value of the lease payment after the change and the original discount rate. However, if the change of lease payment is due to the change of floating interest rate, the revised discount rate shall be used to calculate the present value.

(XVII) Intangible assets

1. Valuation method of intangible assets

(1) Intangible assets acquired by the Company are measured initially at cost

The costs for outsourcing intangible assets, including purchase price, relevant taxes and dues as well as other expenditures are directly attributed to making intangible assets to the estimated purpose. If the intangible assets are purchased at a price beyond normal credit conditions for delayed payment, substantially with the financing nature, the costs of the intangible assets are determined based on the present value of the purchase price.

The entry value of the intangible assets obtained by the debtor for debt repayment through debt restructuring includes the fair value of the abandoned creditor's rights and other costs directly attributable to the taxes and other costs incurred to make the assets reach the intended purpose;

If the non-monetary asset exchange is provided with commercial essence and the fair value of swap-in assets or swap-out assets can be reliably measured, the entry value of the intangible assets swapped from non-monetary asset is recognized based on the fair value of swap-out assets, unless otherwise there is unambiguous evidence proving that the fair value of swap-in assets is more reliable. For non-monetary asset exchange not meeting the above premise, the book value of swap-out assets and relevant payable taxes and dues are taken as the cost of swap-in intangible assets, with no confirmation of profits and losses.

The entry value of intangible assets obtained from the merger of enterprises under the same control is determined based on the book value of the merged party; The entry value of intangible assets obtained from the merger of enterprises not under the same control is determined based on fair value.

The costs of internally developed intangible assets include materials consumed in developing the intangible assets, service cost, registration fee, amortization of other patents and chartered rights used in development and interest expenses meeting capitalization conditions, and other direct expenses spent to make the intangible assets reach the expected purposes.

(2) Subsequent measurement

The service life of intangible assets will be analyzed and judged at the time of acquiring them.

Limited-life intangible assets are amortized within the time limit during which they can bring economic interests to the Company according to the straight-line method. If the term of economic interests brought by intangible assets to the Company cannot be foreseen, they will be deemed as intangible assets with an uncertain service life and will not be amortized.

Impairment tests of intangible assets can be found in the Notes III. (XVIII) Impairment of long-term assets.

2. Estimated service life of limited-service-life intangible assets

Item	Expected service life	Basis
Land use right	50 years	Expected service life
Software	5 years	Expected service life
Franchise fee	5 years	Expected service life

The service life and amortization method of limited-life intangible assets are reexamined at the end of each period.

After the reexamination, the service life and amortization method of intangible assets at the end of the period are the same as the prior estimates.

3. Reexamination of the service of intangible assets with an uncertain service life

As at the balance sheet date, the Company does not have any intangible assets with uncertain service life.

4. Specific standards for research stage and development stage of internal research and development programs

Expenditures relating to internal research and development programs consist of those in the research stage and those in the development stage.

The research stage refers to a stage when original and planned investigations and researches are conducted to acquire and understand new science or technology knowledge.

The development stage refers to a stage of applying research achievements or other knowledge in a certain plan or design to produce materials and devices and products with new or substantial improvement before commercial production or use.

5. Specific standards of expenditure capitalization capitalized during the development stage

Expenditure in development stage of internal research and development programs will be recognized as intangible assets when the following conditions are met simultaneously:

(1) Where it is technically feasible to complete the intangible assets to enable them to be used or sold;

(2) Where there is an intention of completing, using or selling the intangible assets;

(3) Where the methods for intangible assets generating the future economic interests include the method to prove that there is a market for the products produced by the intangible assets or there is the market of intangible assets; and the usefulness of the intangible assets can be demonstrated if they are used internally;

(4) Where there is sufficient technical, financial and other resource support to complete the development of the intangible assets and it is able to use or sell the intangible assets;

(5) Where expenditures that are attributable to the development stage of the intangible assets can be reliably measured.

Expenditures in the development stage will be recognized through current profits and losses at the time of occurrence if the above conditions are not met. Expenditures in the research stage will be recognized through current profits and losses at the time of occurrence.

(XVIII) Impairment of long-term assets

Signs of impairment will be judged against long-term equity investments, investment real estate at cost, fixed assets and construction in progress, biological assets at cost and intangible assets recognized by the service life of oil and gas assets, and right-of-use assets on each balance sheet date; for those exhibiting signs of impairment, their recoverable amount will be estimated; if the recoverable amount is lower than their book value, the book value of the assets will be written off to the recoverable amount, corresponding impairment losses will be recognized by the written-off amount recognized through current profits and losses, and impairment provisions will be calculated and withdrawn at the same time.

The recoverable amount will be estimated based on the net amount of the fair value deducting the disposal expenses or the present value of the expected future cash flows, whichever is larger. The Company estimates the recoverable amount based on single asset; if it is difficult to estimate the recoverable amount of a single asset, the recoverable amount of the asset group will be recognized based on its belonging asset group.

After the recognition of asset impairment losses, the depreciation of devaluated assets or amortization fees will be adjusted accordingly in the future periods to make sure that the book value of the assets after adjustment is apportioned systematically in the remaining service life of the assets.

Impairment tests will be done at the end of each financial year for intangible assets whose service life is to be determined or whose service conditions are not met, and goodwill formed by mergers.

For the impairment test of goodwill, the book value of goodwill formed by business mergers will be apportioned to relevant asset groups in a reasonable way from the date of acquisition. Those difficult to be amortized to relevant asset groups shall be amortized to relevant asset group portfolios. When the book value of goodwill is amortized to relevant asset groups or asset group portfolios, amortization will be conducted based on the proportion of the fair value of each asset group or asset group portfolio in the total amount of the fair value of related asset groups and asset group portfolios. If it is difficult to reliably calculate the fair value, amortization will be conducted based on the proportion of the book value of each asset group or asset group portfolio in the total amount of the book value of relevant asset groups or asset group portfolios.

If there are any impairment signs for asset groups or asset group portfolios related to goodwill when impairment tests are carried out to relevant asset groups or asset group portfolios containing goodwill, it is required to firstly conduct impairment test to asset groups or asset group portfolios not containing goodwill, calculate recoverable amount, and compare with relevant book values to recognize the corresponding impairment loss. Then, the impairment test will be conducted to asset groups or asset group portfolios containing goodwill, and the book values of these relevant asset groups or asset group portfolios (including amortized book value of goodwill) compared with their recoverable amounts. If the recoverable amount of relevant asset groups or asset group portfolios is lower than the book value, the impairment losses of the goodwill will be recognized.

(XIX) Long-term prepaid expenses

All expenses that have occurred but should be undertaken in the current period and following periods with an amortization time limit lasting for more than 1 year, including expenditure for improvement of fixed assets leased, should be amortized in periods as long-term unamortized expenses based on the expected benefiting term. If long-term unamortized expenses cannot bring profits to the following accounting period, the amortized value that hasn't been amortized will be transferred into current profits and losses.

(XX) Contract liabilities

The Company presents the obligation of transferring goods or services for clients due to consideration received or receivable as contract liabilities.

Contract assets and contract liabilities under the same contract are presented by net amount.

(XXI) Payroll and employee benefits payable

Payroll and employee benefits payable refers to various forms of rewards or compensation of employees for providing services or terminating the labor relations, including short-term remuneration, post-employment benefits, dismission welfare and other long-term employee welfare.

1. Accounting treatment method of short-term remuneration

The actual short-term remuneration incurred will be recognized as liabilities and recognized through current profits and losses or relevant asset costs during the accounting period when employees provide services for the Company.

2. Accounting treatment method of post-employment benefits

Post-employment benefits include the defined contribution plan and the defined benefit plan.

During the accounting period when employees provide services for the Company, the deposited amount calculated based on the defined contribution plan is recognized as liabilities and shall be recognized through current profits and losses or relevant asset costs. According to the defined contribution plan, if it is expected that all payable amounts cannot be paid within 12 months after the relevant service annual reporting period provided by employees, the Company should, referring to the appropriate discount rate, determined by market income rate of national debt matching the balance sheet date and defined benefit plan obligation duration and currency or that of corporate bonds of high quality on the active market, measure the employee remuneration payable by the discount price of all deposit.

The Company should give discounting to all of the defined benefit plans according to balance sheet date and national debt whose defined benefit plan obligation duration matches with currency sorts or market income rate of corporate bonds of high quality in active markets, including the obligation that anticipate to pay within 12 months after annual reporting period of employees who provide services.

In the case of defined benefit plans with assets, the deficit or surplus generated from deducting the fair value of defined benefit plan assets from the present value of defined benefit plan obligations will be recognized as net liabilities or net assets of these defined benefit plans. In the case of a surplus of defined benefit plans, the Company will measure the net assets of these defined benefit plans by the surplus or the asset limit, whichever is lower. Wherein, the asset upper limit refers to the present value of economic interests obtained by the Company from refunding from the defined benefit plan or reducing the deposited fund of the defined benefit plan in the future.

At the end of the reporting period, the service cost in employee remuneration cost generated by defined benefit plans and the interest net amount of the net liabilities or net assets in the defined benefit plan should be recognized through current profits and losses or through asset costs. Remeasure changes in net liabilities or net assets of the defined benefit plan, and recognize them through other comprehensive incomes. They cannot be switched back to profits and losses in the follow-up accounting period, but can be transferred within the scope of equities.

Under the defined benefit plan, recognize previous service costs as the cost of the current period when revising the defined benefit plan and recognizing the relevant recombination expenses or dismission welfare, whichever is earlier.

Settlement profits or losses will be recognized when the Company settles the accounts of the defined benefit plan. The profits or losses are the differences between the present value and settlement price of the defined benefit plan recognized on the settlement date.

3. Accounting treatment method of dismission welfares

Recognized employee remuneration liabilities generated by the dismission welfare on the date listed below, whichever is earlier, and they will be recognized through current profits and losses:

(1) When the Company cannot unilaterally withdraw the dismission welfares provided by the termination of the labor relations plan or the reduction proposal;

(2) When the Company recognizes the costs or expenses associated with the restructuring involving the payment of dismission welfares.

If the dismission welfare is expected to be paid fully within 12 months after the end of the annual reporting period acknowledged, the relevant regulations of short-term remuneration will apply; if the dismission welfare is expected to fail to be paid fully within 12 months after the end of the annual reporting period confirmed, it is applicable to the relevant regulations of other long-term employee welfares.

4. Accounting treatment method of other long-term employee welfares

Other long-term employee welfare that conforms to items in the defined contribution plan should be dealt with in accordance with 2 listed above. For those that do not meet the defined contribution plan, the net liabilities or net assets of long-term employee welfares should be measured and recognized in accordance with the relevant provisions regarding the defined benefit plan. At the end of the reporting period, service costs, net liabilities or interest net amount of net assets of other long-term employee welfare and variably total net amounts generated by remeasurement of other long-term permanent welfare net liabilities or net assets should be recognized through current profits and losses or through underlying asset costs.

(XXII) Lease liabilities

The Company initially measures lease liabilities based on the present value of lease payments that have not yet been paid on the commencement date of the lease term, except for short-term leases and leases of low-value assets that are in a simplified treatment. In calculating the present value of lease payment, the Company shall adopt the interest rate implicit in the lease as the discount rate, and the incremental loan rate shall be used as the discount rate in case that interest rate implicit in lease cannot be determined.

Lease payments refer to the amount paid by the Company to the lessor relating to the right to use the leased assets during the lease term, including:

(1) The fixed payment and substantive fixed payment, in case of lease incentives, the related amount of such lease incentives shall be deducted;

(2) Upon the initial measurement, the lease payment depending on index or rate is determined according to the index or rate at the commencement date of the lease term;

(3) The Company shall reasonably determine the exercise price of the purchase option to be exercised;

(4) The amount to be paid for the exercise of the lease termination option in case the lease term reflects that the Company shall exercise the lease termination option;

(5) The amount payable based on the guaranteed residual value provided by the Company.

After the commencement date of the lease term, the Company calculates the interest expense of leased liabilities in each period of the lease term according to a fixed periodic rate, which will be recognized through current profits and losses or related asset costs. The variable lease payment not included in the measurement of lease liabilities shall be recognized through current profits and losses or related asset costs when they actually occur.

Following the commencement date of the lease term, in case of the following circumstances, the Company shall remeasure the lease liabilities and adjust the corresponding right-of-use assets, and, if the book value of the right-of-use assets is already adjusted to zero, while the lease liabilities shall be further reduced, the amount of difference shall be recognized through current profits and losses:

(1) When there is a change in the evaluation results or actual exercise of the purchase option, renewal option, or termination option, the Company shall remeasure the lease liability based on the present value calculated by the modified lease payment amount and the revised discount rate;

(2) When there is a change in the substantive fixed payment, amount expected to be payable for the guaranteed residual value, or the index or rate used to determine the lease payment amount, the Company remeasures the lease liabilities at the present value of the lease payment after the change and the original discount rate. However, if the change of lease payment is due to the change of floating interest rate, the revised discount rate shall be used to calculate the present value.

(XXIII) Estimated liabilities

If the Company is involved in lawsuits, debt guarantees, loss contracts, and restructuring issues, and if these issues could need to deliver assets or provide service in the future, and its amount could be reliably calculated, it will be recognized as estimated liabilities.

Estimated liabilities are initially measured according to the best estimate of the expenditure required to perform relevant current obligations, and comprehensive considerations should be taken to risks related to contingencies, uncertainty, time value of money, and other factors. If the time value of money has a significant influence, the Company will recognize the best estimate by discounting relevant future cash outflows. The increased amount of book value of estimated liabilities caused by discount restoration conducted as time goes by should be acknowledged as interest expenses.

The book value of estimated liabilities should be reexamined and properly adjusted on the balance sheet date to reflect the best estimate number at present.

1. Loss contract

The loss contract refers to a contract whose performance of the contractual obligations will inevitably incur costs in excess of the expected economic interests. When an enforceable contract becomes a loss contract, for which the liability can conform to the aforesaid estimated liabilities recognition conditions, recognize the part the estimated contract loss surpass the recognized impairment loss (if any) of the underlying asset in the contract as estimated liability.

2. Restructuring obligation

Determine the estimated liabilities amount according to the direct expenditures related with the restructuring which has detailed, formal and publicly stated restructuring plan and which are in line with the recognition conditions of the aforesaid estimated liabilities. The restructuring obligation related to partially-sold business will be recognized to be the associated obligation only when the Company promises to sell partial businesses (namely, signs the binding-force sales agreement).

3. Quality guarantee and maintenance

Wherein, the Company shall undertake the estimated liabilities for the after-sales quality maintenance commitment provided to the clients upon selling, maintaining and reforming the goods which have been sold. At the time of estimated liabilities, the recent maintenance experience data of the Company has been taken into consideration, however the recent maintenance experience data might be unable to reflect the maintenance situation in the future. Any increasing or decreasing of this reserve might influence the profits and losses in the future years.

4. Buy-back guarantee

The Company will provide the equipment buy-back guarantee to the financing organization for the client with financing requirement, and meanwhile confirm the estimated liabilities according to the possible buy-back guarantee. For estimated liabilities, the Company shall have considered the proportion of the historical actual buy-back guarantee implementation, the proportion of the actual losses after buy-back guarantee implementation, etc., and evaluated the paying ability of different clients. The historical data or the evaluated data cannot reflect the future buy-back loss, any increase or reduction of such reserve may probably influence the profits and losses in future years.

(XXIV) Income

1. Accounting policies used for income recognition and measurement

When the contract between the Company and the client meets all the following conditions, the Company shall recognize incomes when the client obtains the control right over relevant goods: all parties to contract have agreed with the contract and warranted that they will assume their obligations;

the contract has specified rights and obligations of each concerned party related to goods transfer or labor provision; the contract has specified the payment terms related to the goods transfer; the contract is of the commercial essence, which means that performance of the contract will change the risk, time distribution or amount of future cash flow of the Company; the Company may recover the consideration for which the Company is entitled to obtain for transferred goods to clients.

On the contract commencement date, the Company identifies the individual performance obligation specified in the contract and amortizes the transaction price to each individual performance obligation based on the relative proportion of the individual selling price of the goods guaranteed in individual performance obligation. Variable consideration, significant financing components in the contract, non-cash consideration, consideration payable to clients and other factors are taken into account when recognizing the transaction price.

As for each individual performance obligation in the contract, of one of the following conditions are met, the Company confirms the transaction price which is amortized into the individual performance obligation based on the performance progress within a relevant performance period as the income: the client acquires and consumes the economic interests of the Company's performance at the same time of the Company's performance; the client is able to control the goods under construction while the Company fulfills the performance obligation; the goods produced during the performance of the contract are of irreplaceable use and the Company is entitled to receive payment for the cumulative portion of performance completed to date throughout the contract period. The performance progress shall be confirmed based on the property of the goods transferred by virtue of the input method or the output method. When the performance progress cannot be confirmed reasonably, if it is predicted that the incurred cost of the Company can be compensated, the income shall be recognized based on the incurred cost amount until the performance progress can be recognized reasonably.

If one of the above conditions cannot be met, the Company confirms the transaction price amortized to the individual performance obligation at the time when the client obtains the control right of relevant goods as the income. When judging whether the client has obtained the control right of goods, the Company can consider the following signs: where the Company has the current collection right of goods, namely the client is responsible for current payment obligation of commodities; where the Company has transferred legal ownership of goods to the client, i.e., the client has legal ownership of goods; where the Company has physically transferred the goods to the client, i.e., the client has taken physical possession of goods; where the Company has transferred main risks and rewards regarding the ownership of goods to the client, namely the client has obtained them; where the client has accepted goods; and other signs indicating that the client has obtained the control right over goods.

2. The specific principles and methods for recognizing company income and carrying forward costs:

Main business of the Company: The production and sales of methyl tert-butyl ether, propylene, hydrogen, isobutylene, and mixed pentanes. After the goods are shipped, the client receives the cargo and conducts acceptance inspections in accordance with the contract or purchase order. Once the goods are received, the major risks or rewards associated with the ownership of the goods are transferred to the buyer, and the seller no longer retains any ongoing management or practical control rights over the goods. The realization of incomes from sales of goods is recognized when the related costs incurred or to be incurred can be reliably measured. Recognize income and simultaneously transfer the cost of sales for the confirmed goods.

(XXV) Contract costs

Contract cost includes incremental cost for being awarded the contract and performance cost of the contract.

1. Incremental costs incurred in obtaining a contract

Incremental cost resulted from obtaining the contract refers to any cost that the Company would not need to pay if no such contracts are obtained (e.g. sales commissions, etc.). If the cost is expected to be recovered, the Company shall take it as the contract acquisition cost and recognize it as an asset. Expenses incurred by an enterprise in obtaining a contract, other than the incremental costs that are expected to be recoverable, are recognized through current profits and losses when they occur, unless such expenses are explicitly borne by the client.

2. Cost of fulfilling the contract

Any cost incurred by the Company for the performance of any contract that doesn't fall into the scope of other accounting standards for business enterprises such as inventory, but meets the following conditions simultaneously, shall be taken as contract performance cost and recognized as an asset:

(1) That is, the cost is directly related to a current or anticipated contract, including direct labor, direct materials, manufacturing expenses (or similar expenses), costs clearly borne by the client, and other costs incurred solely due to the contract;

(2) When this cost includes resources used by the enterprise for the future (including ongoing) performance obligations;

(3) And such cost is expected to be recovered;

3. Amortization and impairment of contract costs

Assets recognized for contract acquisition cost and assets recognized for contract performance cost (hereinafter referred to as "assets related to contract cost") shall be amortized on the same basis as the incomes recognition of goods or services related to such assets and recognized through current profits and losses. Where the amortization period of assets recognized for the contract acquisition cost does not exceed one year, they shall be recognized through current profits and losses.

Where the book value of assets related to contract costs is higher than the difference between the following two items, the Company shall withdraw the impairment provision of the excess part and recognize it as asset impairment losses:

(1) Residual consideration expected to be obtained arising from the transfer of goods or services related to the assets;

(2) Cost estimated to occur from the transfer of the relevant goods or services.

If the impairment factors in the prior period change later and as a result, the difference after (1) deducting (2) higher than the book value of the contract costs, the Company will reverse the asset impairment provisions already withdrawn and recognize them through current profits and losses, provided that the book value of the contract costs after reversal will not exceed the book value of the assets on the reversal date assuming no impairment provision is made.

(XXVI) Government subsidies

Government subsidies are monetary and non-monetary assets freely obtained by the Company from the government. They are classified into asset-related ones and income-related ones.

1. Judgment basis and accounting treatment method of asset-related government subsidies

Government subsidies that are obtained by the Company used for acquisition or construction, or forming long-term assets by other ways, are recognized as asset-related ones.

Asset-related government subsidies which are considered as deferred incomes shall be recognized through profits and losses by installment in a reasonable and systematic way within the service life of related assets, Government subsidies measured at notional amount are directly recognized through current profits and losses.

Under circumstances where the sale, transfer, scrapping or damage of underlying assets occurs within their service life, the balance of the undistributed deferred incomes will be all transferred into the profits or losses of asset disposal.

2. Judgment basis and accounting treatment method of income-related government subsidies

Other government subsidies not related to assets which are acquired by the Company will be deemed as income-related government subsidies. Government subsidies related to income shall be treated respectively in the following conditions:

(1) Those for compensating related expenses or losses of the Company in future periods are recognized as deferred incomes and recognized through current profits and losses;

(2) Those used for compensating the related expenses or losses incurred will be directly recognized through current profits and losses.

In addition, government subsidies including those related to assets and incomes at the same time will be distinguished for accounting treatment separately; and those hard to be distinguished will be classified as income-related ones as a whole.

Government subsidies related to the Company's routine activities will be recognized through other incomes based on the nature of business transactions, and those unrelated to daily activities of the Company will be recognized through non-operating incomes and expenditures.

3. Accounting treatment of interest subsidy of policy-preferential loans

(1) If the funds with discounted interest are granted to the lending bank and then the lending bank provides the loan to the Company at a policy-preferential interest rate, the actual received borrowing balance will be deemed as the entry value and the relevant loan costs will be calculated according to the loan principal and the policy-preferential interest rate.

(2) If the funds with discounted interest are directly granted to the Company, the Company will write down relevant loan costs with them.

Government subsidies shall be recognized and measured according to the actually received amount. Only when there exists unambiguous evidence proving that subsidies are allocated based on the fixed quota standard and unambiguous evidence proving that it can meet relevant conditions stipulated in financial support policies and is expected to receive such financial support fund, it can be checked and recognized as receivable amount.

If the confirmed government subsidies need to be returned, the Company shall conduct accounting treatment in the current period when they need to be returned. If there are related deferred incomes, the book balance of the related deferred incomes shall be offset, and the excess shall be recognized through current profits and losses.

(XXVII) Deferred tax assets and liabilities

The Company accrues deferred taxes with the balance sheet liability method based on temporary differences arising from the difference between the book value of assets and liabilities and the tax basis on the balance sheet date, and temporary differences arising from the difference between the book value of items that are not recognized as assets and liabilities but whose tax basis can be determined according to the tax law and the tax basis on the balance sheet date.

All kinds of taxable temporary differences shall be used for the recognition of deferred income tax liability, unless they are generated in the following transactions:

(1) Initial recognition of goodwill;

(2) Initial recognition of assets or liabilities arising from the transactions which are simultaneously featured by the following: The transaction is not a business merger and does neither affect accounting profit nor taxable income or deductible loss upon its occurrence. And the initial recognition of assets and liabilities generates unequal taxable temporary differences and deductible temporary differences;

(3) As for the taxable temporary difference related to the investment by the subsidiaries, joint ventures and associated enterprises, its reversal time can be controlled, and the temporary difference probably will not reverse in the foreseeable future.

As for the deductible temporary difference, the annual deductible losses that can be carried forward and tax deduction, the Company takes the amount of taxable income tax for the most possible deductible temporary differences, deductible losses and tax deduction as the limit to recognize the deferred income tax assets produced by this, except the situation that the deductible temporary differences are produced by the following conditions:

(1) Initial recognition of assets or liabilities arising from the transactions which are simultaneously featured by the following: The transaction is not a business merger and does neither affect accounting profit nor taxable income or deductible loss upon its occurrence. And the initial recognition of assets and liabilities generates unequal taxable temporary differences and deductible temporary differences;

(2) As for deductible temporary difference related to the investment by subsidiaries, joint ventures and associated enterprises, as well as those satisfy the following conditions simultaneously, the corresponding deferred income tax assets can be recognized: where it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

On the balance sheet date, the Company measures deferred income tax assets and liabilities at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are settled in accordance with the tax law, and reflects the impact of the estimated way to recover assets or pay off liabilities on the income tax on the balance sheet date.

The book value of the deferred income tax assets is be reexamined on the balance sheet date. If sufficient taxable income amount is not likely to be obtained for deducting the interest of deferred tax assets in the future period, the book value of deferred tax assets will be written off. When it is likely to obtain sufficient taxable incomes, the written-off amount will be reversed.

Deferred income tax assets and liabilities are presented on a net basis if the following conditions are met at the same time:

(1) The Company has the legal right to settle income tax assets and income tax liabilities of the current period on a net basis;

(2) The deferred income tax assets and liabilities are related to the income tax levied against the same taxpaying body or different taxpaying bodies by the same department of tax collection and administration, provided that when each of the deferred income tax assets and liabilities of significance will be reversed in the future, the involved taxpaying body intends to settle income tax assets and income tax liabilities of the current period or acquire assets and pay off liabilities simultaneously on a net basis.

(XXVIII) Leasing

1. Identification of lease

Lease refers to a contract in which it is agreed that the lessor transfers the use right of assets to the lessee to get corresponding consideration within a certain period. On the commencement date of a contract, the Company assesses whether the contract is signed for lease or includes a lease and if one of the parties thereto cedes the right to control the use of one or more identified assets for a certain period of time in exchange for consideration, the contract will be recognized as a lease contract or one including a lease. Unless there is any change in the terms and conditions thereof, the Company shall not evaluate again whether the contract is a lease or includes a lease. To determine whether the contract cedes the right to control the use of the identified assets within a certain period, the Company shall assess whether the client in the contract is entitled to obtain almost all the economic benefits arising from the use of the identified assets during the period of use, and have the right to lead the use of identified assets during the period of use.

2. Identification of separate lease

If the contract contains multiple separate leases at the same time, the Company shall split the contract and perform the accounting treatment for each separate lease separately. If the following conditions are met at the same time, the right to use the identified assets constitutes a separate lease in the contract: (1) The lessee can make a profit from using the asset alone or using it with other readily available resources. (2) This asset is not highly dependent on or related to other assets in the contract.

3. The Company acting as the lessee

(1) Partition of leased and non-leased parts

If the contract contains one or more leased and non-leased parts at the same time, the Company shall split the separate leased and non-leased parts, and apportion the contract consideration according to the relative proportion of the sum of the separate price of each leasing part and the separate price of the non-leased part.

(2) Evaluation of the lease term

The lease term is the period when the Company has the right to use the leased assets and is irrevocable. The Company has the lease renewal option, that is, the right to choose to renew the asset lease, and if it reasonably determines that the option will be exercised, the lease term also includes the period covered by the lease renewal option. The Company has the lease termination option, that is, the right to choose to terminate the asset lease, and if it reasonably determines that the option will not be exercised, the lease term also includes the period covered by the lease termination option. If a major event or change within the controllable scope of the Company occurs and affects whether the Company reasonably determines the corresponding option to be exercised, the Company shall reassess whether it reasonably determines to exercise the lease renewal option, purchase option or not to exercise the lease termination option.

(3) Right-of-use assets and lease liabilities

See this Note III (XVI) and this Note III (XXII).

(4) Lease change

A lease change is a change in the lease scope, the consideration for the lease, and the lease term beyond the original contract terms, including adding or terminating the right to use one or more leased assets, and extending or shortening the lease term specified in the contract.

If the lease changes and the following conditions are satisfied simultaneously, the Company will make an accounting treatment of the change as a separate lease:

① The lease changes expand the lease scope by adding one or more rights to use the leased asset;

② The increased consideration is equivalent to the amount adjusted according to the contract for the individual price of the expanded lease scope.

If the lease change isn't regarded as a separate lease for accounting treatment, the Company will apportion the contract consideration after the change, reconfirm the lease term, and remeasure the lease liabilities according to the changed lease payment and the present value calculated with the revised discount rate on the date when the lease change takes effect.

Regarding the impact of the above lease liabilities adjustment, the Company distinguishes the following circumstances for accounting treatment: (1) Where any lease change results in decreased lease scope or shortened lease term, the Company shall correspondingly reduce the book value of right-of-use assets and recognize the profits or losses related to the partial or complete termination of the lease recognized through current profits and losses. (2) For other lease changes, the Company will adjust the book value of right-of-use assets accordingly.

(5) Short-term lease and low-value asset lease

A short-term lease refers to a lease with a term of no more than 12 months at the commencement date of the lease term and does not include a purchase option. The low-value asset lease refers to a low-value lease when a single leased asset is regarded as a new asset. If the Company subleases or anticipates to sublease the leased asset, the original lease shall not fall into low-value asset lease. The Company chooses not to recognize right-of-use assets and lease liabilities for short-term leases and low-value asset leases, and recognize them through the relevant asset costs or current profits and losses using the straight-line method during each period of the lease term.

4. The Company acts as the lessor

(1) Partition of leased and non-leased parts

If the contract includes both leased and non-leased parts, the Company shall apportion the consideration of the contract according to the provisions on transaction price apportion in the *Accounting Standards for Business Enterprises No. 14 - Income*, and the basis for apportion is the separate prices of the leased parts and the non-leased parts.

(2) Classification of lease

Substantially, the finance lease refers to that the lease of which all risks and rewards related to the leased asset ownership have been transferred. The operating lease refers to the lease other than finance lease.

(3) As a lessor of operating lease

During each period of the lease term, the Company uses the straight-line method to recognize lease receipts from operating leases as rental income, and variable lease payments that are not included in lease receipts are recognized through current profits and losses when they actually occur. The Company capitalizes the initial direct expenses pertaining to the operating leases as well as apportions and recognize such expenses recognized through current profits and losses as per the same basis used for recognizing the rental income within the lease term. The Company determines whether the operating leased assets are impaired and performs the corresponding accounting treatment in accordance with the provisions of the Accounting Standards for Business Enterprises No. 8 - Impairment of Assets.

In the event of any change in an operating lease, the Company will have it subject to accounting treatment as a new lease from the effective date of the change, and the amount of lease receipts received in advance or receivable relating to the lease prior to such change will be taken as an amount received under the new lease.

(4) As a lessor of finance lease

On the lease commencement date, the Company recognizes financing lease receivables for a leased asset and derecognizes financing leasing assets. The Company makes the net investment in a lease as the entry value of financing lease receivables at the time of initial measurement for financing lease receivables. The net investment in a lease is the sum of the present value of unguaranteed residual value and lease receipts not received yet on the commencement date of the lease term which is subject to discounting at the interest rate implicit in the lease term.

The Company calculates and recognizes the interest income in each period within the lease term as the fixed periodic rate. The derecognition and impairment of financing lease receivables shall be accounted for in accordance with the provisions of the Notes III. (VII) Financial Instruments and III. (VIII) Recognition Method and Accounting Treatment Method of Expected Credit Losses.

Variable lease payments not included in the measurement of net investment in a lease are recognized through current profits and losses at the time of occurrence.

If the finance lease changes and the following conditions are satisfied simultaneously, the Company will make an accounting treatment of the change as a separate lease:

- The changes expand the lease scope by adding one or more rights to use the leased asset;
- The increased consideration is equivalent to the amount adjusted according to the contract for the individual price of the expanded lease scope.

If such a change of finance lease is not subject to accounting treatment as a separate lease, the Company will treat the changed lease in any of the following circumstances.

- Where such a lease change becomes effective on the commencement date of lease and the lease will be classified as an operating lease, the Company will have it subject to accounting treatment as a new lease from the effective date of such a lease change and take the net investment in a lease prior to the effective date of such a lease change as the book value of the leased asset.
- Where such a change becomes effective on the lease commencement date and the lease will be classified as a finance lease, the Company will have it subject to accounting treatment in accordance with the provisions regarding the modification or renegotiation of contracts specified in the Notes III. (VII) Financial Instruments.

5. Leaseback transaction

The Company evaluates and recognizes whether the asset transferring in the sale leaseback transactions falls into the sale in accordance with the Notes III (XXIV) Income.

(1) The Company acts as the seller and lessee

Where any asset transfer in sale leaseback transactions falls into the range of sales, the Company, as a lessee, will measure the right-of-use assets formed by sale leaseback and recognize profits or losses only related to the use right transferred to the lessor according to the part in the original asset book value relating to right-of-use assets gained by leaseback. If the asset transfer in a leaseback transaction is not considered a sale, the Company, as a lessee, will continue to recognize the transferred assets and recognize a financial liability equal to the transfer income. The financial liability will be accounted for in accordance with the Notes III. (VII) Financial Instruments.

(2) The Company acts as the buyer and lessor

If the asset transferred in sale and leaseback transactions falls into the range of sales, the Company, as a lessor, will carry out accounting treatment of asset purchase and asset lease pursuant to the above provisions of "5. The Company acts as the lessor". If the asset transfer in a leaseback transaction is not considered a sale, the Company, as a lessor, will not recognize the transferred assets but recognize a financial asset equal to the transfer income. The financial asset will be accounted for in accordance with the Notes III. (VII) Financial Instruments.

(XXIX) Related parties

If a party controls the Company, jointly controls another party together with the Company, or significantly influences another party, or when two or more parties are under the control or joint control of the same party, these parties are deemed as related parties. Related parties can be individuals or enterprises. Enterprises only under the country and not related to other related parties are not related party.

Related parties of the Company include but are not limited to:

1. Parent company;

2. Subsidiaries;

3. Other enterprises under the control of the same parent company

4. Investors imposing joint control;

5. Investors imposing significant influence;

6. Joint ventures, including subsidiaries of joint ventures;

7. Associated enterprises, including subsidiaries of associated enterprises;

8. The joint ventures or associated enterprises between the Company and other member entities of the enterprise group to which it belongs (including the parent company and subsidiaries);

9. The Company's joint ventures with other joint ventures or associated enterprises of the Company.

10. The main individual investors and the close family members of the Company;

11. The key management personnel of the Company and their closely related family members;

12. The key management personnel of the Company's parent company;

13. Family members closely related to the key management personnel of the Company's parent company;

14. Other enterprises controlled or jointly controlled by the main individual investors, key management personnel of the Company or the close family members thereof.

(XXX) Other significant accounting policies and accounting estimates

1. Other significant accounting policies

None.

2. Important accounting estimates and judgments

The Company will conduct continuous assessments on the adopted significant accounting estimates and critical assumptions according to historical experience and other factors, including reasonable expectation of matters in the future. The significant accounting estimates and critical assumptions, which are likely to lead to risks of significant adjustment on the book value of assets and liabilities in the next fiscal year, are listed as follows:

(1) Classification of financial assets

While the Company determines the classifications of the financial assets, the involved critical judgments include the analysis of the business model and contractual cash flow characteristics, etc.

The Company determines the business model that manages the financial assets from the level of the financial asset portfolio, and the factors considered include the method to evaluate and report the financial asset performance to the key management personnel, risks affecting the financial asset performance and their management methods, and the method of the relevant business management personnel to obtain the rewards.

The Company mainly has the following judgments while evaluating whether the contractual cash flow of the financial assets is consistent with the basic lending arrangement: Whether the time distribution or amount of the principal may change during the duration due to the prepayment or other reasons; Whether the interest only includes the time value of money, credit risks, other basic lending risks and the considerations of the cost and profit. For example, whether the prepaid amount only reflects the unpaid principals and the interest based on the unpaid principals, as well as the reasonable compensation paid due to the prior termination of the contract.

(2) Measurement of the expected credit loss of accounts receivable

The expected credit loss of accounts receivable is calculated by the Company through its exposure at default and expected credit loss rate, and the expected loss rate is determined based on the probability of default and default loss rate. The Company uses the internal historical credit loss experiences and other data, and adjusts the historical data by combining with the current situations and forward-looking information while determining the expected credit loss rate. The Company should use the following indexes, such as the risks of economic downturn, changes in the external market environment, technical environment and client situation, etc. while considering the forward-looking information. Assumptions related to the calculation of expected credit losses should be regularly monitored and reexamined by the Company.

(3) Goodwill impairment

The Company tests goodwill for impairment at least annually. This requires an estimate on the use value of the asset group to which goodwill is allocated. When estimating the use value, the Company needs to estimate the cash flow from the asset group in the future, and calculate the present value of future cash flows by the appropriate discount rate.

(4) Development expenditures

During confirmation of the capitalized amount, the Management must assume the generation of the estimated future cash, discount rate to be applied and the estimated benefit period related to the assets.

(5) Deferred tax assets

If taxable profit is enough to deduct losses, the Company will recognize the deferred income tax assets regarding the unused tax losses. This requires the Management to apply a large amount of judgments to estimate the time and amount of future taxable income to be earned, and combine with tax planning strategies to determine the amount of deferred income tax assets to be recognized.

(XXXI) Changes of significant accounting policies and accounting estimates

1. Significant changes in accounting policies

The Company has no change in principal accounting policies during the reporting period.

2. Significant changes in accounting estimates

The Company has no change in principal accounting estimates during the reporting period.

IV. Taxable Items

(I) Main tax categories and tax rates

The main tax categories and tax rates applied in the Company for the current year are as follows:

Tax category	Taxable basis	Tax rate or percentage charge (%)
VAT	Output tax shall be calculated based on dutiable sales income and VAT shall be calculated and paid based on the difference after deducting current deductible input VAT	3%、5%、6%、9%、13%
Urban maintenance and construction tax	Paid-in VAT, consumption tax and business tax	5%
Education surcharge	Paid-in VAT, consumption tax and business tax	3%
Local education surcharge	Paid-in VAT, consumption tax and business tax	2%
Real estate tax	70% - 90% of the original value of house property shall be the taxation basis of property tax of the private property.	1.20%
	The property rental income shall be the taxation basis of the property tax of the leased property.	12%
Enterprise income tax	Taxable income	25%

(II) Tax preference and approval

None.

V. Notes to Major Items in the Financial Statements

Unless otherwise specified, the following monetary unit of notes to items is CNY; Unless otherwise specified, the "End of Period" shall mean December 31, 2023, the "Beginning of Period" shall mean January 1, 2023, the "Current Period" shall mean the year of 2023, and the "Previous Period" shall mean the year of 2022.

(I) Cash and Cash equivalents

Item	Ending balance	Beginning balance
Cash on hand		4,557.89
Cash at bank	77,567,833.61	284,363,484.59
Wherein: Deposit in financial company		
Other monetary capital		
Total	**77,567,833.61**	**284,368,042.48**
Wherein: Total amount deposited overseas		

As of December 31, 2023, the Company has involved no pledged and freezing funds or the funds with potential withdrawal risks.

(II) Accounts receivable

1. Disclosure by aging

Aging	Ending balance	Beginning balance
Within 1 year	9,343,243.05	7,052,000.22
1-2 years		
2-3 years		

Aging	Ending balance	Beginning balance
Over 3 years		
Subtotal	9,343,243.05	7,052,000.22
Less: Bad debt provision		70,520.00
Total	**9,343,243.05**	**6,981,480.22**

2. Classified and disclosed through bad debt provision

Category	Ending balance				
	Book balance		Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Bad debt provision assessed individually					
Bad debt provision assessed by groups	9,343,243.05	100.00			9,343,243.05
Wherein:					
Portfolio I: Risk-free portfolio	9,343,243.05	100.00			9,343,243.05
Portfolio II: Risk portfolio					
Total	**9,343,243.05**	**100.00**			**9,343,243.05**

Continued:

Category	Beginning balance				
	Book balance		Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Bad debt provision assessed individually					
Bad debt provision assessed by groups	7,052,000.22	100.00	70,520.00	100.00	6,981,480.22
Wherein:					
Portfolio I: Risk-free portfolio					
Portfolio II: Risk portfolio	7,052,000.22	100.00	70,520.00	100.00	6,981,480.22
Total	**7,052,000.22**	**100.00**	**70,520.00**	**100.00**	**6,981,480.22**

3. Bad debt provision withdrawn, recovered or reversed in the current period

Category	Beginning balance	Changes of the current period				Ending balance
		Withdrawal	Recovery or reversal	Write-off or charge-off	Other changes	
Risk-free portfolio						
Risk portfolio	70,520.00		70,520.00			
Total	**70,520.00**		**70,520.00**			

4. Accounts receivable from the top five debtors in terms of the ending balance

Entity name	Accounts receivable ending balance	Proportion in the ending balance of accounts receivable (%)	Aging
Dongming Hengchang Chemical Co., Ltd.	6,061,251.61	64.87	Within 1 year
Dongming Zhong You Fuel Petrochemical Co., Ltd.	1,971,352.90	21.10	Within 1 year
Dongming Qianhai Thermal Power Co., Ltd.	1,309,702.10	14.02	Within 1 year
Hebei Installation Engineering Co., Ltd.	920.06	0.01	Within 1 year
Shandong Dongming Petrochemical Group Co., Ltd.	16.38	0.00	Within 1 year
Total	**9,343,243.05**	**100.00**	/

(III) Prepayments

1. Presentation of advance payments by aging

Aging	Ending balance		Beginning balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	869,308.00	100.00	7,218,675.81	56.78
1-2 years			5,495,618.64	43.22
2-3 years				
Over 3 years				
Total	**869,308.00**	**100.00**	**12,714,294.45**	**100.00**

2. Information on significant prepaid account entity with ending balances

Item	Ending balance	Proportion of ending balance (%)
Inner Mongolia Jiutai New Material Sales Co., Ltd.	869,308.00	100.00
Total	**869,308.00**	**100.00**

(IV) Other receivables

1. Item presentation

Item	Ending balance	Beginning balance
Interest receivable		
Dividends receivable		
Other receivables	2,746,300.21	41,965.97
Total	**2,746,300.21**	**41,965.97**

2. Other receivables

(1) Disclosure by aging

Aging	Ending balance	Beginning balance
Within 1 year	2,760,100.71	41,965.97

Aging	Ending balance	Beginning balance
1-2 years		
2-3 years		
Over 3 years		
Subtotal	2,760,100.71	41,965.97
Less: Bad debt provision	13,800.50	
Total	**2,746,300.21**	**41,965.97**

(2) Classification by the payment nature

Payment nature	Ending book balance	Beginning book balance
Intercourse funds	2,746,300.21	
Others		41,965.97
Total	**2,746,300.21**	**41,965.97**

(3) Withdrawal of bad debt provision

① Classified and disclosed through bad debt provision

Category	Ending balance				
	Book balance		Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Bad debt provision assessed individually					
Bad debt provision assessed by groups	2,760,100.71	100.00	13,800.50	100.00	2,746,300.21
Wherein:					
Portfolio I: Risk-free portfolio					
Portfolio II: Risk portfolio	2,760,100.71	100.00	13,800.50	100.00	2,746,300.21
Total	**2,760,100.71**	/	**13,800.50**	/	**2,746,300.21**

Continued:

Category	Beginning balance				
	Book balance		Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Bad debt provision assessed individually					
Bad debt provision assessed by groups	41,965.97	100.00			41,965.97
Wherein:					
Portfolio I: Risk-free portfolio	41,965.97	100.00			41,965.97
Portfolio II: Risk portfolio					
Total	**41,965.97**	/	/	/	**41,965.97**

(4) Significant counterparties for other receivables at the end of the period

Entity name	Payment nature	Ending balance	Aging	Proportion in the total ending balance of other receivables (%)	Ending balance of bad debt provisions
Shandong Daisheng Construction Co., Ltd.	Intercourse funds	912,157.39	Within 1 year	33.05	4,560.79
Puyang Zhuoao Petroleum Technology Co., Ltd.	Intercourse funds	784,546.74	Within 1 year	28.42	3,922.73
Anhui Antisepsis Engineering General Company	Intercourse funds	509,250.32	Within 1 year	18.45	2,546.25
Shandong Ruike Electric Co., Ltd.	Intercourse funds	425,011.52	Within 1 year	15.40	2,125.06
Heze Equipment Installation Co., Ltd.	Intercourse funds	71,143.61	Within 1 year	2.58	355.72
Total	/	**2,702,109.58**	/	**97.90**	**13,510.55**

(V) Inventories

Item	Ending balance			Beginning balance		
	Book balance	Falling price provisions	Book value	Book balance	Falling price provisions	Book value
Raw materials	48,240,151.60		48,240,151.60	53,084,933.56		53,084,933.56
Inventory goods	51,683,026.82		51,683,026.82	40,019,255.01		40,019,255.01
Revolving materials				18,342.31		18,342.31
Total	**99,923,178.42**		**99,923,178.42**	**93,122,530.88**		**93,122,530.88**

(VI) Long-term equity investments

1. Long-term equity investments category

Item	Beginning balance	Increase in the current period	Decrease in the current period	Ending balance
Investment in subsidiaries				
Investment in joint ventures				
Investment in associated enterprises	9,000,000.00			9,000,000.00
Subtotal	9,000,000.00			9,000,000.00
Less: Impairment provision of long-term equity investments				
Total	**9,000,000.00**			**9,000,000.00**

2. Details of long-term equity investments

Investee	Initial Investment Cost	Beginning balance	Increase in the current period
Dongming Qianhai Thermal Power Co., Ltd.	9,000,000.00	9,000,000.00	
Total	**9,000,000.00**	**9,000,000.00**	

Continued:

Investee	Decrease in the current period	Ending balance	Impairment provisions withdrawn in the current period	Ending balance of impairment provisions
Dongming Qianhai Thermal Power Co., Ltd.		9,000,000.00		
Total		**9,000,000.00**		

(VII) Fixed assets

1. Item presentation

Item	Ending balance	Beginning balance
Fixed assets	854,066,510.17	947,084,633.44
Liquidation of fixed assets		
Total	**854,066,510.17**	**947,084,633.44**

2. Fixed assets

Item	Houses and buildings	Machinery and equipment	Instruments and apparatus	Transportation equipment	Electronic equipment	Total
I. Original book value:						
1. Beginning balance	537,851,693.03	729,789,258.09	101,080,662.08	170,204.65	305,035.56	1,369,196,853.41
2. Increase of the current period	226,328,701.82	23,490,044.81	394,215.71	12,300.88	845,202.76	251,070,465.98
3. Decrease of the current period		237,665,814.24	3,759,706.43	8,672.57		241,434,193.24
4. Ending balance	764,180,394.85	515,613,488.66	97,715,171.36	173,832.96	1,150,238.32	1,378,833,126.15
II. Accumulated depreciation						
1. Beginning balance	137,519,904.01	204,948,031.81	79,360,966.15	156,888.36	126,429.64	422,112,219.97
2. Increase of the current period	49,850,891.45	54,663,909.23	11,195,244.50	1,029.87	132,780.26	115,843,855.31
3. Decrease of the current period		840,775.38	12,336,439.92	4,462.75	7781.25	13,189,459.30
4. Ending balance	187,370,795.46	258,771,165.66	78,219,770.73	153,455.48	251,428.65	524,766,615.98
III. Impairment provision						

Item	Houses and buildings	Machinery and equipment	Instruments and apparatus	Transportation equipment	Electronic equipment	Total
1. Beginning balance						
2. Increase of the current period						
3. Decrease of the current period						
4. Ending balance						
IV. Book value						
1. Ending book value	**576,809,599.39**	**256,842,323.00**	**19,495,400.63**	**20,377.48**	**898,809.67**	**854,066,510.17**
2. Beginning book value	**400,331,789.02**	**524,841,226.28**	**21,719,695.93**	**13,316.29**	**178,605.92**	**947,084,633.44**

Notes: Due to the launch of the SAP system this year, the Group has adjusted the fixed asset category and the depreciation category accordingly. The actual depreciation provision for current period should be CNY 101,456,790.70.

(VIII) Construction in progress

1. Item presentation

Item	Ending balance	Beginning balance
Construction in progress		9,272,727.56
Engineering materials		
Total		**9,272,727.56**

2. Construction in progress

Item	Ending balance			Beginning balance		
	Book balance	Impairment provision	Net book value	Book balance	Impairment provision	Net book value
Olefin project				9,272,727.56		9,272,727.56
Total				**9,272,727.56**		**9,272,727.56**

(IX) Intangible assets

Item	Land use right	Software	Total
I. Original book value			
1. Beginning balance	31,641,943.02	376,689.23	32,018,632.25
2. Increase of the current period			
3. Decrease of the current period		166,954.72	166,954.72
4. Ending balance	31,641,943.02	209,734.51	31,851,677.53
II. Accumulated amortization			
1. Beginning balance	4,332,274.85	68,723.19	4,400,998.04
2. Increase of the current period	629,236.44	89,059.78	718,296.22

Item	Land use right	Software	Total
3. Decrease of the current period			
4. Ending balance	4,961,511.29	157,782.97	5,119,294.26
III. Impairment provision			
1. Beginning balance			
2. Increase of the current period			
3. Decrease of the current period			
4. Ending balance			
IV. Book value			
1. Ending book value	**26,680,431.73**	**51,951.54**	**26,732,383.27**
2. Beginning book value	**27,309,668.17**	**307,966.04**	**27,617,634.21**

(X) Long-term prepaid expenses

Item	Beginning balance	Increase of the current period	Amortization amount of the current period	Ending balance
Overhaul cost		21,379,297.17	10,881,251.39	10,498,045.78
Amortization of chemical auxiliary	47,970,565.81	85,613,230.56	33,501,224.30	100,082,572.07
Total	**47,970,565.81**	**106,992,527.73**	**44,382,475.69**	**110,580,617.85**

(XI) Deferred tax assets

Item	Ending balance		Beginning balance	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Asset impairment provisions	13,800.50	3,450.12	70,520.00	17,630.00
Total	**13,800.50**	**3,450.12**	**70,520.00**	**17,630.00**

(XII) Accounts payable

1. Disclosure of accounts payable by aging

Aging	Ending balance	Beginning balance
Within 1 year	44,591,916.59	28,544,049.03
1-2 years	52,415.20	135,136.79
2-3 years	61,567.55	1,849,430.70
3-4 years	18,020.53	486,817.05
4-5 years	454,020.35	
Over 5 years		
Total	**45,177,940.22**	**31,015,433.57**

2. Accounts payable whose ending balance ranks top five:

Entity name	Ending balance	Percentage of ending balance (%)
Dongming Hengchang Chemical Co., Ltd.	10,228,497.82	22.06
Dongming Zhong You Fuel Petrochemical Co., Ltd.	8,193,644.87	17.67
Dongming Qianhai Thermal Power Co., Ltd.	5,213,837.83	11.25
Shandong Fuyang International Trade Co., Ltd.	4,396,637.63	9.48
Jiangxi Baliusan Industrial Co., Ltd.	4,268,700.00	9.21
Total	**32,301,318.15**	**69.67**

(XIII) Contract liabilities

Item	Ending balance	Beginning balance
Advances on sales	6,607,873.75	-
Total	**6,607,873.75**	-

(XIV) Payroll and employee benefits payable

1. Presentation of employee remuneration payable

Item	Beginning balance	Increase in the current period	Decrease in the current period	Ending balance
I. Short-term remuneration	2,911,768.84	32,872,788.48	32,704,381.03	3,080,176.29
II. Post-employment benefits - defined contribution plan	-	2,469,757.14	2,469,757.14	
Total	**2,911,768.84**	**35,342,545.62**	**35,174,138.17**	**3,080,176.29**

2. Presentation of short-term remunerations

Item	Beginning balance	Increase in the current period	Decrease in the current period	Ending balance
I. Salaries, bonuses, allowances and subsidies	2,911,768.84	28,896,466.68	28,728,059.23	3,080,176.29
II. Employee services and benefits		1,220,815.64	1,220,815.64	
III. Social insurance premiums		1,820,153.16	1,820,153.16	
Wherein: Medical insurance premium		1,583,524.26	1,583,524.26	
Work-related injury insurance premium		236,628.90	236,628.90	
IV. Housing provident funds		886,832.00	886,832.00	
V. Labor union expense and employees' educational fund		48,521.00	48,521.00	
VI. Short-term compensated absences				
VII. Short-term profit sharing plan				
Total	**2,911,768.84**	**32,872,788.48**	**32,704,381.03**	**3,080,176.29**

3. Presentation of defined contribution plan

Item	Beginning balance	Increase in the current period	Decrease in the current period	Ending balance
1. Basic endowment insurance		2,366,221.44	2,366,221.44	
2. Unemployment insurance premium		103,535.70	103,535.70	
3. Enterprise annuity payment				
3. Dismission welfare				
Total		**2,469,757.14**	**2,469,757.14**	

(XV) Taxes payable

Item	Ending balance	Beginning balance
Unpaid VAT	10,654,585.22	15,446,350.93
Urban maintenance and construction tax payable	532,729.26	772,317.55
Education surcharges payable	319,637.55	463,390.53
Local educational surcharges payable	213,091.70	308,927.02
Real estate tax payable	126,663.07	126,663.08
Land use tax payable	369,474.29	369,474.29
Stamp tax payable	493,554.04	453,942.84
Income tax payable	67,565,762.10	7,025,324.62
Individual income tax payable and withheld	15,819.91	54,473.78
Total	**80,291,317.14**	**25,020,864.64**

(XVI) Other payables

1. Item presentation

Item	Ending balance	Beginning balance
Other payables	4,799,070.49	358,494.56
Dividends payable	70,851,253.97	
Total	**75,650,324.46**	**358,494.56**

2. Other payables

(1) Other payables presented by aging

Aging	Ending balance	Beginning balance
Within 1 year	4,735,211.93	316,144.56
1-2 years	51,158.56	10,000.00
2-3 years		9,650.00
Over 3 years	12,700.00	22,700.00
Total	**4,799,070.49**	**358,494.56**

(2) The top five entities with the largest ending balance balances

Item	Ending balance	Percentage of ending balance (%)
Shanghai Lvqiang New Materials Co., Ltd.	1,094,501.60	18.97
YT Process Engineering Ltd.	780,000.00	13.52
Shandong Green Star Catalytic Technology Co., Ltd.	746,240.00	12.93
Lanzhou LS Heavy Equipment Co., Ltd.	580,000.00	10.05
Jiangxi Baliusan Industrial Co., Ltd.	474,300.00	8.22
Total	**3,675,041.60**	**63.69**

3. Dividends payable

Item	Ending balance	Beginning balance
Dongming Hengchang Chemical Co., Ltd.	70,851,253.97	-
Total	**70,851,253.97**	-

(XVII) Other current liabilities

Item	Ending balance	Beginning balance
Output tax to be written-off	859,023.59	
Total	**859,023.59**	

(XVIII) Long-term borrowings

Item	Ending balance	Beginning balance
Shandong Dongming Petrochemical Group Finance Co., Ltd.	250,000,000.00	450,000,000.00
Total	**250,000,000.00**	**450,000,000.00**

(XIX) Paid-in capital

Name of investor	Beginning balance	The increase and decrease in this change (+/-)		Ending balance
		Others	Subtotal	
Shandong Dongming Petrochemical Group Co., Ltd.	120,000,000.00			120,000,000.00
Dongming Hengchang Chemical Co., Ltd.	280,000,000.00			280,000,000.00
Total	**400,000,000.00**			**400,000,000.00**

(XX) Surplus reserve

Item	Beginning balance	Increase in the current period	Decrease in the current period	Ending balance
Legal surplus reserves	53,262,672.73	33,006,873.15		86,269,545.88
Total	**53,262,672.73**	**33,006,873.15**		**86,269,545.88**

(XXI) Retained earnings

Item	Current period	Last period
Ending undistributed profits of the last period before adjustment	475,622,270.68	370,867,195.70
Adjustment of the undistributed profits at the beginning of the period (increase +, decrease -)		
Opening undistributed profits after adjustment	475,622,270.68	370,867,195.70
Plus: Net profit in the current period	330,068,731.51	116,394,527.76
Less: Withdrawal of legal surplus reserves	33,006,873.15	11,639,452.78
Distribution to shareholders	529,787,505.67	
Ending undistributed profits	**242,896,623.37**	**475,622,270.68**

(XXII) Total revenue and cost of sales

1. Total revenue and cost of sales

Item	Accrual in the current period		Accrual in the previous period	
	Operating incomes	Operating cost	Operating incomes	Operating cost
Main business	2,928,297,192.72	2,548,395,839.90	3,101,192,398.33	2,893,191,378.93
Other businesses	68,337,790.23	66,203,569.87		
Total	**2,996,634,982.95**	**2,614,599,409.77**	**3,101,192,398.33**	**2,893,191,378.93**

2. Details of total revenue

(1) Presentation of main business income

Goods category	Amount of the current period	Proportion to the Company's main business income (%)
Methyl Tert-Butyl Ether (MTBE)	2,049,463,602.70	69.99
Propylene	483,081,870.62	16.50
Hydrogen	199,305,985.11	6.81
Isobutylene	164,538,989.50	5.62
Others	31,906,744.79	1.08
Total	**2,928,297,192.72**	**100.00**

(2) Presentation of other business income

Item	Amount of the current period	Proportion to the Company's other business income (%)
Energy income	68,322,590.12	99.98
Service income	15,200.11	0.02
Total	**68,337,790.23**	**100.00**

3. The operating income of important clients of the company

Client name	Total operating income	Proportion accounting for total operating income of the Company (%)

Dongming Petroleum Distribution Co., Ltd.	832,431,643.69	27.78
Dongming Hengchang Chemical Co., Ltd.	496,137,483.77	16.56
Luoyang Jixi Petrochemical Sales Co., Ltd.	276,053,706.15	9.21
Total	**1,604,622,833.61**	**53.55**

(XXIII) Taxes and surcharges

Item	Accrual in the current period	Accrual in the previous period
Urban maintenance and construction tax	7,295,569.54	6,941,452.46
Education surcharge	3,874,607.57	4,164,871.46
Local education surcharge	3,420,961.97	2,776,580.98
Real estate tax	506,652.27	764,893.37
Land use tax	1,477,897.16	1,477,897.16
Stamp tax	1,598,170.84	1,654,313.40
Environmental protection tax	32,098.40	16,070.87
Total	**18,205,957.75**	**17,796,079.70**

(XXIV) Administrative expenses

Item	Accrual in the current period	Accrual in the previous period
Salaries and bonus	2,405,320.69	4,505,062.09
Amortization of intangible assets	718,296.22	683,574.99
Depreciation expenses	837,741.13	857,230.84
Others	387,583.94	805,565.89
Water and electricity and property fees	475,904.01	533,005.03
Consulting service fees	256,017.80	286,411.23
Property insurance benefit	46,415.65	2,888.16
Maintenance costs	117,976.60	635,695.82
Business entertainment expense	50,273.60	12,536.28
Trolley expenses	35,582.44	52,763.80
Labor union dues	10,500.00	-
Travel expense	19,257.30	15,611.06
Welfare expenses	34,728.49	27,762.52
Advertising and promotion expenses	2,040.00	-
Office expenses	10,994.53	38,897.26
Meeting affair expenses	1,894.11	6,561.90
Low-value consumables	18,342.31	25.66

Item	Accrual in the current period	Accrual in the previous period
Lease expenses	252,000.00	364,000.00
Fire safety fee	2,412.26	79,077.93
Total	**5,683,281.08**	**8,906,670.46**

(XXV) Research and development expenses

Item	Accrual in the current period	Accrual in the previous period
Employee remuneration	1,100,464.29	488,934.30
Direct investment	516,153.15	746,820.87
Expenditure cost	156,265.32	
Other expenses	211,211.44	306,283.19
Total	**1,984,094.20**	**1,542,038.36**

(XXVI) Financial expenses

Item	Accrual in the current period	Accrual in the previous period
Interest expenses	18,023,611.11	27,361,979.17
Interest incomes	3,027,388.55	2,614,480.67
Foreign exchange incomes	4.49	
Handling fee	28,721.36	27,244.34
Total	**15,024,939.43**	**24,774,742.84**

(XXVII) Other income

Source of other incomes	Accrual in the current period	Accrual in the previous period
Return commission charges of individual income tax	1,255.72	2,439.08
Total	**1,255.72**	**2,439.08**

(XXVIII) Investment income

Item	Accrual in the current period	Accrual in the previous period
Dongming Qianhai Thermal Power Co., Ltd.	38,861,889.78	
Total	**38,861,889.78**	

(XXIX) Credit impairment losses

Item	Accrual in the current period	Accrual in the previous period
Bad debt loss of accounts receivable	70,520.00	59,734.84
Bad debt loss of other receivables	-13,800.50	45,436.90
Total	**56,719.50**	**105,171.74**

(XXX) Non-operating income

Item	Accrual in the current period	Accrual in the previous period	Amount recognized through current non-recurring profits and losses
Penalty and confiscatory incomes	21,500.00	15,400.00	21,500.00
Disposal of waste and scrap materials	53,377,275.06	230,610.91	53,377,275.06
Asset inventory surplus	189,522.02		189,522.02
Others	477,725.90	147.60	477,725.90
Total	**54,066,022.98**	**246,158.51**	**54,066,022.98**

(XXXI) Non-operating expenses:

Item	Accrual in the current period	Accrual in the previous period	Amount recognized through current non-recurring profits and losses
Delay charge		77,504.06	
Losses from damage and scrapping of non-current assets	31,646.94		31,646.94
Asset inventory loss	3,785,366.45		3,785,366.45
Total	**3,817,013.39**	**77,504.06**	**3,817,013.39**

(XXXII) Income tax expense

1. Income tax expense statement

Item	Accrual in the current period	Accrual in the previous period
Income tax expenses of the current period	100,223,263.92	38,836,932.62
Deferred income tax expenses	14,179.88	26,292.93
Total	**100,237,443.80**	**38,863,225.55**

(XXXIII) Supplementary information to the cash flows statement

1. Supplementary information to cash flows statement

Supplementary information	Amount of the current period	Amount of the previous period
1. Net profit is adjusted to cash flows from operating activities:		
Net profits	330,068,731.51	116,394,527.76
Plus: Credit impairment loss	-56,719.50	-105,171.74
Asset impairment provisions		
Depreciation of fixed assets, waste of oil and gas assets and depreciation of productive biological assets	101,456,790.70	103,497,483.60
Amortization of intangible assets	718,296.22	683,574.99
Amortization of long-term unamortized expenses	44,382,475.69	

Supplementary information	Amount of the current period	Amount of the previous period
Losses from disposal of fixed assets, intangible assets and other long-term assets (the income is expressed with "-")		
Losses from scrapping of fixed assets (the income is expressed with "-")	31,646.94	
Losses from changes in the fair value (the income is expressed with "-")		
Financial expenses (the income is expressed with "-")	18,023,611.11	27,361,979.17
Investment losses (the income is expressed with "-")	-38,861,889.78	
Decrease of deferred income tax assets (the increase is expressed with "-")	14,179.88	26,292.93
Increase of deferred income tax liabilities (the decrease is expressed with "-")		
Decrease of inventory (the increase is expressed with "-")	-6,800,647.54	23,847,054.37
Decrease of operational receivables (the increase is expressed with "-")	6,765,088.88	16,861,423.42
Increase of operational payables (the decrease is expressed with "-")	66,457,675.49	16,368,409.11
Others		
Net amount of cash flows from operating activities	**522,199,239.60**	**304,935,573.61**
2. Significant investment and financing activities not involving cash receipt and payment:		
Amount of the endorsement transfer of bank acceptance bills received for selling goods and providing services		
Conversion of debt into capital		
Convertible corporate bonds due within one year		
Fixed assets under financing lease		
3. Net changes in cash and cash equivalents:		
Ending balance of cash	77,567,833.61	284,368,042.48
Less: Beginning balance of cash	284,368,042.48	201,116,702.64
Plus: Ending balance of cash equivalents		
Less: Beginning balance of cash equivalents		
Net increase amount in cash and cash equivalents	**-206,800,208.87**	**83,251,339.84**

2. Constitution of cash and cash equivalents

Item	Ending balance	Beginning balance
I. Cash	77,567,833.61	284,368,042.48
Wherein: Cash on hand		4,557.89
Bank deposit available for payment at any time	77,567,833.61	284,363,484.59
Other monetary capital available for payment at any time		
II. Cash equivalents		
III. Ending balance of cash and cash equivalents	**77,567,833.61**	**284,368,042.48**

Item	Ending balance	Beginning balance
Wherein: Restricted cash and cash equivalents of the Company		

VI. Related parties and related transactions

(I) Shareholders' condition of the Company

Parent company name	Registration place	Business nature	Registered capital	Shareholding proportion of parent company to the Company (%)	Voting right proportion of parent company to the Company (%)	Remarks
Dongming Hengchang Chemical Co., Ltd.	Dongming County	Chemical Industry	CNY 500 million	70.00	70.00	Annotation 1
Shandong Dongming Petrochemical Group Co., Ltd.	Dongming County	Processing	CNY 5,601.86 million	30.00	30.00	Annotation 2

Annotation 1: Production of propylene, polypropylene, liquefied gas (For business items subject to approval according to law, business activities cannot be carried out before approved by competent authorities, and the validity period shall be subject to the license).
Annotation 2: Production and sales of propylene, isobutylene, hydrogen, methyl tert-butyl ether (MTBE), dry gas, heavy components (40% pentane, 40% hexane, 20% above C8), production and sales of liquid paraffin, liquefied petroleum gas, solvent oil, propylene, polypropylene, heavy pavement asphalt, gasoline, diesel, electricity, methyl tert-butyl ether, xylene, naphtha, liquid chlorine, steam, hydrogen, hydrochloric acid; crude oil operation; technical services, investment, construction, operation, and management of gas stations and gas filling stations. (For business items subject to approval according to law, business activities cannot be carried out before approved by competent authorities). (For business items subject to approval according to law, business activities cannot be carried out before approved by competent authorities).

(II) Conditions of the Company's joint venture and associated enterprise

Company name	Registration place	Business nature	Registered capital	Shareholding ratio of the Company (%)	Voting right percentage of the Company (%)	Remarks
Dongming Qianhai Thermal Power Co., Ltd.	Dongming County	Electricity and heat	CNY 500 million	18.00	18.00	Annotation 1

Annotation 1: Production and supply of electricity, heat and industrial water, procurement and sales of electricity and power equipment and consultation and service of heating technology. (For business items subject to approval according to law, business activities cannot be carried out before approved by competent authorities) (For business items subject to approval according to law, business activities cannot be carried out before approved by competent authorities, and the validity period shall be subject to the license).

(III) Other related parties

None.

(IV) Situation of related transaction

1. Main related party procurement situation in current period

Name	Amount of the current period	Amount of the previous period
Dongming Hengchang Chemical Co., Ltd.	991,408,818.91	1,058,637,791.76
Dongming Zhongyou Fuel Petrochemical Co., Ltd.	572,580,093.56	563,492,478.61
Dongming Qianhai Thermal Power Co., Ltd.	455,927,891.65	462,203,754.99
Total	**2,019,916,804.12**	**2,084,334,025.36**

2. Main related party procurement situation in current period

Name	Amount of the current period	Proportion of current income (%)
Dongming Hengchang Chemical Co., Ltd.	496,137,483.77	16.56
Dongming Zhongyou Fuel Petrochemical Co., Ltd.	210,304,048.55	7.02
Dongming Qianhai Thermal Power Co., Ltd.	107,729,684.96	3.60
Total	**1,959,208,737.18**	**27.18**

(V) Receivables and payables of related parties

1. Receivables from related parties in the current period

Item	Name	Amount of the current period
Accounts receivable	Dongming Hengchang Chemical Co., Ltd.	6,061,251.61
Accounts receivable	Dongming Qianhai Thermal Power Co., Ltd.	1,309,702.10
Accounts receivable	Dongming Zhongyou Fuel Petrochemical Co., Ltd.	1,971,352.90
Total	/	**9,342,306.61**

2. Payables from related parties in the current period

Item	Name	Amount of the current period
Accounts payable	Dongming Hengchang Chemical Co., Ltd.	10,228,497.82
Accounts payable	Dongming Qianhai Thermal Power Co., Ltd.	5,213,837.83
Accounts payable	Dongming Zhongyou Fuel Petrochemical Co., Ltd.	8,193,644.87
Total	/	**23,635,980.52**

VII. Commitments and contingencies

(I) Important commitments

None.

(II) Contingencies

As of December 31, 2023, the Company has no significant pending litigation, external guarantee and other contingencies that shall be disclosed.

VIII. Matters after the balance sheet date

As of the date of report issuance, the Company has no significant future matters that require adjustment.

IX. Other significant matters

(I) Corrections of significant accounting errors at prior period

There was no correction of prior period accounting errors using the retrospective restatement in the reporting period.

There was no correction of prior period accounting errors using the future application in the reporting period.

(II) Debt restructuring

No debt restructuring matters occurred during the reporting period.

(III) Asset replacement

No asset replacement matters occurred during the reporting period.

Dongming Qianhai Chemical Co., Ltd.

April 25, 2024

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营业执照

(副 本)

5-1

统一社会信用代码

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名　　称　山东天元同泰会计师事务所（特殊普通合伙）

类　　型　特殊普通合伙企业

执行事务合伙人　许健

经营范围　许可项目：注册会计师业务；司法鉴定服务；代理记账。（依法须经批准的项目，经相关部门批准后方可开展经营活动，具体经营项目以相关部门批准文件或许可证件为准）
一般项目：财务咨询；税务服务；破产清算服务；财政资金项目预算绩效评价服务；企业管理咨询；商务代理代办服务；信息咨询服务（不含许可类信息咨询服务）；社会经济咨询服务；企业管理；法律咨询（不含依法须律师事务所执业许可的业务）；教育咨询服务（不含涉许可审批的教育培训活动）；社会稳定风险评估；业务培训（不含教育培训、职业技能培训等需取得许可的培训）；版权代理。（除依法须经批准的项目外，凭营业执照依法自主开展经营活动）

出 资 额　陆佰万元整

成立日期　2022年10月18日

主要经营场所　山东省济南市历城区东风街道二环东路2666号

登 记 机 关

2022 年 10月18 日

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国家市场监督管理总局监制

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会计师事务所

执业证书

名　　称：山东天元同泰会计师事务所（特殊普通合伙）

首席合伙人：许健

主任会计师：

经营场所：济南市二环东路2666号

组织形式：特殊普通合伙

执业证书编号：37010004

批准执业文号：鲁财会协字[1998]78号

批准执业日期：1998年12月31日

证书序号：0015862

说　明

1、《会计师事务所执业证书》是证明持有人经财政部门依法审批，准予执行注册会计师法定业务的凭证。

2、《会计师事务所执业证书》记载事项发生变动的，应当向财政部门申请换发。

3、《会计师事务所执业证书》不得伪造、涂改、出租、出借、转让。

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发证机关：山东省财政厅

二〇二二年十二月　日

中华人民共和国财政部制

THE CHINESE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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年 /y 月 /m 日 /d

THE CHINESE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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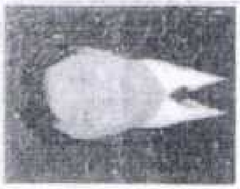

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