

**Dongming Qianhai Chemical Co., Ltd.**

**Audit Report**

LTYTTS Zi [2022], No. 1089



天元同泰  
会计师事务所

Shandong Tianyuan Tongtai Certified Public Accountants Co., Ltd.

March 27, 2022



天元同泰会计师事务所

**Tian Yuan Tong Tai**  
certified public accountants

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## Auditors' Report

LTYTTS Zi [2022], No. 1089

### **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, 2021, income statement of 2021, cash flow 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, 2021 and operating results and cash flows in 2021 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 Co., Ltd.

Jinan · China 004462



Chinese Certified Public Accountant: Xu Jian



Chinese Certified Public Accountant: Chen Jie



March 27, 2022

## BALANCE SHEET

December 31, 2021

Prepared by: Dongming Qianhai Chemical Co., Ltd.

Unit: Yuan Currency: CNY

Item	Notes	December 31, 2021	December 31, 2020
<b>Current assets:</b>			
Cash and Cash equivalents	V. (I)	201,116,702.64	9,367,873.50
Financial assets held for trading			
Financial assets at fair value through profit or loss			
Derivative financial assets			
Notes receivable			
Accounts receivable	V. (II)	25,920,714.07	-
Financing receivables			
Prepayments	V. (III)	9,325,828.64	2,987,692.58
Other receivables	V. (IV)	1,352,621.35	3,138,708.40
Including: Interest receivable			
Dividends receivable			
Inventories	V. (V)	164,940,151.06	168,059,210.14
Contract assets			
Assets classified as held for sale			
Non-current assets due within one year			
Other current assets			
<b>Total current assets</b>		<b>402,656,017.76</b>	<b>183,553,484.62</b>
<b>Non-current assets:</b>			
Debt investments			
Available-for-sale financial assets			
Other debt investments			
Held-to-maturity 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)	1,034,741,012.95	1,089,266,702.80
Construction in progress	V. (VIII)	14,737,997.10	73,964,937.74
Productive biological assets			
Oil and gas assets			
Right-of-use assets			
Intangible assets	V. (IX)	28,050,360.67	28,541,066.96
Development expenditures			
Goodwill			
Long-term prepaid expenses			
Deferred tax assets	V. (X)	43,922.93	9,586.97
Other non-current assets			
<b>Total non-current assets</b>		<b>1,086,573,293.65</b>	<b>1,200,782,294.47</b>
<b>Total assets</b>		<b>1,489,229,311.41</b>	<b>1,384,335,779.09</b>

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

Legal Representative:



Chief Accountant:

张亚

Head of Accounting Department:



## BALANCE SHEET (CONTINUED)

December 31, 2021

Prepared by: Dongming Qianhai Chemical Co., Ltd.

Unit: Yuan Currency: CNY

Item	Notes	December 31, 2021	December 31, 2020
<b>Current liabilities:</b>			
Short-term borrowings			
Financial liabilities held for trading			
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities			
Notes payable			
Accounts payable	V. (XI)	23,367,159.98	16,447,255.35
Receipts in advance	V. (XII)	-	95.16
Contract liabilities			
Payroll and employee benefits payable	V. (XIII)	2,740,000.00	2,740,000.00
Taxes payable	V. (XIV)	24,620,291.25	53,611,999.64
Other payables	V. (XV)	1,011,444.53	189,180.97
Including: Interest payable			
Dividends payable			
Liabilities classified as held for sale			
Non-current liabilities due within one year			
Other current liabilities			
<b>Total current liabilities</b>		<b>51,738,895.76</b>	<b>72,988,531.12</b>
<b>Non-current liabilities:</b>			
Long term borrowings	V. (XVI)	625,000,000.00	736,250,000.00
Bonds payable			
Including: Preferred Share			
Perpetual bond			
Lease liabilities			
Long-term accounts payable			
Long-term payroll and employee benefits payable			
Estimated liabilities			
Deferred income			
Deferred tax liabilities			
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>625,000,000.00</b>	<b>736,250,000.00</b>
<b>Total liabilities</b>		<b>676,738,895.76</b>	<b>809,238,531.12</b>
<b>Owners' equity (or shareholders' equity):</b>			
Paid-in capital(Or Share capital)	V. (XVII)	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. (XVIII)	41,623,219.95	17,883,903.18
Retained earnings	V. (XIX)	370,867,195.70	157,213,344.79
<b>Total owners' equity (or shareholders' equity)</b>		<b>812,490,415.65</b>	<b>575,097,247.97</b>
<b>Total liabilities and owners' equity (or shareholders' equity)</b>		<b>1,489,229,311.41</b>	<b>1,384,335,779.09</b>

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

Legal Representative:



Chief Accountant:

张亚

Head of Accounting Department:





# INCOME STATEMENT

For the year ended 31 December 2021

Prepared by: Dongming Qianhai Chemical Co., Ltd.

Unit: Yuan Currency CNY

Item	Notes	2021	2020
<b>I. Total revenue</b>	V. (XX)	2,910,342,123.62	1,998,357,332.11
Less: Total cost of sales	V. (XX)	2,534,230,121.61	1,846,500,618.66
Taxes and surcharges	V. (XXI)	16,798,226.94	10,898,034.46
Selling expenses			
Administrative expenses	V. (XXII)	12,563,013.36	12,429,265.93
Research and development expenses			
Financial expenses	V. (XXIII)	31,697,162.61	37,911,438.31
Including: Interest expenses		32,675,144.10	38,163,795.13
Interest income		995,408.41	268,822.66
Plus: Other income	V. (XXIV)	300,000.00	-
Investment income (loss expressed with a minus sign "-")			
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. (XXV)	-137,343.86	-
Assets impairment losses (loss expressed with a minus sign "-")	V. (XXVI)	-	51,440.23
Gain from disposal of assets (loss expressed with a minus sign "-")			
<b>II. Operating profit (loss expressed with a minus sign "-")</b>		<b>315,216,255.24</b>	<b>90,669,414.98</b>
Add: Non-operating income	V. (XXVII)	2,231,153.86	45,715,893.97
Less: Non-operating expenses	V. (XXVIII)	1,237.89	185,391.85
<b>III. Profit before tax (total loss expressed with a minus sign "-")</b>		<b>317,446,171.21</b>	<b>136,199,917.10</b>
Less: Income tax expense	V. (XXIX)	80,053,003.53	37,945,630.22
<b>IV. Net Profit (net loss expressed with a minus sign "-")</b>		<b>237,393,167.68</b>	<b>98,254,286.88</b>
1. Net profit from continuing operations ("- indicates net loss)		237,393,167.68	98,254,286.88
2. Net profit from discontinuing operations ("- indicates net loss)			
<b>V. Other comprehensive income, net of tax</b>		-	-
<b>(I) Other comprehensive income that will not be reclassified to profit or loss</b>		-	-
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			
<b>(II) Other comprehensive income to be reclassified to profit and loss</b>		-	-
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			
<b>VI. Total Comprehensive Income</b>		<b>237,393,167.68</b>	<b>98,254,286.88</b>

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

Legal Representative:



Chief Accountant:

张业

Head of Accounting Department:



## CASH FLOWS STATEMENT

For the year ended 31 December 2021

Prepared by: Dongming Qinhai Chemical Co., Ltd.

Unit: Yuan Currency: CNY

Item	Notes	2021	2020
<b>I. Cash Flows from Operating Activities:</b>			
Cash receipts from the sale of goods and the rendering of services		3,453,620,247.04	2,380,941,088.57
Refund of tax and levies			
Cash received relating to other operating activities		1,506,784.64	69,244,150.33
<b>Sub-total of Cash Inflows</b>		<b>3,455,127,031.68</b>	<b>2,450,185,238.90</b>
Cash paid for purchase of goods and services		2,793,632,753.46	2,103,311,042.34
Cash paid to and on behalf of employee		35,163,667.49	34,843,867.27
Taxes and fees paid		271,748,769.00	112,753,973.36
Cash paid relating to other operating activities		4,358,641.68	3,748,653.38
<b>Sub-total of Cash Outflows</b>		<b>3,104,903,831.63</b>	<b>2,254,657,536.35</b>
<b>Net cash flows from operating activities</b>	V. (XXX)	<b>350,223,200.05</b>	<b>195,527,702.55</b>
<b>II. Cash Flows from Investment Activities:</b>			
Cash received from disposal of investments			
Cash received from investment income			
Net proceeds from disposal of property, plant and equipment, intangible assets and other long-term assets		0.00	333,935.69
Cash received from disposal of subsidiaries and other business units			
Cash received relating to other investing activities			
<b>Sub-total of Cash Inflows</b>		-	<b>333,935.69</b>
Purchase of property, plant and equipment, intangible assets and other non-current assets		14,549,226.81	16,539,510.29
Cash paid for investments			
Net cash paid for acquisition of a subsidiary and other operating units			
Cash paid relating to other investing activities			
<b>Sub-total of Cash Outflows</b>		<b>14,549,226.81</b>	<b>16,539,510.29</b>
<b>Net cash flows from investing activities</b>		<b>-14,549,226.81</b>	<b>-16,205,574.60</b>
<b>III. Cash Flows from Financing Activities</b>			
Cash received from investment			
Proceeds from borrowings			
Cash receipts relating to other financing activities			
<b>Sub-total of Cash Inflows</b>		-	-
Repayments for debts		111,250,000.00	270,000,000.00
Cash payments for distribution of dividends or profit and interest expenses		32,675,144.10	38,163,795.13
Cash payments relating to other financing activities			
<b>Sub-total of Cash Outflows</b>		<b>143,925,144.10</b>	<b>308,163,795.13</b>
<b>Net cash flows from financing activities</b>		<b>-143,925,144.10</b>	<b>-308,163,795.13</b>
<b>IV. Effect of Exchanges on Cash and Cash Equivalents</b>			
<b>V. Net Increase in Cash and Cash Equivalents</b>		<b>191,748,829.14</b>	<b>-128,841,667.18</b>
Add: Cash and cash equivalents at beginning of the year		9,367,873.50	138,209,540.68
<b>VI. Cash and Cash Equivalents at the End of the Year</b>		<b>201,116,702.64</b>	<b>9,367,873.50</b>

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

Legal Representative:



Chief Accountant:

张亚

Head of Accounting Department:





# STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2021

Prepared by: Dongming Qianhai Chemical Co., Ltd.

Item	2021							Total owners' equity			
	Paid-in Capital (Or Share Capital)	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income		Specific Reserve	Surplus reserve	Retained earnings
		Preferred share	Perpetual bond	Others							
<b>1. Balance at the end of previous year</b>	400,000,000.00	-	-	-	-	-	-	17,883,903.18	157,213,344.79	575,097,247.97	
Add Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	
Corrections of prior period errors	-	-	-	-	-	-	-	-	-	-	
Others	-	-	-	-	-	-	-	-	-	-	
<b>2. Balance at the beginning of the year</b>	400,000,000.00	-	-	-	-	-	-	17,883,903.18	157,213,344.79	575,097,247.97	
<b>3. Increase/(decrease) during the period (Decrease is filled with "-")</b>	-	-	-	-	-	-	-	23,739,316.77	213,653,850.91	237,393,167.68	
(1) Total comprehensive income	-	-	-	-	-	-	-	-	237,393,167.68	237,393,167.68	
(2) Shareholders' contributions and reduction	-	-	-	-	-	-	-	-	-	-	
(i) Shareholders' contributions in ordinary share	-	-	-	-	-	-	-	-	-	-	
(ii) Other equity instruments contributions	-	-	-	-	-	-	-	-	-	-	
(iii) Amount of share-based payments recognized in equity	-	-	-	-	-	-	-	-	-	-	
(iv) Others	-	-	-	-	-	-	-	-	-	-	
(3) Profit distribution	-	-	-	-	-	-	-	-	-	-	
(i) Transfer to surplus reserve	-	-	-	-	-	-	-	23,739,316.77	-23,739,316.77	-	
(ii) Distribution to shareholders	-	-	-	-	-	-	-	23,739,316.77	-23,739,316.77	-	
(iii) Others	-	-	-	-	-	-	-	-	-	-	
(4) Transfer within equity	-	-	-	-	-	-	-	-	-	-	
(i) Capital reserves converted to share capital	-	-	-	-	-	-	-	-	-	-	
(ii) Surplus reserves converted to share capital	-	-	-	-	-	-	-	-	-	-	
(iii) Loss made up by surplus reserves	-	-	-	-	-	-	-	-	-	-	
(iv) Changes in the defined benefit plan transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	
(v) Other comprehensive income transferred to retained earnings	-	-	-	-	-	-	-	-	-	-	
(vi) Others	-	-	-	-	-	-	-	-	-	-	
(5) Special reserve	-	-	-	-	-	-	-	-	-	-	
(i) Additions	-	-	-	-	-	-	-	-	-	-	
(ii) Utilisation	-	-	-	-	-	-	-	-	-	-	
(6) Others	-	-	-	-	-	-	-	-	-	-	
<b>4. Balance at the end of the period</b>	400,000,000.00	-	-	-	-	-	-	41,623,219.95	370,867,195.70	812,490,415.65	

Unit: Yuan, Currency: CNY

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

Legal Representative:



Chief Accountant:

张亚

Head of Accounting Department:



# STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2021

Prepared by: Dongming Qianhai Chemical Co., Ltd

Item	2020				2021				Total owners' equity		
	Paid-in Capital (Or Share Capital)	Preferred share	Perpetual bond	Others	Capital reserve	Less: Treasury shares	Other comprehensive income	Specific Reserve		Surplus reserve	Retained earnings
<b>1. Balance at the end of previous year</b>	400,000,000.00	-	-	-	-	-	-	-	8,058,474.49	68,784,486.60	476,842,961.09
Add Changes in accounting policies											
Corrections of prior period errors											
Others											
<b>2. Balance at the beginning of the year</b>	400,000,000.00	-	-	-	-	-	-	-	8,058,474.49	68,784,486.60	476,842,961.09
<b>3. Increase/(decrease) during the period (Decrease is filled with "-")</b>									9,825,428.69	88,428,858.19	98,254,286.88
(1) Total comprehensive income										98,254,286.88	98,254,286.88
(2) Shareholders' contributions and reduction											
(i) Shareholders' contributions in ordinary share											
(ii) Other equity instruments contributions											
(iii) Amount of share-based payments recognized in equity											
(iv) Others											
(3) Profit distribution									9,825,428.69	-9,825,428.69	
(i) Transfer to surplus reserve									9,825,428.69	-9,825,428.69	
(ii) Distribution to shareholders											
(iii) Others											
(4) Transfer within equity											
(i) Capital reserves converted to share capital											
(ii) Surplus reserves converted to share capital											
(iii) Loss made up by surplus reserves											
(iv) Changes in the defined benefit plan transferred to retained earnings											
(v) Other comprehensive income transferred to retained earnings											
(vi) Others											
(5) Special reserve											
(i) Additions											
(ii) Utilisation											
(6) Others											
<b>4. Balance at the end of the period</b>	400,000,000.00	-	-	-	-	-	-	-	17,883,903.18	157,213,344.79	575,097,247.97

Unit: Yuan Currency: CNY

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

Legal Representative:



Chief Accountant:

张亚

Head of Accounting Department:



# Dongming Qianhai Chemical Co., Ltd.

## Notes to the 2021 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 :Shandong Dongming Petrochemical Group Co., Ltd. has subscribed a capital contribution of CNY 120 million accounting for 30% of the registered capital, while Dongming Hengchang Chemical Co., Ltd. has subscribed a capital contribution of CNY 280 million, accounting for 70% 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).

This financial statement has been approved for publication by the board of directors of the company on March 27, 2022.

### 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 (Applicable from January 1, 2021)**

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**

The Company, based on expected credit losses, performs impairment on financial assets measured at amortized cost and investment in debt instruments measured at the fair value with its changes recognized through other comprehensive incomes, the lease receivables and financial guarantee contract, and confirms the loss provision.

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.

For lease receivables, receivables, and contract assets, the Company measures its loss provisions based on the amount of expected credit losses during the entire duration.

Except for the foregoing financial assets treated with the simplified measurement method and the financial guarantee contract, the Company assesses whether the credit risk has significantly increased since the initial recognition on each balance sheet date. If not, and it is in stage 1, the Company measures loss provisions according to the amount of expected credit loss within the next 12 months, and calculates the interest income on the basis of book balance and effective interest rate; in the event that the credit risk has increased significantly since the initial recognition but with no credit impairment, and it is in stage 2, the Company measures the loss provisions based on the amount of expected credit losses during the entire duration, and calculates the interest income on the basis of book balance and effective interest rate; in case that credit impairment has incurred since the initial recognition, it is in stage 3, the Company measures its loss provisions based on the amount of expected credit losses during the entire duration, and calculates the interest income on the basis of amortized cost and effective interest rate. For a financial instrument only 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.

The Company, based on single items and portfolios, evaluates the expected credit losses of financial instruments. Considering the credit risk characteristics of different clients, the Company evaluates the expected credit loss of financial instruments measured at amortized cost based on aging portfolio.

In assessing expected credit losses, the Company takes reasonable and well-founded information about past event, current situation and future economic condition into consideration.

##### **1. Judgment standards for significant increase in credit risks**

The Company determines whether the credit risks of financial instruments have increased significantly since initial recognition by using available reasonable and well-founded forward-looking information, and by comparing the risk of default on the balance sheet date of financial instruments with the risk of default on the date of initial recognition.

The Company considered the following factors when assessing whether the credit risks increased significantly:



- Whether the internal price indicator caused by credit risk change has significantly changed;
- Whether the expectation will cause adverse change in the business, finance or economy changes obviously from the debtor's performance of its debt repayment obligations;
- Whether there is any actual or expected obvious changes in the operating results of debtors;
- Whether there is any significant adverse changes to the regulatory, economic, or technological environment where the debtor is located;
- Whether the value of collateral as mortgage of debt or the third party guarantee or credit enhancement quality remarkably changes. These change expectations will lower the debtor's economic motive of repayment pursuant to the period specified in the contract or influence the probability of default;
- Whether the expectations of lowering the debtor's economic motive of repayment pursuant to the period specified in the contract change significantly;
- The anticipated changes of the loan contract include whether waiver or amendment of contractual obligations is likely caused by anticipated breach of contract, whether the interest-free period will be given, whether the interest rate will rise, whether additional collateral or guarantee will be required or other change in the contract framework of financial instruments;
- Whether there is any obvious changes in the expected performance and repayment behavior of debtors;
- Whether the contract payment exceeds the time limit for more than 30 days (inclusive).

#### 2. Definition of financial assets with credit impairment that have occurred

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:

- When a major financial difficulty occurs to the issuer or the debtor;
- When the debtor breaches the contract, such as failing or delaying paying interests and principal;
- In consideration of economy or contract relating to the debtor's financial difficulty, the creditor gives concessions which will not be given in any other case to the debtor;
- When the debtor is likely to go bankrupt or carries out other financial restructuring;
- The financial difficulty of the issuer or the debtor makes the active market of such financial assets disappear;
- And when the discount reflects the fact of credit loss as a financial asset is purchased or sourced based on a big discount.

#### 3. Determination of the expected credit losses

The Company recognizes the expected credit losses of relevant financial instruments by using the following methods:

- For financial assets, credit loss is the present value of the difference between the contractual cash flow that the Company should receive and the expected cash flow to receive;
- for lease receivables, credit loss is the present value of the difference between the contractual cash flow that the Company should receive and the expected cash flow to receive;
- for financial assets with credit impairment on the balance sheet date but are not purchased or sourced, the credit loss is the difference between the book balance of the financial asset and the present value of the estimated future cash flow discounted at the original effective interest rate.

The Company's method of measuring expected credit losses of financial instruments reflects factors such as unbiased probability weighted average amount determined by evaluating a series of possible outcomes; the time value of money; reasonable and well-founded information about past events, current situations, and forecasts of future economic conditions that can be obtained without unnecessary additional costs or efforts on the balance sheet date.

#### 4. Write-down of financial assets



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) Receivables (Applicable before January 1, 2021)

Receivables include accounts receivable and other receivables.

At the end of the period, if there is objective evidence indicating that the receivables are impaired, the book value of the receivables shall be written down to the recoverable amount, and the written down amount shall be recognized as asset impairment losses and recognized through current profits and losses. The recoverable amount is determined through discounting its future cash flow according to original effective interest rate (excluding credit loss not occurring) and values (deducting predicted cost for disposing, etc.) of related collaterals will be considered. The original effective interest rate refers to the effective interest rate calculated and confirmed during the initial recognition of the receivables. The difference between the expected future cash flow of short-term receivables and present value is extremely small, and the expected future cash flow will not be discounted while confirming relevant impairment losses.

#### 1. Receivables with significant single amount and singly withdrawn bad debt provision

Judgment basis or amount standard for significant single amount:	Receivables with significant single amount (including receivables and other receivables) shall separately proceed with impairment test at the end of the period. If there is objective evidence that impairment has occurred, impairment losses shall be recognized according to the difference between the present value of its future cash flows and its book value, and bad debt provisions shall be made. Significant single amount refers to: the balance of the accounts receivable at the end of the period is above CNY 1 million.
Withdrawing method with significant single amount and singly withdrawn bad debt provision	Recognize impairment loss based on the difference between present value of its future cash flow and book value, and withdraw bad debt provision

#### 2. Receivables with bad debt provisions based on credit risk characteristic portfolio

For receivables with significant single amount, those with no impairment after separate test are divided into multiple portfolios based on credit risk characteristics. Proportions of bad debt provisions of each portfolio shall be confirmed in the current period according to actual loss rate of receivable combinations with the same or similar with previous years and with similar credit risk characteristics and conditions at present, and bad debt provisions to be withdrawn in the current period shall be calculated based on the above.

Basis for portfolio determination	
Portfolio 1	Risk-free portfolio
Portfolio 2	Risk portfolio
Withdrawal method of bad debt provisions in portfolios	
Portfolio 1	Bad debts without calculation and withdrawal treatment
Portfolio 2	Aging analysis method

The bad debt provision is withdrawn by the aging analysis method in the portfolio:

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

### 3. Receivables with insignificant single amount and singly withdrawn bad debt provision

Reasons for separate provision of bad debt provision	Mean that the single amount at the end of the period fails to reach above standard (1) or the debtor has suffered from insolvency, bankruptcy risk, debt restructuring, mergers and acquisitions, etc. according to the information collected by the Company, and the accounts receivable of the client who influences the normal credit obligation performance of the debtor is recognized to be the accounts receivable with large portfolio risk.
Withdrawing method for bad debt provision	The impairment test is separately implemented for the accounts receivable of this portfolio at the end of the period. In case objective evidence proves the impairment, according to the difference between the present value of future cash flow and the book value of the same, recognize the impairment loss and withdraw bad debt provision, wherein the nonevent impairment is included in the financial asset portfolio with similar credit risk characteristics for impairment test.

### (X) Inventories

#### 1. Classification of inventories

Inventories are classified into: raw materials, revolving materials, inventory goods, 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.

### **(XI) Contract assets(Applicable from January 1, 2021)**

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".

### **(XII) Long-term equity investments**

#### **1. Classification of long-term equity investment 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 are 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 investment

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 original equity investment is classified as available-for-sale financial asset, the difference between fair value and book value as well as the accumulative fair value changes recognized through other comprehensive incomes originally shall be transferred to current profits and losses measured based on 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, transportation equipment, electronic equipment, and Instruments and apparatus. 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	10-20	5	9.5-4.75
Machinery and equipment	Straight-line method	5-20	5	19-4.75
Transportation equipment	Straight-line method	4-5	5	23.75-19
Electronic equipment, instruments and apparatus	Straight-line method	3-10	5	31.67-9.5

### (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 (Applicable from January 1, 2021)**

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.

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

Item	Expected service life	Basis
Land use right	50 years	Expected service life
Software	3-5 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 (Applicable from January 1, 2021)**

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**

Employee remuneration 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, dismissal welfare and other long-term employee welfare.

##### **1. Accounting treatment method of short-term benefits**

The actual Short-term benefits 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 dismissal 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 termination benefits**

Recognized employee remuneration liabilities generated by the termination benefits 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 dismissal 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 dismissal welfares.

If the dismissal 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 benefits will apply; if the termination benefits 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 (Applicable from January 1, 2021)**

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 (Applicable from January 1, 2021)**

#### **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 hydrogen, isobutylene, methyl tert butyl ether (MTBE), propylene, mixed pentane. 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) Income (Applicable before January 1, 2021)**

#### **1. Recognition of incomes from goods sales**

The main risks and rewards related to the ownership of goods have been transferred to the buyer by the Company; there is neither continuous management right generally associated with ownership retained, nor effective control imposed on selling goods made by the Company; the amount of incomes can be reliably measured; the related economic interests are likely to flow into the Company; The realization of incomes from sales of goods is recognized when the related costs incurred or to be incurred can be reliably measured.

The amount of income from sales of goods is determined according to the price of the contract or agreement received or receivable from the buyer, unless the price of the contract or agreement received or receivable is unfair; if the collection of the price as stipulated in the contract or agreement is deferred and it has the financing nature substantially, it shall be determined in accordance with the fair value as stipulated in the contract or agreement. The difference between the price stipulated in the contract or agreement and its fair value shall be amortized within the term of the contract or agreement employing the effective interest method and shall be recognized through current profits and losses.

#### **2. Recognition of the income from rendering labor services**

The income from rendering labor services should be recognized through percentage-of-completion method if the transaction result of the rendering of labor services can be estimated reliably on the balance sheet date. The completion progress of the rendering of labor services shall be measured and recognized according to the measurement of completed work.

On the balance sheet date, the transaction result of the rendering of labor services that cannot be



estimated reliably should be handled separately according to the following conditions:

If the service cost occurred is expected to be compensated, the income from rendering labor services shall be recognized in accordance with the amount of the cost of labor services occurred, and the cost of labor services shall be carried forward at the same amount.

If the occurred labor service cost is anticipated to not be compensated, it shall be recognized through current profits and losses, and the income from rendering labor services shall not be recognized.

### **3. Income recognition of the assignment of the right to use assets**

Related economic interests are likely to flow into the enterprise, and the amount of the incomes can be measured reliably. Under the following situations, the incomes from the assignment of right to use assets shall be recognized:

The amount of interest income should be calculated and determined according to the length of time for which the enterprise's monetary capital is used by others and the effective interest rate.

The amount of royalty income shall be measured and determined in accordance with the chargeable time and method of charging as stipulated in the relevant contract or agreement.

### **4. Recognition of contract income**

#### **(1) The result of the construction contract can be reliably estimated**

Should the result of a construction contract be estimated reliably on the balance sheet date, the contract income and cost should be recognized by the percentage-of-completion method. The term "percentage-of-completion method" means a method by which the contractor recognizes its incomes and expenses in the light of the completion progress of the contract. The completion progress of the contract will be determined as per the ratio of the actually accumulative occurred contract cost to the total estimated contract cost.

The basis for reliable estimation and determination of the result of the fixed-cost contract:

- ① Total contract incomes can be reliably measured;
- ② The economic interests related to the contract are more likely to flow into the Company;
- ③ The contract costs actually incurred can be clearly differentiated and reliably measured;
- ④ The completion progress of the contract and cost to be incurred for the completion of contract could be reliably confirmed.

The basis for reliable estimation and determination of the result of the cost-plus contract:

- ① The economic interests related to the contract are more likely to flow into the Company;
- ② The contract costs actually incurred can be clearly differentiated and reliably measured.

If the total estimated contract cost exceeds the total contract income, the estimated contract loss shall be confirmed as asset impairment losses and shall be recognized through current profits and losses. After contract completion, the estimated contract loss provision shall be written-off.

#### **(2) The result of the construction contract cannot be reliably estimated**

If the results of the construction contract cannot be reliably estimated, it shall be handled as per the following situations:

- ① If the contract costs are recoverable, the contract income shall be confirmed by the recoverable actual contract costs and the contract costs are confirmed as the contract expenses in the current period of occurrence.

If the contract costs cannot be recovered, it shall be immediately recognized as contract expenses rather than the confirmation of contract income at the time of occurrence.

### **5. The specific principles and methods for recognizing company income and carrying forward costs**

Main business of the Company: the production and sales of hydrogen, isobutylene, methyl tert-butyl ether (MTBE), propylene, and mixed pentanes. The Company has delivered the products to the client according to the contract and has recovered the payment for goods or obtained the receipt certificate and the client has accepted the product, and the related economic interests are likely to inflow.

The main risks and rewards related to the ownership of the goods have been transferred, and the legal ownership of the goods has been transferred. The incomes from sales of goods shall be recognized.

**(XXVI) Contract costs (Applicable from January 1, 2021)**

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.

**(XXVII) 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 are used to write down the book value of underlying 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.

In the case of recognized government subsidies needing to be drawn back, the Company needs to carry out accounting treatment in the current period when drawing back is necessary, namely to adjust the book value of assets in the case of writing off the book value of underlying assets during initial recognition.

**(XXVIII) Deferred tax assets and liabilities**

For the difference between the book value of some assets and liabilities and tax assessment basis and temporary difference resulted from the difference between the book value of the items which have

not been confirmed as asset and liabilities, but can be confirmed in the aspect of tax assessment basis according to tax laws, balance sheet liability method shall be used to confirm deferred income tax assets and liabilities.

Generally, all temporary differences are recognized as relevant deferred income tax. For deductible temporary differences, the related deferred income tax assets will be recognized with the taxable incomes of deductible temporary differences that are likely to be deducted in the future as the limit. Besides, for temporary difference related to initial recognition of goodwill, or related to initial recognition of assets or liabilities resulted from transactions which are not business merger and do not influence accounting profit and taxable income (or deductible loss), relevant deferred income tax assets or liabilities shall not be confirmed.

For deductible loss and tax deduction which can be carried forward to subsequent years, corresponding deferred income tax assets shall be confirmed, with the future taxable income which may be obtained to offset deductible loss and tax deduction as the limit.

The deferred income tax liabilities generated from the taxable temporary differences that relate to the investment of subsidiaries, associated enterprises and joint ventures will be recognized by the Company, and the temporary differences may not be reversed in the foreseeable future unless the Company can control the time reversing such temporary differences. For deductible temporary differences related to the investment of subsidiaries, associated enterprises and joint ventures, the deferred income tax assets can be recognized by the Company only if it is possible for the temporary difference to be reversed in the foreseeable future, and taxable incomes for deducting the deductible temporary differences can be obtained in the future. On the balance sheet date, the deferred income tax assets and liabilities are measured based on the applicable tax rate during the period of expected recovery of underlying assets or paying off relevant liabilities in accordance with tax laws.

Excluding the income tax and deferred income tax of the current period related to transactions and events recognized through other comprehensive incomes or shareholders' equities, and the book value of goodwill adjusted for deferred income tax resulting from the business merger, all other income taxes and deferred income tax expenses or incomes of the current period are recognized through current profits and losses.

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, 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.

When the Company has a legal right to settle at a net amount and it intends to settle at a net amount or to acquire assets and settle liabilities simultaneously, the income tax assets and income tax liabilities of the current period will be presented at a net amount after offsetting.

When the Company has a legal right to settle the income tax assets and income tax liabilities of the current period at a net amount, and the deferred income tax assets and deferred tax liabilities are related to income tax levied by the same tax collection and administration department on the same taxpayer or are related to different taxpayers, but in each significant period of reversal of deferred income tax assets and liabilities, the related taxpayers intend to settle the same at a net amount or simultaneously acquire assets and settle liabilities, the deferred income tax assets and deferred tax liabilities will be presented at a net amount after offsetting.

## **(XXIX) Leasing (Applicable from January 1, 2021)**

### **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.

#### **(XXX) 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 main individual investors and the close family members of the Company;
10. The key management personnel and close family members of the Company or its parent company;
11. Other enterprises controlled or jointly controlled by the main individual investors, key management personnel of the Company or the close family members thereof;

In addition to those identified as the Company's related parties in accordance with the relevant requirements of the Accounting Standards for Business Enterprises, the following enterprises or individuals (including but not limited to) are also considered related parties of the Company as per the requirements of the *Measures for the Administration of Information Disclosure by Listed Companies* issued by the China Securities Regulatory Commission:

12. Enterprises or persons acting in concert holding more than 5% of the Company's shares;
13. Individuals directly or indirectly holding more than 5% of the Company's shares and their close family members, as well as supervisors of listed companies and their close family members;
14. Enterprises that have existed in any of the situations described in items 1, 3, and 11 above within the past 12 months or will exist in such situations within the next 12 months according to relevant agreements or arrangements;
15. Individuals who have existed in any of the situations described in items 9 and 12 above within the past 12 months or will exist in such situations within the next 12 months according to relevant agreements or arrangements;
16. Enterprises other than the Company and its controlled subsidiaries that are directly or indirectly controlled by, or have directors or senior management personnel appointed by, the individuals mentioned in items 9, 12, and 14 above.

In addition to the related parties of the Company listed above, the following parties also constitute related parties:

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

#### **(XXXI) Other main accounting policies, accounting estimates and preparation method of financial statements**

##### **1. Other significant accounting policies**



None.

## **2. Important accounting estimates and judgments**

In the process of applying the above accounting policies, due to the inherent uncertainty of operating activities, the Company needs to judge, estimate and assume the book value of statement items that cannot be accurately measured. These judgments, estimates and assumptions are based on the historical experience of the Management of the Company and other key factors. Differences may exist in the actual results and the Company's estimations.

The Company shall regularly reexamine the above judgments, estimations and assumptions on the basis of going concern. If the changes in accounting estimates only have influence in the current period, the influenced amount will be recognized during the changing period; if the changes can influence the current period and future period, the influenced amount will be recognized in the current period and future period.

On balance sheet date, key assumptions and uncertainties in book value of assets and liabilities in future period caused by accounting estimates mainly are:

### **(1) Income tax**

In normal operating activities, the certain uncertainty exists in the ultimate tax treatment and calculation for some transactions and matters so the Company shall make major judgments when withdrawing the income tax expenses of the regions. Tax authorities need to examine and approve whether some items can be disbursed before taxes. If the final recognition result of these tax matters is different from the amount initially booked, the difference will influence the income tax expenses and the amount of deferred income taxes of the final recognition period. Additionally, the reversal of the deferred income tax assets depends on whether the Company can generate the enough taxable income to deduct the deductible temporary difference in the coming year. If the future profitability deviates from relevant estimations, then the value of the deferred income tax assets shall be adjusted so that the Company's financial situation and operating performance may be influenced.

### **(2) Depreciation and amortization**

After considering the residual value of fixed assets and intangible assets, the Company accrues depreciation and amortization on a straight-line method basis over the service life. The Company periodically reexamines the service life to determine the amount of depreciation and amortization expenses to be recognized through each reporting period. The service life is determined by the Company according to the previous experience of the same kind of assets, in combination with the predicted technology updating. In the event of a significant change in previous estimates, adjustments will be made to depreciation and amortization expenses in future periods.

### **(3) Service life of fixed assets**

The Management of the Company shall estimate the service life of the fixed assets. Such estimation shall base on the historical experience of the service life of fixed assets with the similar property and functions in previous years. When the service life is different from that estimated previously, the Management will adjust the expected service life of the fixed asset accordingly or write off or eat up the corresponding fixed asset accordingly when scrapping or selling the relevant equipment lag in technology. Therefore, the estimation result according to the existing experience may be different from the actual result during the next accounting period so it may result in the major adjustment in the book value and depreciation expenses of the fixed assets in the balance sheet.

### **(4) Impairment of non-financial long-term assets**

The Company shall evaluate the impairment of the non-financial assets on the balance sheet date to confirm whether the recoverable amount of assets depreciates to be lower than the book value. If the situation shows that the book value of such assets exceeds its recoverable amount, its difference will be confirmed as impairment loss.

Recoverable amount is the higher one between the net amount gained after deducting disposal cost from the fair value of assets (or asset group) and present value of expected future cash flow of assets (or



asset group). When estimating the present value of future cash flows, it is necessary to make a significant judgment on the future service life, output of the product, selling price, related operating costs and discount rate used in calculating the present value of the asset (or asset group). The Company uses all available information in estimating the recoverable amount, including projections of production, selling prices and associated operating costs based on reasonable and supported assumptions. If the future matters do not conform to such estimations, the recoverable amount will need to be revised, and such revision may generate influence on the Company's operating performance or financial situation.

#### **(5) Withdrawal of bad debt provisions**

Estimation of the Management of the Company on the amount of bad debt provisions for the accounts receivable withdrawn shall be confirmed based on the clients' credit record and the current market situation. The Management shall measure the amount of bad debt provisions again before each balance sheet date. The difference between the actual result and the original estimate will affect the book value of receivables and the reserve or reversal of bad debt provisions during the period when the estimate is changed.

#### **(6) Inventory falling price provision**

According to the inventory accounting policies, the Company measures according to the lower of cost and net realizable value, and withdraws inventory falling price provisions for inventories whose cost is higher than net realizable value and obsolete, and unsalable inventories. The impairment of inventories to the net realizable value is based on assessing the salability of inventories and their net realizable values. The appraisal of inventory impairment requires the Management to make judgments and estimates based on unambiguous evidence, and considering factors, such as the purpose of holding inventories and the influence of events after the balance sheet date. The difference between the actual result and the original estimate will affect the book value of inventories and the reserve or reversal of falling price provisions during the period when the estimate is changed.

### **(XXXII) Significant changes in accounting policies and accounting estimates**

#### **1. Significant changes in accounting policies**

##### **(1) Implementation of the *Accounting Standards for Business Enterprises No. 21 - Leasing* (revised in 2018) was implemented**

The Company has adopted the revised *Accounting Standards for Business Enterprises No. 21 - Leasing* (CK [2018] No. 35) (hereinafter referred to as the "New Lease Standards") issued by the Ministry of Finance on December 7, 2018, effective from January 1, 2021. According to the provisions for the connection of the New Lease Standards, the Company has chosen not to reassess whether contracts existing prior to the first execution date constitute leases or contain leases.

- As a lessee, the Company has chosen the following scenario for the transition to the New Lease Standards based on actual circumstances.

The Company has elected to adjust the cumulative effect of initially applying these standards to the retained earnings and other relevant financial statement items as of January 1, 2021, without adjusting the information for comparable periods.

For finance leases existing prior to the first execution date, the Company measures right-of-use assets and lease liabilities at the original book values of finance lease incoming assets and financial leasing payables, respectively, at the first execution date.

As for the operating lease having existed before the first execution date, the Company measures lease liabilities in accordance with the remaining lease payment and the discounting present value subject to the incremental loan rate on the first execution date of the Company, and chooses the following methods to measure the right-of-use assets in accordance with each lease. Essential adjustments are conducted to the amount equivalent to lease liabilities in accordance with prepayments.

As for operating lease before the first execution date, the Company applies the above methods and also adopts the following one or more items to simplify the process in accordance with each lease:

- 1) The lease to be completed within 12 months after the first execution date is viewed as



short-term lease for disposal;

2) When measuring lease liabilities, the same discount rate is used for leases with similar characteristics; Right-of-use assets are measured with initial direct expenses excluded;

3) When any renewal option or the lease termination option exists, the lease term is recognized in line with the actual exercising of the option and other up-to-date state before the first execution date;

4) As an alternative to the impairment test for right-of-use assets, whether a contract containing the lease is a loss contract is evaluated before the first execution date in accordance with "III. (XXIII) Estimated Liabilities" in the Notes, and the right-of-use assets are adjusted according to the loss reserve amount recognized through the balance sheet to replace the impairment test of right-of-use assets;

5) The lease change occurring before the beginning of the year when the New Lease Standards are executed for the first time isn't subject to retroactive adjustment and the accounting treatment is performed in accordance with the final arrangement of lease change and New Lease Standards.

- The Company acts as the lessor

As for operating lease confirmed before the first execution date and sublease still existing after the first execution date, the Company carries out reevaluation on the first execution date based on the remained contract period and clauses of the original lease and sublease and shall be classified by the provisions of the New Lease Standards. In case of reclassification as finance lease, the Company shall regard it as a new finance lease for accounting treatment.

Except for sublease, the Company doesn't need to adjust the lease based on the Company as lessor in light of the New Lease Standards. The Company conducts accounting treatment pursuant to the New Lease Standards as of the first execution date.

**(1) Implementation of the Accounting Standards for Business Enterprises No. 14 - Income (CK [2017] No. 22)**

The Company has adopted the revised *Accounting Standards for Business Enterprises No. 14 - Income* (CK [2017] No. 22), issued by the Ministry of Finance on July 5, 2017, with effect from January 1, 2021 (hereinafter referred to as the "New Income Standards"). The Company has ceased to apply *Accounting Standards for Business Enterprises No. 14 - Income* and *Accounting Standards for Business Enterprises No. 15 - Construction Contracts* in the *Notice of 38 Specific Standards including the Accounting Standards for Business Enterprises No. 1 - Inventories* [CK [2006] No. 3] printed and distributed by the Ministry of Finance on February 15, 2006. According to the provisions for the connection in the New Income Standards, the Company, based on the cumulative impact of contracts that were incomplete at the first execution date, choose to adjust the retained earnings and other relevant financial statement items as of January 1, 2021, without adjusting the information for comparable periods. For contract change occurred before January 1, 2021, the Company adopts simplified treatment to identify the performed and unperformed performance obligations, determines the transaction price and the apportioned transaction price between the performed and unperformed performance obligations for all contracts according to the final arrangement of contract changes.

Major impacts on the financial statements as a result of the Company's implementation of the New Income Standards are as follows:

Content and reasons for changes in accounting policies	Approval procedures	Affected statement items	Affected balance amount on January 1, 2021
Reclassify advance receipts received from clients based on sales orders or contracts into contract liabilities and other current liabilities	Board of directors	Advance receipts	
		Contract liabilities	
		Other current liabilities	

Compared with the original income standards, the impact of implementing the New Income Standards on relevant items in 2021 financial statements is as follows:

Balance sheet:



Affected items of balance sheet	Affected amount (December 31, 2021)
Advance receipts	
Contract liabilities	
Other current liabilities	
Profit statement:	
Affected profit statement items	Affected amount (Year 2021)
Main business cost	
Sales expenses	

**(2) Implementation of the Accounting Standards for Business Enterprises No. 22 - Financial Instruments Recognition and Measurement (CK [2017] No. 7) Accounting Standards for Business Enterprises No. 23 - Transfer of Financial Assets (CK [2017] No. 8), Accounting Standards for Enterprises No. 24 - Hedge Accounting (CK [2017] No. 9) and Accounting Standards for Enterprises No. 37 - Presentation of Financial Instruments (CK [2017] No. 14)**

The Company has adopted the revised *Accounting Standards for Business Enterprises No. 22 - Financial Instruments Recognition and Measurement* (CK [2017] No. 7), *Accounting Standards for Business Enterprises No. 23 - Transfer of Financial Assets* (CK [2017] No. 8), *Accounting Standards for Enterprises No. 24 - Hedge Accounting* (CK [2017] No. 9), and *Accounting Standards for Enterprises No. 37 - Presentation of Financial Instruments* (CK [2017] No. 14), issued by the Ministry of Finance between March and May 2017, with effect from January 1, 2021 (collectively referred to as the "New Financial Instrument Standards"). According to the provisions for the connection, the Company has applied the New Financial Instrument Standards retrospectively, but has not adjusted the information for comparable periods. The difference between the original book value and the new book value on the date of the implementation of the New Financial Instrument Standards, of the financial instruments must be recognized through the retained earnings or other comprehensive income as of January 1, 2021.

In terms of the classification and measurement of the financial assets, the financial assets are based on the characteristics of their contractual cash flows and enterprise management, according to the requirements of the New Financial Instrument Standards; the business model of such assets is classified into three categories such as the "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 and its changes are recognized through current profits and losses". The original classifications like loans, receivables, held-to-maturity investments and available-for-sale financial assets are cancelled. The equity instrument investment is generally classified as a financial asset that is measured at fair value and whose changes are recognized through current profits and losses. The enterprises are also allowed to designate a non-trading equity instrument investment as financial assets measured at fair value with their changes included in other comprehensive incomes. The designation is irrevocable; the accumulative fair value changes that are previously included into other comprehensive incomes must not be carried over and included into the current profits and losses in the case of disposal.

For the impairment of the financial assets, the requirements regarding the impairment in the New Financial Instrument Standards are applicable to the financial assets measured at amortized cost, those classified as measured at fair value with their changes included in other comprehensive incomes, lease receivables, receivables and contract assets and financial guarantee contracts. In accordance with the requirements of the New Financial Instrument Standards, the expected credit loss model is adopted to replace the original credit loss model. The new impairment model requires to be a three-stage model, based on whether the credit risk has increased significantly since initial recognition of the relevant projects; the accruing of credit loss provisions is based on the expected credit loss within 12 months or



the entire duration. There is a simplified method for the accounts receivable, contract assets and lease receivables, which allows the impairment provisions to be recognized consistently for the expected credit losses during the entire duration.

Major impacts on the financial statements as a result of the Company's implementation of the New Financial Instrument Standards are as follows:

Content and reasons for changes in accounting policies	Approval procedures	Affected statement items	Affected amount January 1, 2021
None			

**Explanation of adjustments to various items upon implementation of the New Financial Instrument Standards on January 1, 2021:**

- **The comparison table of results of the financial statements for the classification and measurement of financial assets in accordance with the Original Financial Instruments Standards and the New Financial Instrument Standards on January 1, 2021:**

Original Financial Instruments Standards			New Financial Instrument Standards		
Presenting item	Measurement category	Book value	Presenting item	Measurement category	Book value
Monetary capital	Amortized cost (loans and receivables)	9,367,873.50	Monetary capital	Amortized cost	9,367,873.50
Other receivables	Amortized cost (loans and receivables)	3,138,708.40	Other receivables	Amortized cost	3,138,708.40

- **Credit loss adjustment schedule in the financial statement on January 1, 2021:**

Financial asset item	Impairment provision confirmed according to the Original Financial Instruments Standards	Reclassification	Re-measurement	Credit loss provision confirmed according to the New Financial Instrument Standards
Financial assets measured at amortized cost:				
Notes receivable				
Accounts receivable				
Other receivables	51,440.23			51,440.23
Long-term receivables				

**2. Significant changes in accounting estimates**

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

**3. The adjustments made to relevant items in the financial statements at the beginning of the year of initial implementation of the New Financial Instrument Standards, New Income Standards, and New Lease Standards**

**BALANCE SHEET**

Unit: Yuan Currency: CNY

Item	December 31, 2021	December 31, 2020	Adjustment
<b>Current assets:</b>			
Cash and Cash equivalents	9,367,873.50	9,367,873.50	-
Financial assets held for trading			
Financial assets at fair value through profit or loss			
Derivative financial assets			
Notes receivable			
Accounts receivable			
Financing receivables			
Prepayments	2,987,692.58	2,987,692.58	
Other receivables	3,138,708.40	3,138,708.40	
Including: Interest receivable			
Dividends receivable			
Inventories	168,059,210.14	168,059,210.14	
Contract assets			
Assets classified as held for sale			
Non-current assets due within one year			
Other current assets			
<b>Total current assets</b>	<b>183,553,484.62</b>	<b>183,553,484.62</b>	<b>-</b>
<b>Non-current assets:</b>			
Debt investments			
Available-for-sale financial assets			
Other debt investments			
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	9,000,000.00	9,000,000.00	
Other equity instrument investments			
Other non-current financial assets			
Investment properties			
Fixed assets	1,089,266,702.80	1,089,266,702.80	
Construction in progress	73,964,937.74	73,964,937.74	
Productive biological assets			
Oil and gas assets			
Right-of-use assets			
Intangible assets	28,541,066.96	28,541,066.96	
Development expenditures			
Goodwill			
Long-term prepaid expenses			
Deferred tax assets	9,586.97	9,586.97	
Other non-current assets			
<b>Total non-current assets</b>	<b>1,200,782,294.47</b>	<b>1,200,782,294.47</b>	<b>-</b>
<b>Total assets</b>	<b>1,384,335,779.09</b>	<b>1,384,335,779.09</b>	<b>-</b>



Item	December 31, 2021	December 31, 2020	Adjustment
<b>Current liabilities:</b>			
Short-term borrowings			
Financial liabilities held for trading			
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities			
Notes payable			
Accounts payable	16,447,255.35	16,447,255.35	
Receipts in advance	95.16	95.16	
Contract liabilities			
Payroll and employee benefits payable	2,740,000.00	2,740,000.00	
Taxes payable	53,611,999.64	53,611,999.64	
Other payables	189,180.97	189,180.97	
Including: Interest payable			
Dividends payable			
Liabilities classified as held for sale			
Non-current liabilities due within one year			
Other current liabilities			
<b>Total current liabilities</b>	<b>72,988,531.12</b>	<b>72,988,531.12</b>	
<b>Non-current liabilities:</b>			
Long term borrowings	736,250,000.00	736,250,000.00	
Bonds payable			
Including: Preferred Share			
Perpetual bond			
Lease liabilities			
Long-term accounts payable			
Long-term payroll and employee benefits payable			
Estimated liabilities			
Deferred income			
Deferred tax liabilities			
Other non-current liabilities			
<b>Total non-current liabilities</b>	<b>736,250,000.00</b>	<b>736,250,000.00</b>	
<b>Total liabilities</b>	<b>809,238,531.12</b>	<b>809,238,531.12</b>	
<b>Owners' equity (or shareholders' equity):</b>			
Paid-in capital(Or Share capital)	400,000,000.00	400,000,000.00	
Other equity instruments			
Including: Preferred Share			
Perpetual bond			
Capital reserve			
Less: Treasury shares			

Item	December 31, 2021	December 31, 2020	Adjustment
Other comprehensive income			
Special reserve			
Surplus reserve	17,883,903.18	17,883,903.18	
Retained earnings	157,213,344.79	157,213,344.79	
<b>Total owners' equity (or shareholders' equity)</b>	<b>575,097,247.97</b>	<b>575,097,247.97</b>	
<b>Total liabilities and owners' equity (or shareholders' equity)</b>	<b>1,384,335,779.09</b>	<b>1,384,335,779.09</b>	

#### 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 and consumption tax	5%
Education surcharge	Paid-in VAT and consumption tax	3%
Local education surcharge	Paid-in VAT and consumption tax	2%
House property 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%

##### (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, 2021, the "Beginning of Period" shall mean January 1, 2021, the "Current Period" shall mean the year of 2021, and the "Previous Period" shall mean the year of 2020.

##### (I) Cash and Cash equivalents

Item	Ending balance	Beginning balance
Cash on hand	20,513.11	117.28
Cash at bank	201,096,189.53	9,367,756.22
Other monetary funds		
<b>Total</b>	<b>201,116,702.64</b>	<b>9,367,873.50</b>

##### (II) Accounts receivable



**1. Disclosure by aging**

Aging	Book balance	Bad debt provision	Book value
Within 1 year	26,050,968.91	130,254.84	25,920,714.07
1-2 years			
2-3 years			
Over 3 years			
<b>Total</b>	<b>26,050,968.91</b>	<b>130,254.84</b>	<b>25,920,714.07</b>

**2. Disclosed by bad debt provision methods**

Category	Ending balance				Book value
	Book balance		Bad debt provision		
	Amount	Proportion (%)	Amount	Proportion (%)	
Bad debt provision assessed individually					
Bad debt provision assessed by groups					
Including: Risk-free portfolio					
Risk portfolio	26,050,968.91	100.00	130,254.84	100.00	25,920,714.07
<b>Total</b>	<b>26,050,968.91</b>	<b>100.00</b>	<b>130,254.84</b>	<b>100.00</b>	<b>25,920,714.07</b>

Continued table:

Category	Beginning balance				Book value
	Book balance		Bad debt provision		
	Amount	Proportion (%)	Amount	Proportion (%)	
Bad debt provision assessed individually					
Bad debt provision assessed by groups					
Including: Risk-free portfolio					
Risk portfolio					
<b>Total</b>					

(1) Bad debt provision assessed by groups:

Item	Ending balance		
	Book balance	Bad debt provision	Expected credit loss rate for the whole life (%)
Risk-free portfolio			
Risk portfolio	26,050,968.91	130,254.84	0.5
<b>Total</b>	<b>26,050,968.91</b>	<b>130,254.84</b>	<b>0.5</b>

The risk portfolio includes bad debt provision:

Aging	Ending balance		
	Book balance	Bad debt provision	Expected credit loss rate for the whole life (%)
Within 1 year	26,050,968.91	130,254.84	0.50
1-2 years			1.00
2-3 years			5.00
Over 3 years			10.00
<b>Total</b>	<b>26,050,968.91</b>	<b>130,254.84</b>	

Recognition criteria and description of withdrawal of bad debt provisions in portfolios:

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. The basis for determining the portfolio of accounts receivable is as follows:

Item	Portfolio	Basis for portfolio determination
Credit risk characteristic portfolio	Aging portfolio	Taking into consideration the current situation and forecasts of future economic conditions, the Company calculates the expected credit loss by preparing to the aging of accounts receivable and the expected credit loss rate comparison table over the entire duration of the receivables.
Riskless portfolio	Related parties	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%.

### 3. Preparation of the withdrawn, recovered or withheld bad debt provision of the current period

The amount of bad debt provision withdrew at the current period is RMB 130,254.84.

### 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 (%)	Ending balance of bad debt provision
China Petroleum Construction Co., Ltd. 6th	26,050,968.91	100.00	130,254.84
<b>Total</b>	<b>26,050,968.91</b>	<b>100.00</b>	<b>130,254.84</b>

## (III) Prepayments

### 1. Presentation of Prepayments by aging

Aging	Ending balance		Beginning balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	8,072,293.64	86.56	2,987,692.58	100.00
1-2 years	1,253,535.00	13.44		
2-3 years				
Over 3 years				



Aging	Ending balance		Beginning balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Total	9,325,828.64	100.00	2,987,692.58	100.00

## 2. Information on significant prepaid account entity with ending balances

Item	Ending balance	Proportion of ending balance (%)
Dongming Petroleum Distribution Co., Ltd.	9,307,828.64	99.81
Total	9,307,828.64	99.81

## (IV) Other receivables

### 1. Item presentation

Item	Ending balance	Beginning balance
Interests receivable		
Dividends receivable		
Other receivables	1,352,621.35	3,138,708.40
Total	1,352,621.35	3,138,708.40

### 2. Other receivables

#### (1) Disclosure by aging

Aging	Book balance	Bad debt provision	Book value
Within 1 year			
1-2 years	1,048,543.69	10,485.44	1,038,058.25
2-3 years			
Over 3 years	349,514.56	34,951.46	314,563.10
Total	1,398,058.25	45,436.90	1,352,621.35

#### (2) Classification by the payment nature

Payment nature	Ending book balance	Beginning book balance
Estimated maintenance cost	1,398,058.25	3,050,414.67
Others		126,641.61
Total	1,398,058.25	3,177,056.28

#### (3) Withdrawal of bad debt provision

Bad debt provision	Stage 1	Stage 2	Stage 3	Total
	Expected credit losses in the next 12 months	Lifetime expected credit losses (not credit-impaired)	Lifetime expected credit losses (credit-impaired)	
Balance on January 1, 2022	38,347.88	-	-	38,347.88
The balance on January 1,				

Bad debt provision	Stage 1	Stage 2	Stage 3	Total
	Expected credit losses in the next 12 months	Lifetime expected credit losses (not credit-impaired)	Lifetime expected credit losses (credit-impaired)	
2022 is in the current period				
--Transfer to Stage 2	-			-
--Transfer to Stage 2	-			-
--Return to Stage 2	-			-
--Return to Stage 1	-			-
Provision for the current period	7,089.02			7,089.02
Reversal of current period				
Write-off in the current period				
Current write-off				
Other changes				
December 31, 2022 Balance	45,436.90	-	-	45,436.90

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

Entity name	Ending balance	Aging	Proportion in the total ending balance of other receivables (%)
Shandong JUNHUI Construction Group Co., Ltd.	1,048,543.69	1-2years	75.00
Henan Hongxi Construction Co., Ltd.	349,514.56	Over 3 years	25.00
<b>Total</b>	<b>1,398,058.25</b>		<b>100.00</b>

## (V) Inventories

Item	Ending balance		
	Book balance	Provision for impairment of inventories or provision for impairment of contract performance costs	Carrying amount
Raw materials	123,086,017.76		123,086,017.76
Inventory goods	41,833,449.71		41,833,449.71
Revolving materials	18,342.31		18,342.31
Material purchasing	2,341.28		2,341.28
<b>Total</b>	<b>164,940,151.06</b>		<b>164,940,151.06</b>

Continued table:

Item	Beginning balance
------	-------------------



	Book balance	Provision for impairment of inventories or provision for impairment of contract performance costs	Carrying amount
Raw materials	136,888,669.79		136,888,669.79
Inventory goods	31,155,048.04		31,155,048.04
Revolving materials	15,492.31		15,492.31
Material purchasing			
<b>Total</b>	<b>168,059,210.14</b>		<b>168,059,210.14</b>

**(VI) Long-term equity investments****1. Classification of long-term equity investments**

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				
<b>Total</b>	<b>9,000,000.00</b>			<b>9,000,000.00</b>

**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	
<b>Total</b>		<b>9,000,000.00</b>	

**Continued table:**

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		
<b>Total</b>		<b>9,000,000.00</b>		

**(VII) Fixed assets****1. Item presentation**

Item	Ending balance	Beginning balance
Fixed assets	1,034,741,012.95	1,089,266,702.80
Liquidation of fixed assets		
<b>Total</b>	<b>1,034,741,012.95</b>	<b>1,089,266,702.80</b>

**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	732,672,113.92	476,312,316.95	98,831,661.69	147,346.26	70,601.93	1,308,034,040.75
2. Increase of the current period	29,048,397.17	241,616,239.87	1,198,307.62	8,672.57	155,849.56	272,027,466.79
3. Decrease of the current period	226,467,831.51		219,827.59			226,687,659.10
4. Ending balance	535,252,679.58	717,928,556.82	99,810,141.72	156,018.83	226,451.49	1,353,373,848.44
II. Accumulated depreciation						
1. Beginning balance	77,071,980.55	100,241,843.43	41,360,784.97	78,739.56	13,989.44	218,767,337.95
2. Increase of the current period	35,110,842.34	45,809,070.39	18,966,393.65	36,368.50	33,318.30	99,955,993.18
3. Decrease of the current period			90,495.64			90,495.64
4. Ending balance	112,182,822.89	146,050,913.82	60,236,682.98	115,108.06	47,307.74	318,632,835.49
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	423,069,856.69	571,877,643.00	39,573,458.74	40,910.77	179,143.75	1,034,741,012.95
2. Beginning book value	655,600,133.37	376,070,473.52	57,470,876.72	68,606.70	56,612.49	1,089,266,702.80

**(VIII) Construction in progress****1. Item presentation**

Item	Ending balance	Beginning balance
Construction in progress	14,737,997.10	73,964,937.74
Engineering materials		
<b>Total</b>	<b>14,737,997.10</b>	<b>73,964,937.74</b>

**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	14,737,997.10		14,737,997.10	73,964,937.74		73,964,937.74
<b>Total</b>	<b>14,737,997.10</b>		<b>14,737,997.10</b>	<b>73,964,937.74</b>		<b>73,964,937.74</b>

**(IX) Intangible assets**

Item	Land use right	Software	Total
<b>I. Original book value</b>			
1. Beginning balance	31,641,943.02		31,641,943.02
2. Increase of the current period		125,840.70	125,840.70
3. Decrease of the current period			
4. Ending balance	31,641,943.02	125,840.70	31,767,783.72
<b>II. Accumulated amortization</b>			
1. Beginning balance	3,100,876.06		3,100,876.06
2. Increase of the current period	616,546.99		616,546.99
3. Decrease of the current period			
4. Ending balance	3,717,423.05		3,717,423.05
<b>III. Impairment provision</b>			
1. Beginning balance			
2. Increase of the current period			
3. Decrease of the current period			
4. Ending balance			
<b>IV. Book value</b>			
<b>1. Ending book value</b>	<b>27,924,519.97</b>	<b>125,840.70</b>	<b>28,050,360.67</b>
<b>2. Beginning book value</b>	<b>28,541,066.96</b>		<b>28,541,066.96</b>

**(X) Deferred tax assets**

Item	Ending balance		Beginning balance	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Provision for impairment of assets	175,691.74	43,922.93	38,347.88	9,586.97
Undistributed deficits				
<b>Total</b>	<b>175,691.74</b>	<b>43,922.93</b>	<b>38,347.88</b>	<b>9,586.97</b>

**(XI) Accounts payable**

**1. Disclosure of accounts payable by aging**

Aging	Ending balance	Beginning balance
Within 1 year	583,800.42	11,128,138.42
1-2 years	22,096,925.06	40,723.15
2-3 years	12,564.35	624,907.51
Over 3 years	673,870.15	4,653,486.27
<b>Total</b>	<b>23,367,159.98</b>	<b>16,447,255.35</b>

**2. Accounts payable whose ending balance ranks top five:**

Entity name	Ending balance	Percentage of ending balance (%)	Aging
Dongming Hengchang Chemical Co., Ltd.	6,814,933.62	29.16	1-2 years
Shanghai Heming International Trade Co., Ltd.	4,165,344.14	17.83	1-2 years
Xinneng Energy Co. Ltd.	3,707,263.71	15.87	1-2 years
Dongming Zhong You Fuel Petrochemical Co., Ltd.	2,713,893.46	11.61	1-2 years
Hebei Jinniu Risun Chemical Co., Ltd.	1,840,903.00	7.88	1-2 years
<b>Total</b>	<b>19,242,337.93</b>	<b>82.35</b>	

**(XII) Receipts in advance**

Item	Ending balance	Beginning balance
Within 1 year		95.16
1-2 years		
2-3 years		
Over 3 years		
<b>Total</b>		<b>95.16</b>

**(XIII) Payroll and employee benefits payable****1. List of payroll and employee benefits payable**

Item	Beginning balance	Increase in the current period	Decrease in the current period	Ending balance
I.Short-term benefits	2,740,000.00	33,035,437.53	33,035,437.53	2,740,000.00
II. Post-employment benefits - Defined contribution plan		2,128,229.96	2,128,229.96	
III. Termination benefits				
IV.Other benefits due within one year				
<b>Total</b>	<b>2,740,000.00</b>	<b>35,163,667.49</b>	<b>35,163,667.49</b>	<b>2,740,000.00</b>

**2. List of short-term benefits**



Item	Beginning balance	Increase in the current period	Decrease in the current period	Ending balance
I. Wages or salaries, bonuses, allowances and subsidies	2,740,000.00	28,367,576.90	28,367,576.90	2,740,000.00
II. Staff welfare		1,907,816.86	1,907,816.86	
III. Social security contributions		1,791,372.09	1,791,372.09	
Including: Medical insurance		1,597,287.33	1,597,287.33	
Work injury insurance		194,084.76	194,084.76	
IV. Housing funds		605,664.00	605,664.00	
V. Labor union and employee education costs		363,007.68	363,007.68	
VI. Short-term paid leave				
VII. Short-term profit-sharing plan				
<b>Total</b>	<b>2,740,000.00</b>	<b>33,035,437.53</b>	<b>33,035,437.53</b>	<b>2,740,000.00</b>

**3. List of defined contribution plan**

Item	Beginning balance	Increase in the current period	Decrease in the current period	Ending balance
I. Basic pension insurance		2,039,022.72	2,039,022.72	
II. Unemployment insurance		89,207.24	89,207.24	
III. Enterprise annuity				
<b>Total</b>		<b>2,128,229.96</b>	<b>2,128,229.96</b>	

**(XIV) Taxes payable**

Item	Ending balance	Beginning balance
Unpaid VAT	11,555,397.30	16,562,826.07
Urban maintenance and construction tax payable	577,769.87	828,141.30
Education surcharges payable	577,769.87	828,141.30
Local water conservancy construction fund payable	-	82,814.13
House property tax payable	62,102.80	62,102.80
Urban land use payable	369,474.29	369,474.29
Stamp tax payable	456,659.70	91,011.00
Enterprise income payable	10,985,516.87	34,732,710.23
Individual income tax payable and withheld	35,600.55	54,778.52
<b>Total</b>	<b>24,620,291.25</b>	<b>53,611,999.64</b>

**(XV) Other payables****1. Item presentation**

Item	Ending balance	Beginning balance
Interest payable		

Item	Ending balance	Beginning balance
Dividends payable		
Other payables	1,011,444.53	189,180.97
<b>Total</b>	<b>1,011,444.53</b>	<b>189,180.97</b>

## 2. Other payables

### (1) Other payables presented by aging

Aging	Ending balance	Beginning balance
Within 1 year	894,428.37	105,270.97
1-2 years	37,106.16	33,000.00
2-3 years	33,000.00	35,300.00
Over 3 years	46,910.00	15,610.00
<b>Total</b>	<b>1,011,444.53</b>	<b>189,180.97</b>

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

Item	Ending balance	Aging
China Petroleum 6th Construction Co., Ltd.	643,357.90	Within 1 year
Luban Construction Co., Ltd., Shandong Dongming Petroleum and Chemical Group	100,000.00	Within 1 year
Petrochemical restaurant	88,070.47	Within 1 year
Cao Jianguo	69,108.56	1-3years, Over 3 years
Shandong Lujian Construction Engineering Testing Co., Ltd.	35,000.00	Within 1 year
<b>Total</b>	<b>935,536.93</b>	/

### (XVI) Long term borrowings

Item	Ending balance	Beginning balance
Dongming Sub-branch of Industrial and Commercial Bank of China		31,250,000.00
Fund Management Center	625,000,000.00	705,000,000.00
<b>Total</b>	<b>625,000,000.00</b>	<b>736,250,000.00</b>

### (XVII) Paid-in capital

Name of Shareholder	Beginning balance	The increase and decrease in this change (+/-)					Ending balance
		Increase capital	Pro fit-to-capital conversion	Transfer of provident fund to capital	O thers	Subt otal	
Shandong Dongming Petrochemical Group Co., Ltd.	120,000,000.00						120,000,000.00
Dongming	280,000,000.00						280,000,000.00



Name of Shareholder	Beginning balance	The increase and decrease in this change (+/-)					Ending balance
		Increase capital	Profit-to-capital conversion	Transfer of provident fund to capital	Others	Subtotal	
Hengchang Chemical Co., Ltd.							
<b>Total</b>	<b>400,000,000.00</b>						<b>400,000,000.00</b>

**(XVIII) Surplus reserve**

Item	Beginning balance	Increased amount in the current period	Decreased amount in the current period	Ending balance
Statutory surplus reserves	17,883,903.18	23,739,316.77		41,623,219.95
<b>Total</b>	<b>17,883,903.18</b>	<b>23,739,316.77</b>		<b>41,623,219.95</b>

**(XIX) Retained earnings**

Item	Current period	Last period
Before adjustment: retained earnings of the prior period	157,213,344.79	68,784,486.60
Adjustment: Total retained earnings at the beginning of the reporting period (increase "+", decrease "-")		
After adjustment: retained earnings at the beginning of the reporting period	157,213,344.79	68,784,486.60
Add: Net profit of the current period	237,393,167.68	98,254,286.88
Less: Transfer to statutory surplus reserve	23,739,316.77	9,825,428.69
Transfer to discretionary surplus reserve		
Transfer to general risk reserve		
Declaration of dividends on ordinary shares		
Conversion of ordinary shares' dividends into share capital		
<b>Retained earnings at the end of period</b>	<b>370,867,195.70</b>	<b>157,213,344.79</b>

**(XX) Operating incomes and costs****1. Operating incomes and costs**

Item	Amount incurred in the current period		Amount incurred in the last period	
	Revenue	Cost	Revenue	Cost
Main business	2,910,342,123.62	2,534,230,121.61	1,998,357,332.11	1,846,500,618.66
Other businesses				
<b>Total</b>	<b>2,910,342,123.62</b>	<b>2,534,230,121.61</b>	<b>1,998,357,332.11</b>	<b>1,846,500,618.66</b>

**2. Details of operating incomes**

Goods category	Amount of the current period	Proportion to the Company's main business income (%)
Methyl Tert-Butyl Ether (MTBE)	1,843,058,580.03	63.33
Propylene	665,210,466.13	22.86
Hydrogen	209,609,469.73	7.20
Isobutylene	166,649,339.69	5.72
Mixed pentane	25,814,268.04	0.89
<b>Total</b>	<b>2,910,342,123.62</b>	<b>100.00</b>

**(XXI) Taxes and surcharges**

Item	Accrual in the current period	Accrual in the previous period
Urban maintenance and construction tax	7,294,533.62	4,324,150.01
Education surcharges	4,376,720.17	2,594,490.00
Surcharges for local education	2,917,813.45	1,729,660.00
Local water conservancy construction fund		432,414.99
House property tax	248,411.20	248,411.20
Land use tax	1,477,897.13	1,477,897.16
Stamp tax	456,659.70	91,011.10
Environmental protection tax	26,191.67	
<b>Total</b>	<b>16,798,226.94</b>	<b>10,898,034.46</b>

**(XXII) Administrative expenses**

Item	Accrual in the current period	Accrual in the previous period
Employee remuneration	7,956,402.80	8,537,215.37
Office expenses	44,000.51	42,508.76
Travelling expenses	35,119.52	45,724.47
Business entertainment expense	23,888.00	35,870.00
Conference expense	6,288.06	5,296.98
Coordination fee	40,719.20	70,040.09
Afforestation health fee	487,081.91	510,307.17
Security and fire costs	150,982.50	163,846.81
Maintenance costs	186,160.84	289,728.17
Lease expenses	364,860.00	366,000.00
Labor protection fee	52,954.83	59,602.34
Amortization of intangible assets	616,546.99	613,156.61
Vehicle reform expense	48,974.38	37,648.29
Depreciation expenses	855,543.57	807,276.70
Consulting service fees	1,267,736.02	71,001.04



Item	Accrual in the current period	Accrual in the previous period
Other administrative expenses	425,754.23	774,043.13
<b>Total</b>	<b>12,563,013.36</b>	<b>12,429,265.93</b>

**(XXIII) Financial expenses**

Item	Accrual in the current period	Accrual in the previous period
Interest expenses	32,675,144.10	38,163,795.13
Less: Interest income	995,408.41	268,822.66
Handling fee	17,426.92	16,465.84
<b>Total</b>	<b>31,697,162.61</b>	<b>37,911,438.31</b>

**(XXIV) Other income**

Item	Accrual in the current period	Accrual in the previous period
Government subsidies	300,000.00	
<b>Total</b>	<b>300,000.00</b>	

**(XXV) Credit impairment losses**

Item	Accrual in the current period	Accrual in the previous period
Bad debt loss of Accounts receivable	-130,254.84	
Bad debt loss of Other receivables	-7,089.02	
Contract asset impairment loss		
<b>Total</b>	<b>-137,343.86</b>	

**(XXVI) Assets impairment losses**

项目	Accrual in the current period	Accrual in the previous period
Bad debt losses		51,440.23
Others		
<b>合计</b>		<b>51,440.23</b>

**(XXVII) 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	1,984,000.00		1,984,000.00
Disposal of waste and scrap materials		45,689,098.60	
Others	247,153.86	26,795.37	247,153.86
<b>Total</b>	<b>2,231,153.86</b>	<b>45,715,893.97</b>	<b>2,231,153.86</b>

**(XXVIII) 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	1,237.89		1,237.89
Losses from damage and scrapping of non-current assets		185,391.85	
<b>Total</b>	<b>1,237.89</b>	<b>185,391.85</b>	<b>1,237.89</b>

**(XXIX) Income tax expense****1. Income tax expense statement**

Item	Accrual in the current period	Accrual in the previous period
Income tax expense in the current period	80,087,339.49	37,932,770.16
Changes of deferred tax expense	-34,335.96	12,860.06
<b>Total</b>	<b>80,053,003.53</b>	<b>37,945,630.22</b>

**(XXX) 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
<b>1. Net profit is adjusted to cash flows from operating activities:</b>		
Net profits	237,393,167.68	98,254,286.88
Add: Assets impairment loss	137,343.86	-51,440.23
Depreciation of fixed assets, waste of oil and gas assets and depreciation of productive biological assets	99,955,993.18	98,618,512.71
Depreciation of right of use assets		
Amortization of intangible assets	616,546.99	613,156.61
Amortization of long-term unamortized expenses		
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 "-")		185,391.85
Losses from changes in the fair value (the income is expressed with "-")		
Financial expenses (the income is expressed with "-")	32,675,144.10	38,163,795.13
Investment losses (the income is expressed with "-")		
Decrease of deferred income tax assets (the increase is expressed with "-")	-34,335.96	12,860.06
Increase of deferred income tax liabilities (the decrease is expressed with "-")		



Supplementary information	Amount of the current period	Amount of the previous period
Decrease of inventory (the increase is expressed with "-")	3,119,059.08	-52,846,066.49
Decrease of operational receivables (the increase is expressed with "-")	-30,610,106.94	17,040,154.72
Increase of operational payables (the decrease is expressed with "-")	6,970,388.06	-4,462,948.69
Others		
<b>Net amount of cash flows from operating activities</b>	<b>350,223,200.05</b>	<b>195,527,702.55</b>
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		
<b>Fixed assets under financing lease</b>		
3. Net changes in cash and cash equivalents:		
Ending balance of cash	201,116,702.64	9,367,873.50
Less: Beginning balance of cash	9,367,873.50	138,209,540.68
Add: Ending balance of cash equivalents		
Less: Beginning balance of cash equivalents		
Net increase amount in cash and cash equivalents	<b>191,748,829.14</b>	<b>-128,841,667.18</b>

## 2. Constitution of cash and cash equivalents

Item	Ending balance	Beginning balance
I. Cash	201,116,702.64	9,367,873.50
Including: Cash on hand	20,513.11	117.28
Bank deposit available for payment at any time	201,096,189.53	9,367,756.22
Other monetary capital available for payment at any time		
II. Cash equivalents		
III. Ending balance of cash and cash equivalents	<b>201,116,702.64</b>	<b>9,367,873.50</b>
Including: Restricted cash and cash equivalents of the Company		

### (XXXI) Annotations to Items in the Statement of Changes in Owner's Equity

None.

### (XXXII) Assets with restricted ownership or use rights

None.

## VI. Commitments and contingencies

### (I) Important commitments

As of December 31, 2021, The Company does not have major commitments to be disclosed.

**(II) Contingencies**

As of December 31, 2021, the Company has no significant pending litigation, external guarantee and other contingencies that shall be disclosed.

**VII. Matters after the balance sheet date**

Up to the audit report date, the Company has no matters needing disclosure after the balance sheet date.

**VIII. Other significant matters**

**(I) Corrections of significant accounting errors at prior period**

During the reporting period, there were no corrections of prior period accounting errors using the retrospective restatement method, nor were there any corrections using the future application method.

**(II) Other important matters that have an impact on investor decision-making**

None.

Dongming Qianhai Chemical Co., Ltd.

March 27, 2022







# 营业执照

(副本)

5-1

统一社会信用代码  
91370112705957021A

扫描二维码  
国家企业信用信息公示  
系统查询。了解更多  
登记、备案、许可、  
监管信息。



名称 山东天元会计师事务所有限公司  
类型 有限责任公司  
法定代表人 许健

注册资本 陆佰万元整

成立日期 1999年01月26日

营业期限 1999年01月26日至 年 月 日

经营范围 企业资本(金)验证、审计; 企业会计报表审计; 建设工程预决算审计; 会计业务咨询服务; 会计培训; 房屋租赁(不含融资租赁); 受托提供绩效评价服务以及其他法律法规、国务院决定等规定未禁止和无需经营许可的项目。(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)

住所 济南市二环东路2666号



登记机关

2021年12月09日

证书序号: NO.005922

## 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。
4. 会计师事务所终止, 应当向财政部门交回《会计师事务所执业证书》。



发证机关 山东省财政厅

一九九八年三月一日

中华人民共和国财政部制



# 会计师事务所 执业证书



名称: 山东天元同联会计师事务所有限公司

主任会计师: 许健

办公场所: 济南市二环东路2666号

组织形式: 有限责任

会计师事务所编号: 370100004

注册资本(出资额): 600

批准设立文号: 鲁财会协字[1998]78号

批准设立日期: 1998-12-31







姓名: 陈燕 女  
 出生日期: 1981-03-01  
 工作单位: 山东天汇同泰会计师事务所有限公司  
 身份证号码: 370902198103010094  
 Identity card No.



年度检验登记 2019年  
 Annual Renewal Registration  
 注册会计师  
 年检合格专用章

本证书年检合格，继续有效一年。  
 This certificate is valid for another year after  
 this renewal.



年 月 日  
 Year Month Day

证书编号: 370100042059  
 No. of Certificate

批准注册协会: 山东省注册会计师协会  
 Authorized Institute of CPA

发证日期: 2017 年 03 月 29 日  
 Date of Issuance