

4.10.6 Test method and accounting treatment for the impairment of financial assets of China Enterprise Company Limited and Shanghai Dingbao Real Estate Co., Ltd.:

The Company considers all reasonable and evidence-based information, including forward-looking information, and estimates the expected credit loss of financial assets measured at the amortized cost and financial assets (debt instruments) measured at fair value through the other comprehensive income individually or in portfolio. The measurement of expected credit loss depends on whether there is obvious increase in credit risk following the initial recognition.

If there is obvious increase in credit risk following the initial recognition of such financial instrument, the Company will measure the loss provision at the amount which is equivalent to the amount of the expected credit loss over the entire duration of such financial instrument; if there is no obvious increase in credit risk following the initial recognition of such financial instrument, the Company will measure the loss provision at the amount which is equivalent to the amount of the expected credit loss within 12 months in the future of such financial instrument. Amount increased or reversed of loss provision arising therefrom will be included in the current profit or loss as impairment loss or gain.

Generally, once the overdue period is more than 30 days, the Company may consider that there is obvious increase in credit risk of such financial instrument, unless there is unambiguous evidence that there is no obvious increase in credit risk of such financial instrument following the initial recognition.

If the credit risk of the financial instrument is low on the balance sheet date, the Company will immediately consider that there is no obvious increase in credit risk of such financial instrument following the initial recognition.

If there is objective evidence that any financial asset has had credit impairment, the Company will make the provision for impairment for such financial asset individually.

For accounts receivable, whether or not they contain significant financing components, the Company always measures the loss provision according to the amount equivalent to the expected credit loss over the whole duration.

For the receivables from leasing and the long-term receivables of sales of goods or rendering of services, the Company always measures the loss provision according to the amount equivalent to the expected credit loss over the whole duration.

Except for the financial assets measured at fair value through the current profit or loss, China Enterprise Company Limited should check the book value of financial assets on the balance sheet date. If there is objective evidence that any financial asset has been impaired, the provision for impairment will be made.

(1) Impairment provision for available-for-sale financial assets:

If the fair value of available-for-sale financial assets has significantly declined at the end of the period, or it is expected that the trend of decrease in value is non-temporary after considering of various relevant factors, the impairment will be recognized, and accumulated losses from decreases in fair value originally and directly included in owners' equity will be all transferred out and recognized as impairment loss.

For available-for-sale debt instruments whose impairment losses have been recognized, if their fair values rise in the subsequent accounting period and such rise is objectively related to the matters occurring after the recognition of such impairment losses, the previously recognized impairment losses may be reversed and included in the current profit or loss.

Impairment losses from the investment in available-for-sale equity instruments should not be reversed through the profit or loss.

The Company's recognition criteria for impairment of available-for-sale equity instrument investment: If the fair value of available-for-sale financial assets declines significantly at the end of the period, or it is expected that the trend of such decline is non-temporary after considering various relevant factors, the impairment shall be recognized.

The Company's criteria for judging "significant" decline in the fair value of available-for-sale equity investments: the decline rate exceeds 30% of the investment cost and is non-temporary. Criteria for "non-temporary" decline in fair value decline is: continuous decline for more than two complete accounting years. Calculation method of investment cost is: the consideration to acquire the available-for-sale equity instruments and related taxes and surcharges. Basis for determining the continuous decline period is: calculated after the decline rate exceeds 30% of the investment cost.

(2) Provision for impairment of held-to-maturity investments:

Measurement of impairment loss on held-to-maturity investments is treated in accordance with the measurement method of impairment loss on receivables.

(3) Provision for bad debts of accounts receivable:

1) Receivables with individually significant amount and individual provision for bad debts:

Judgment basis or amount standards for individually significant amount:

Specific criteria for individually significant amount: the receivables with the amount exceeding RMB 5,000,000.00.

Provision method for receivables with individually significant amount and individual provision for bad debts:

The Company shall perform separate impairment tests, make allowance for bad debts at the difference of present value of estimated future cash flows in short of their book values, and include such allowance in the current profit or loss. Receivables that are not impaired through the test are included in related party portfolio or aging portfolio for provision for impairment.

2) **Accounts receivable with provision for bad debts made by portfolio with the credit risk characteristics:**

Basis for determining the portfolio	
Related party portfolio	Portfolio by related party
Aging portfolio	In addition to the related party portfolio and the receivables with individually significant amount and individual provision for bad debts, other receivables shall be classified by aging.
Method of provision for bad debts made by portfolio (aging analysis method, balance percentage method and other methods)	
Name of portfolio	Provision method
Related party portfolio	Subject to separate impairment test
Aging portfolio	Aging analysis method

Provision for bad debts made by aging analysis method in the portfolio:

Aging	Proportion of provision for accounts receivable	Proportion of provision for other receivables
Within 1 year (including 1 year)	5%	5%
1 - 2 years (including 2 years)	5%	5%
2 - 3 years (including 3 years)	10%	10%
3 - 4 years (including 4 years)	20%	20%
4 - 5 years (including 5 years)	50%	50%
Over 5 years	100%	100%

Among the portfolios, the ones requiring provision for bad debts using other method are stated as follows:

Name of portfolio	Proportion of provision for accounts receivable	Proportion of provision for other receivables
Related party portfolio	A separate impairment test shall be made. If there is objective evidence of impairment, the impairment loss is recognized and provision for bad debts is made at the difference of the present value of future cash flows in short of the book value. No provision for bad debts will be made if no impairment is found out from the separate test.	

3) **Receivables with individually insignificant amount and individual provision for bad debts:**

Reasons for individual provision of bad debts: there is objective evidence of impairment.

Method of provision for bad debts: a separate impairment test shall be made. If there is objective evidence of impairment, the impairment losses shall be recognized and relevant provisions for bad debts shall be made at the difference of the present value of future cash flows in short of the book value. For the accounts receivable and other receivables proved to be not impaired through separate test, the provision for bad debts is made using the aging analysis method.

4.10.7 Test method and accounting treatment for the impairment of financial assets of Shanghai Yaohua Pilkington Glass Group Co., Ltd.

(1) Impaired items

The Company carries out impairment accounting treatment on the following items and recognizes the loss provision based on the expected credit loss:

- 1) Financial assets measured at the amortized cost and financial assets measured at fair value through other comprehensive income based on the classification criteria.
- 2) Lease receivables.
- 3) Loan commitment and financial guarantee contract.

The expected credit loss model is not applicable to other financial assets measured at fair value held by the Company, including financial assets measured at fair value through the current profit or loss, financial assets designated to be measured at fair value through other comprehensive income (non-trading equity instrument investment) and derivative financial assets.

(2) Recognition and measurement of provision for impairment

Except for the purchased or originated financial assets with credit impairment and the financial assets with loss provision always measured at the amount equivalent to the expected credit loss over the whole duration, the Company assesses whether the credit risk of related financial instruments has increased significantly since initial recognition on each balance sheet date, and measures its loss provision and recognizes the expected credit loss and its changes according to the following different situations:

If the credit risk of the financial instrument has not increased significantly since the initial recognition and is in the first stage, the Company will measure its loss provision according to the amount equivalent to the expected credit loss of the financial instrument over the next 12 months, regardless of whether the Company assesses the credit loss based on a single financial instrument or a group of financial instruments, and the increased or reversed amount of the loss provision will be included in the current profit or loss as impairment losses or gains.

If the credit risk of the financial instrument has increased significantly since the initial recognition and is in the second stage, the Company will measure its loss provision according to the amount equivalent to the expected credit loss of the financial instrument over the whole duration, regardless of whether the Company assesses the credit loss based on a single financial instrument or a group of financial instruments, and the increased or reversed amount of the loss provision will be included in the current profit or loss as impairment losses or gains.

For financial assets with credit impairment and in the third stage, on the balance sheet date, the Company only recognizes the cumulative changes of expected credit losses over the whole duration after initial recognition as loss provision. On each balance sheet date, the Company records the change amount of the expected credit loss over the whole duration as impairment losses or gains in the current profit or loss. Even if the expected credit loss over the whole duration determined on the balance sheet date is less than the amount of the expected credit loss reflected by the estimated cash flow at the time of initial recognition, the Company will recognize the favorable change of the expected credit loss as impairment gains.

For financial assets classified to be measured at fair value through other comprehensive income (debt instrument investments), the Company recognizes its loss provision in other comprehensive income, and includes the impairment losses or gains into the current profit or loss, without deduction of book value of such financial assets listed in the balance sheet.

Where the Company has measured the loss provision at the amount equivalent to the expected credit loss of the financial instrument over the whole duration in the previous accounting period but on the current balance sheet date, the financial instrument is no longer in a situation where the credit risk has increased significantly since the initial recognition, the Company will measure the loss provision of the financial instrument according to the amount equivalent to the expected credit loss over the next 12 months on the current balance sheet date, and the reversal amount of the loss reserve thus formed shall be included in the current profit or loss as impairment gains.

When the Company cannot obtain sufficient evidence of a significant increase in credit risk at a reasonable cost at the level of a single instrument, it will evaluate whether the credit risk has increased significantly on a portfolio basis.

For all kinds of financial instruments subject to the provisions on impairment of financial instruments in this policy, the Company shall determine its credit losses using the following methods:

- 1) For financial assets, the credit loss is the present value of the difference between the contract cash flow collected and the cash flow expected to be collected by the Company.
- 2) For leasing receivables, the credit loss is the present value of the difference between the contract cash flow collected and the cash flow expected to be collected by the Company.
- 3) For unused loan commitment, the credit loss shall be the present value of the difference between the contract cash flow collected and the cash flow expected to be collected by the Company when the loan commitment holder uses the corresponding loan.
- 4) For a financial guarantee contract, the credit loss shall be the estimated payment amount paid by the Company to the contract holder for the credit loss incurred, minus the present value of the difference between the amount the Company expects to collect from the contract holder, the debtor or any other party.

- 5) For the financial assets with non-purchased/ originated credit impairment on the balance sheet date, the credit loss is the difference between the book balance of the financial assets and the present value of the estimated future cash flow discounted at the original actual interest rate.

(3) **Obvious increase in credit risk**

The Company determines whether the credit risk of a financial instrument has increased significantly by comparing the default probability of the financial instrument over the estimated duration determined at the initial recognition with the default probability of the financial instrument over the estimated duration determined on the balance sheet date. Except for special circumstances, the Company adopts the change of default risk in the next 12 months as a reasonable estimate of the change of default risk in the whole duration to determine whether the credit risk has increased significantly since the initial recognition.

If the Company determines that the financial instrument has only low credit risk on the balance sheet date, it can be assumed that the credit risk of the financial instrument has not increased significantly since the initial recognition. Generally, once the overdue period is more than 30 days, the Company may consider that there is obvious increase in credit risk of such financial instrument, unless there is unambiguous evidence that there is no obvious increase in credit risk of such financial instrument following the initial recognition.

(4) **Impairment of notes receivable and accounts receivable**

For notes receivable and accounts receivable, regardless of whether there is any significant financing component therein, the Company measures the loss provision according to the expected credit loss over the entire duration. When individual notes receivable and accounts receivable cannot assess the expected credit loss at a reasonable cost, the Company divides the notes receivable and accounts receivable into several portfolios based on the credit risk characteristics, and calculates the expected credit losses on a portfolio basis. If there is objective evidence that any note receivable and account receivable has had credit depreciation, the Company will make individual provision for bad debts regarding the note receivable and account receivable and recognize the expected credit losses. For the notes receivable and accounts receivable classified into a portfolio, the Company makes reference to the historical credit loss experience, combined with the current situation and the forecast of future economic conditions, and calculate expected credit losses through risk exposure at default and the expected credit loss rate for the entire duration.

Portfolios of notes receivable and accounts receivable:

Name of portfolio	Basis for determining portfolio
Portfolio 1 of notes receivable	Commercial acceptance bills beyond the scope of consolidation
Portfolio 2 of notes receivable	Commercial acceptance bills within the scope of consolidation
Portfolio 3 of notes receivable	Bank acceptance bills
Portfolio 1 of accounts receivable	Clients classified by aging
Portfolio 2 of accounts receivable	Accounts of related parties within the scope of consolidation

(5) **Impairment of other receivables**

For the other receivables classified into a portfolio, the Company makes reference to the historical credit loss experience, combined with the current situation and the forecast of future economic conditions, and calculate expected credit losses through risk exposure at default and the expected credit loss rate for the next 12 months or the entire duration.

4.11 Receivables

Receivables include accounts receivable and other receivables, etc. The accounts receivable generated from external sales of goods or rendering of services by the Company are initially recognized at the fair value of the consideration which shall be received by the purchaser under the contract or agreement. Receivables are presented, by using the effective interest method, at the net amount of the amortized costs less the provision for bad debts.

The allowance for bad debts of receivables is accrued by combining individual test and portfolio test (aging analysis). The individual tests include:

4.11.1 Provision for bad debts of receivables with individually significant amount:

Judgment basis or amount standards for individually significant amount:

Specific criteria for individually significant amount: the receivables with the amount exceeding RMB 10,000,000.00.

Method for provision for bad debts of receivables with individually significant amount

The Company shall perform separate impairment tests, make allowance for bad debts at the difference of present value of estimated future cash flows in short of their book values, and include such allowance in the current profit or loss. In addition to the receivables with the provision for impairment upon separate recognition, if there are no impaired receivables during separate test, they will be included in the aging portfolio for the provision for bad debts.

4.11.2 Receivables with provision for bad debts made by portfolio:

Basis for determining the portfolio	
Aging portfolio	In addition to the receivables with the provision for impairment upon separate recognition, the portfolio of other receivables shall be classified by aging.
Method of provision for bad debts made by portfolio	
Name of portfolio	Provision method
Aging portfolio	Aging analysis method

Aging analysis method <1>: for the companies except for the listed companies China Enterprise Company Limited, Shanghai Building Materials (Group) Co., Ltd., Shanghai Rainbow Investment Corp, EXPO Shanghai (Group) Co., Ltd. and Shanghai Urban Renewal Construction Development Co., Ltd..

Aging	Proportion of provision for accounts receivable	Proportion of provision for other receivables
Within 1 year (including 1 year)	5%	5%
1 - 2 years (including 2 years)	10%	10%
2 - 3 years (including 3 years)	30%	30%
Over 3 years	60%	60%

Aging analysis method <2>: Shanghai Building Materials (Group) Co., Ltd. (Except for SYP Glass and Intelligent Curtain Wall) uses aging analysis method to accrue the provision for bad debts

Aging	Proportion of provision for accounts receivable	Proportion of provision for other receivables
Within 1 year (including 1 year)	5%	5%
1 - 2 years (including 2 years)	10%	10%
2 - 3 years (including 3 years)	50%	50%
Over 3 years	100%	100%

Aging analysis method <3>: Shanghai Bright Intelligent Curtain Wall Co., Ltd. under the subsidiary Shanghai Building Materials (Group) Co., Ltd. uses aging analysis method to accrue the provision for bad debts

Aging	Proportion of provision for accounts receivable	Proportion of provision for other receivables
Within 1 year (including 1 year)	5%	5%
1 - 2 years (including 2 years)	10%	10%
2 - 3 years (including 3 years)	30%	30%
3 - 4 years (including 4 years)	50%	50%
4 - 5 years (including 5 years)	80%	80%
Over 5 years	100%	100%

Aging analysis method <4>: Shanghai Rainbow Investment Corp uses aging analysis method to accrue the provision for bad debts

Aging	Proportion of provision for accounts receivable	Proportion of provision for other receivables
Within 1 year (including 1 year)	0%	0%
1 - 2 years (including 2 years)	5%	5%
2 - 3 years (including 3 years)	30%	30%
3 - 5 years (including 5 years)	50%	50%
Over 5 years	100%	100%

Aging analysis method <5>: EXPO Shanghai (Group) Co., Ltd. uses aging analysis method to accrue the provision for bad debts

Aging	Proportion of provision for accounts receivable	Proportion of provision for other receivables
Within 1 year (including 1 year)	5%	5%
1 - 2 years (including 2 years)	10%	10%
2 - 3 years (including 3 years)	20%	20%
3 - 4 years (including 4 years)	50%	50%
4 - 5 years (including 5 years)	50%	50%
Over 5 years	100%	100%

Aging analysis method <6>: Shanghai Urban Renewal Construction Development Co., Ltd. uses aging analysis method to accrue the provision for bad debts.

Aging	Proportion of provision for accounts receivable	Proportion of provision for other receivables
Within 1 year (including 1 year)	0%	0%
1 - 2 years (including 2 years)	5%	5%
2 - 3 years (including 3 years)	15%	15%
3 - 4 years (including 4 years)	80%	80%
Over 4 years	100%	100%

4.11.3 Accounts receivable with individually insignificant amount and individual provision for bad debts:

Reasons for individual provision for bad debts:

Aging is old, and indication of impairment exists.

Method of provision for bad debts:

The impairment loss shall be recognized and the provision for bad debts shall be made at the balance of book value of estimated future cash flows less the present value thereof.

4.12 Inventories

4.12.1 Classification of inventories

Inventories are classified into: development cost, land to be developed, developed products, engineering construction, property engineering, raw materials, low-value consumables, production cost, self-made semi-finished products, finished products, inventory commodities, and entrusted processing materials, etc.

4.12.2 Evaluation methods of acquisition and dispatching inventories

For routine accounting, they are valued at actual cost when acquired;

For the inventories used for paying debts in kind by the debtor obtained through debt reconstructing, their recorded value shall be determined based on the book value of creditor's rights receivable; the recorded value of the inventories exchanged from non-monetary transactions shall be determined based on the book value of the assets exchanged.

The inventories are measured at weighted average method or specific identification method when dispatched.

4.12.3 Amortization method for low-cost consumables

Low-cost consumables are amortized at lump-sum method.

4.12.4 Accounting methods of land for development use

For the pure land development project, the expenditure separately constitutes land development cost.

For the overall real estate development project, if the object bearing the expense of the project is clear, the expenses will be generally amortized at the actual area and included in the commercial housing cost.

4.12.5 Accounting method for public facilities expenses

Public facilities which cannot be transferred for compensation: allocated and included in the commercial housing cost based on recognition criteria of income percentage;

Public facilities which can be transferred for compensation: by taking various supporting infrastructure projects independent as costs accounting objects, collect the costs incurred.

4.12.6 Accounting method for maintenance funds

The maintenance funds were withdrawn according to the *Administrative Measure for the Commercial Housing Maintenance Funds in Shanghai* and the administrative measures for maintenance funds in other places, and included in the development costs.

4.12.7 Accounting method for quality guarantee deposit

According to the retention ratio and payment term of the quality guarantee deposit stipulated in the civil engineering and installation contracts, the quality guarantee deposit shall be reserved and deducted from the civil engineering and installation project funds receivable. The maintenance expenses incurred due to quality during the warranty period shall be deducted and charged here, and shall be liquidated after the warranty period ends.

4.12.8 Inventory system

The perpetual inventory system is adopted.

4.12.9 Determining basis of net realizable value of inventories and accrual method for inventory provision

After the comprehensive inventory count at the end of the period, the inventory provision is accrued or adjusted at the lower of their costs or net realizable values.

Inventory depreciation reserve will be made at the end of the period on an individual basis.

If the previous factor rendering the write-down of the inventory value has been eliminated, the amounts written down will be recovered, and reversed in the amount of provision for depreciation of inventories, and the reversed amounts are included in the current profit or loss.

4.13 Assets held for sale

The Company recognizes non-current assets or disposed asset portfolios meeting the following conditions at the same time as assets held for sale:

- (1) According to the general practice for selling such kind of asset or disposed asset portfolio in the similar transaction, the asset or portfolio can be immediately sold in the prevailing circumstance;
- (2) The sale of the asset or portfolio is very likely to happen, which means that the Company has made a resolution for one selling plan and had acquired decided purchase commitment, and it is estimated that the sale will be completed within one year. Where the sale can be done only upon the approval of relevant authorities or regulatory authorities of the Company as required by relevant provisions, the approval has been obtained.

4.14 Long-term equity investments

4.14.1 Determination of investment costs

- (1) Long-term equity investments acquired through business combination
- Business combination under common control: if the Company pays a consideration to the combinee in cash, by transferring non-cash assets or by assuming debts and issuing equity securities, the share of book value of its owners' equity in the combinee in the consolidated financial statements of the ultimate controller shall be recognized, on the combination date, as the initial cost of the long-term equity investment. If there is a difference between the initial investment cost of the long-term equity investment and the total of book values of the paid cash, transferred non-cash assets and of assumed debts as well as the face value of issued share, the difference shall be used to adjust the share premium in the capital reserve; and if the stock premium in the capital reserve is insufficient to be offset, retained earnings shall be adjusted. In case the Company can exercise control over the investee under common control due to additional investment or other reasons, the initial investment cost of long-term equity investments is recognized at the share of book value of net asset of the acquiree after the combination in the consolidated financial statements of the ultimate controller on the combination date. The stock premium is adjusted at difference between the initial investment cost of the long-term equity investment on the combination date and the sum of the book value of the long-term equity investment before combination plus the book value of the consideration newly paid with shares acquired on the combination date; and if the share premium is insufficient to be offset, retained earnings will be offset.

Business combination not under common control: the Company recognizes the combination cost determined on the combination date as the initial investment cost of long-term equity investments. If the Company can exercise control over the investee not under the common control as a result of additional investment or other reasons, the sum of the book value of the equity investment previously held plus the newly increased investment costs will be regarded as the initial investment cost measured by the cost method.

The intermediary service charges, including audit, legal service, evaluation and consultancy fees and other relevant administrative expenses incurred for business combination shall be charged to the current profit or loss when they are incurred. Transaction expenses incurred for issuance of equity or debt securities as consideration for business combination shall be included in the initial recognition amount of those equity securities or debt securities.

- (2) Long-term equity investments acquired by other means
- For the long-term equity investment acquired from cash payment, the initial investment cost is the actually paid purchasing cost.

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

On the premise that non-monetary asset trade is of commercial nature and the fair value of the asset traded in or out can be measured reliably, the initial cost of a long-term equity investment traded in with non-monetary asset should be determined according to the fair value of the asset traded out and relevant taxes and surcharges payable, unless any unambiguous evidence indicates that the fair value of the asset traded in is more reliable; as to the non-monetary asset trade not meeting the aforesaid premise, the book value of the asset traded out and relevant taxes and surcharges payable should be recognized as the initial cost of the long-term equity investment.

For a long-term equity investment acquired from debt restructuring, its initial cost is determined based on the fair value.

4.14.2 Subsequent measurement and recognition of profits or losses

- (1) Long-term equity investment accounted for under the cost method
 Long-term equity investments of the Company in its subsidiaries are accounted for by the cost method. Except for the actual price paid for acquisition of investment or the cash dividends or profits contained in the consideration which have been declared but not yet distributed, the Company recognizes the current investment income based on the cash dividends or profits enjoyed by the Company and declared to be distributed by the investee.
- (2) Long-term equity investment accounted for under the equity method
 Long-term equity investments of the Company in associates and joint ventures are accounted for by the equity method. For the positive difference between the initial cost of investment and the investor's share of the fair values of the investee's net identifiable assets on acquisition of the investment, no adjustment to the initial cost of such long-term equity investment is made; for the negative difference between the initial cost of investment and the investor's share of the fair values of the investee's net identifiable assets on acquisition of the investment, such difference is recorded into the current profit or loss.

The Company shall, based on its attributable share of the net profit or loss and other comprehensive income realized by the investee, respectively recognize the investment income and other comprehensive income, and simultaneously adjust the book value of the long-term equity investment. The Company shall, in the light of the profits or cash dividends that the investee declares to distribute, reduce the book value of the long-term equity investment correspondingly. As to any change in owners' equity of the investee other than net profit or loss, other comprehensive income and profit distribution, the Company shall adjust the book value of the long-term equity investment and include such change in the owners' equity.

The Company shall, based on the fair value of net identifiable net assets of the investee when the investment is made, recognize its attributable share of the net profits or losses of the investee after the adjustment made to the net profit of the investee according to the accounting policies and accounting period of the Company. When holding the investment, if the investee prepares the consolidated financial statements, the said profits or losses will be measured based on the amount of the net profit, other comprehensive income and other changes in owners' equity attributed to the investee presented in the consolidated financial statements.

The Company calculates its attributable profit or loss of internal transactions that are not realized arising among itself, associates and joint ventures based on its attributable percentage and offset it, and determines the investment income on that basis. For internal trading profits or losses that have not occurred with the investee, they will be fully recognized if they belong to the asset impairment losses. For the asset investment or sale transactions with associates or joint ventures, the accounting treatment shall be carried out in accordance with relevant policies as disclosed in Note 4.4 and 4.5.

When the Company confirms that it should share losses of the investee, treatment shall be done in following sequence: Firstly, the book value of the long-term equity investment shall be reduced. Secondly, where the book value is insufficient to cover the share of losses, investment losses are recognized to the extent of book value of other long-term equity which form net investment in the investee in substance and the book value of long term receivables shall be reduced. Finally, after all the above treatments, if the Company is still responsible for any additional liabilities in accordance with the provisions stipulated in the investment contracts or agreements, estimated liabilities are recognized and included in current investment loss according to the obligations estimated to undertake. If the investee achieves profit in subsequent periods, the Company shall, after deducting any unrecognized investment losses, reduce book value of estimated liabilities recognized, restore book values of other long-term equity which form net investment in the investee in substance, and of long-term equity investment according to the reversed sequence described above, and recognize investment income at the same time.

(3) Disposal of long-term equity investments

For the disposal of long-term equity investments, the difference between the book value and the actual purchase price is included in the current profit or loss.

Where a long-term equity investment is accounted for under the equity method, accounting treatment shall be made on the part which is originally included in other comprehensive income according to corresponding ratio by using the same basis for the investee to directly dispose of the relevant assets or liabilities when the investments are disposed of. Owner's equity recognized at the changes in the investee's other owner's equity other than net profit or loss, other comprehensive income and profit distribution shall be carried over to the current profit or loss pro rata, except for other comprehensive income from changes arising from the investee's re-measurement of net liabilities or net assets of defined benefit plan.

In case the common control or significant influence over the investee is lost for disposing part of equity investments or other reasons, the remaining equity will be accounted for according to the recognition and measurement principles of financial instruments, while the difference between the fair value and the book value on the date of the loss of common control or significant influence is included in the current profit or loss. For other comprehensive income that is recognized from original equity investment by using the equity method, the accounting treatment will be made on the basis the same as that for the direct disposal of related assets or liabilities by the investee when the accounting by the equity method is terminated. Owner's equity recognized from the investee's changes in other owner's equity other than net profit or loss, other comprehensive income and profit distribution should all transferred to the current profit or loss when the equity method is no longer adopted.

In case the control over the investee is lost due to disposal of part of equity investments or other reasons, in the preparation of individual financial statements, the remaining equity after the disposal that can exercise joint control or exert significant influence over the investee shall be accounted for in the equity method, and such remaining equity shall be adjusted as if it had been accounted for in the equity method since the time of acquisition; the remaining equity after disposal that cannot exercise joint control or exert significant influence over the investee shall be subject to account treatment according to the relevant provisions of the recognition and measurement criteria for financial instruments, and the difference between the fair value on the date when the control is lost and the book value shall be included into the current profit or loss.

In case the disposed equity is acquired from additional investments or other reasons, when the Company prepares the individual financial statements, where the remaining equity after the disposal is accounted for under the cost method or the equity method, other comprehensive income and other owner's equity recognized from the accounting of equity investments held before the acquisition date under the equity method shall be transferred according to the proportion; where accounting treatment of the remaining equity after the disposal is changed to be made according to the recognition and measurement principles of financial instruments, all of other comprehensive income and other owner's equity shall be transferred.

4.14.3 Basis for determining joint control and significant influence over the investee

Joint control refers to the control shared over an arrangement in accordance with the relevant stipulations, and the decision-making of related activities of the arrangement should not be made before the party sharing the control right agrees the same. Where the Company exercises common control over the investee together with other parties to the joint venture, and enjoys the right on the investee's net assets, the investee shall be a joint venture of the Company.

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not the power to control or jointly control the formulation of such policies with other parties. Where an investor is able to have significant influences on an investee, the investee shall be the Company's associate.

4.14.4 Impairment test method and provision method for impairment

Where there is any sign of impairment on a long-term equity investment, an impairment test should be made.

Where the recoverable amount is in short of its book value, the provision for impairment shall be provided. Once recognized, the impairment loss of such long-term equity investment will not be reversed.

4.15 Investment property

The investment property refers to the real estate held for earning rentals or / and capital appreciation. Investment properties include leased land use right, land use right held for transfer upon appreciation and leased building.

The Company, on the basis of the acquisition cost, carry out an initial measurement, and carry out an subsequent measurement on investment property by employing the cost method on the balance sheet date. For investment property measured by using the cost model, the buildings for lease shall be depreciated by using policies the same as used for fixed assets of the Company, and the land use rights for lease shall be amortized by using the same policies as applicable to intangible assets.

If any indication of impairment exists, the recoverable amounts of investment property shall be estimated. If the recoverable amounts are lower than their carrying amounts, the corresponding impairment losses shall be recognized.

Impairment losses from investment property shall not be reversed once recognized.

4.16 Fixed assets

4.16.1 Recognition criteria of fixed assets

Fixed assets are tangible assets that are held for use in the production of goods or supply of services, for rental to others, or for administrative purposes and have useful life of more than one accounting year.

Fixed assets should be recognized only when they meet the following conditions at the same time: economic benefits related to the fixed assets are likely to flow into the enterprise and the cost of the fixed assets can be measured reliably.

The Company initially measures its fixed assets based on their actual costs on acquisition.

4.16.2 Classification and depreciation policies for fixed assets

Depreciation of the Company's fixed assets is provided on a category basis using the straight-line method. The depreciation rates are determined according to the categories, estimated useful lives and estimated net residual rates of fixed assets. Where various components of fixed assets are different in useful lives or bring economic benefits for the enterprise in different ways, then the Company should choose different depreciation rates or methods to separately provide for depreciation. Specifically, for fixed assets of which provision for impairment has been made, the depreciation rate shall be determined based on the fixed assets deducting the accumulated amount of provision for impairment withdrawn.

The Company should review useful lives, estimated net residual rate and depreciation methods of the fixed assets at the end of each year. For any differences between the estimated useful life and the previous estimates, the useful life of the fixed assets shall be adjusted; for any differences between the estimated net residuals and the previous estimates, the estimated net residual shall be adjusted.

For fixed assets acquired under finance leases, if it is reasonably certain that the ownership of the leased assets will be obtained by the end of the lease term, they shall be depreciated over their remaining useful lives; otherwise, the leased assets shall be depreciated over the shorter of the lease terms or their remaining useful lives.

The provision for depreciation should be made when the fixed assets have reached the working condition for their intended use and ceased at the time of derecognition or the fixed assets are classified as non-current assets held for sale.

Depreciation lives and annual depreciation rates of fixed assets are listed by category as follows:

Category of fixed assets	Estimated useful life	Net residual value rate	Annual depreciation rate
Buildings and constructions	5-64 years	0%-10%	20.00%-1.48%
General equipment	1-20 years	0%-10%	100.00%-4.50%
Special equipment	3-20 years	3%-10%	32.33%-4.50%
Transportation equipment	3-10 years	3%-10%	32.33%-6.00%
Fixed assets acquired under finance lease	45 years	5%	2.11%
Decoration of fixed assets	2-10 years	---	50.00%-10.00%
Improvement of fixed assets acquired under the operating lease	58 months	---	20.69%
Other equipment	3-20 years	0%-10%	33.33%-4.5%

4.16.3 Accounting treatment of subsequent expenses of fixed assets

Subsequent expenses of fixed assets refer to expenses from updating and improvement, repair costs of fixed assets during use.

For the subsequent renovation and transformation expenses of fixed assets meeting the Company's recognition criteria of fixed assets, they shall be included in costs of fixed assets after deducting the book value of replaced part; for repair expenses of fixed assets not meeting such recognition criteria, they shall be recorded into current profit or loss when incurred.

4.16.4 Recognition criteria and method of provision for impairment of fixed assets

The Company assesses whether there is any indication that fixed assets may be impaired at the end of each period.

If there is any indication that the fixed assets may be impaired, the Company estimates its recoverable amount. The recoverable amounts of fixed assets are the higher of their fair values less costs to sell and the present values of the future cash flows expected to be derived the fixed assets.

If the recoverable amounts of fixed assets are lower than their book values, the book values of the assets shall be written down to their recoverable amounts. The write-downs are recognized as impairment losses and charged to profit or loss for the current period. Provisions for impairment loss on the fixed assets are made accordingly.

After the impairment loss of the fixed asset is recognized, the depreciation for impairment of fixed assets will be adjusted in future periods to allow that the adjusted book value (less net estimated residual value) of the fixed assets is systematically amortized over their remaining useful life.

Impairment losses of fixed assets shall not be reversed in subsequent accounting periods once recognized.

If any indication suggests that a fixed asset may be impaired, the Company estimates the recoverable amount of the individual asset. If it is difficult to estimate the recoverable amount of the individual asset, the Company estimates the recoverable amount of the asset group that the individual asset belongs to.

4.16.5 Recognition basis and valuation method for fixed assets acquired under finance lease

The fixed assets acquired under finance lease are recognized if one of the following conditions is specified by the Company and the leaser in their lease agreement:

- (1) Upon the expiration of the lease term, the ownership of the leased asset has been transferred to the Company;
- (2) The Company has the option to purchase the asset and the purchase price is far lower than the asset's fair value at the time of the option being exercised;
- (3) The lease term covers the most of the useful life of the leased asset;
- (4) There is no large difference between the present value of the minimum lease payments on the lease commencement date and the fair value of the asset.

On the lease commencement date, the Company takes the fair value of the leased asset or the present value of the minimum lease payment (whichever is lower) as the entry value of the leased asset, and takes minimum lease payments as the book value of long-term payables, and the difference between them is deemed as unrecognized financing expenses.

4.17 Construction in progress

4.17.1 Initial measurement of construction in progress and criteria for conversion of construction in progress into fixed assets

The Company's costs of construction in progress are determined according to actual project expenses, including all necessary project expenses incurred during the construction period, the borrowing costs that shall be capitalized before the construction reaches its condition for the intended use and other related expenses.

Constructions in progress are transferred to fixed assets when they reach the condition for its intended use.

The book-entry values of the fixed asset are stated at the necessary expenses incurred before the construction in progress reaching the working condition for its intended use. Where the construction in progress of a fixed asset reached working conditions for its intended use but the completion of settlement has not been handled, the estimated construction value shall be transferred into the fixed assets based on construction budget, cost or actual cost of construction, etc., and the depreciation of fixed assets shall be withdrawn according to the Company's policy on fixed assets depreciation; when the completion of settlement is finished, the original estimated value shall be adjusted at the actual cost, but the depreciation already withdrawn shall not be adjusted.

4.17.2 Recognition criteria and method of provision for impairment of construction in progress

The Company assesses whether there is any indication that construction in progress may be impaired at the end of each period.

If there is any indication that construction in process may be impaired, the Company estimates its recoverable amounts. If there is any indication that construction in progress may be impaired, the Company shall estimate the recoverable amount on the basis of single construction. If it is difficult to estimate the recoverable amount of single construction, the Company shall determine the recoverable amount of the assets group that such construction belongs to.

The recoverable amounts of construction in progress are the higher one between the net amount of fair values less the disposal fees and the present values of the estimated future cash flows of the construction in progress.

If the recoverable amounts of construction in progress are lower than their book values, the book values of the construction in progress are written down to their recoverable amounts. The write-downs are recognized as impairment losses of the construction in progress and included in the current profit or loss. Provisions for impairment of the construction in progress are made accordingly.

Once recognized, the impairment loss of construction in progress will not be reversed in subsequent accounting period.

4.18 Borrowing costs

4.18.1 Recognition criteria of capitalization of borrowing costs

The borrowing costs incurred to the Company and directly attributable to the acquisition and construction or production of assets eligible for capitalization should be capitalized and included in relevant asset costs; other borrowing costs should be recognized as costs based on the amount incurred and be included in the current profit or loss.

Borrowing costs may be capitalized only when all the following conditions are met at the same time:

- (1) Asset disbursements, which include those incurred by cash payment, the transfer of non-cash assets or the undertaking of interest-bearing debts for acquiring and constructing or producing assets eligible for capitalization, have already been incurred;
- (2) Borrowing costs have already been incurred; and
- (3) The acquisition and construction or production activities which are necessary to prepare the assets for their intended use or sale have been in progress.

4.18.2 Capitalization period for borrowing costs

Capitalization period refers to the period from the commencement of capitalization of borrowing costs to its cessation, excluding the period of capitalization suspension of borrowing costs.

The capitalization of borrowing costs should be ceased when the acquired and constructed or produced assets eligible for capitalization have reached their intended use or sale condition.

When some projects among the acquired and constructed or produced assets eligible for capitalization are completed and can be used separately, the capitalization of borrowing costs of such assets should be ceased.

Where construction for each part of assets purchased, constructed or manufactured has been completed separately but can be used or sold only after the entire assets have been completed, capitalization of borrowing costs should cease at the completion of the entire assets.

4.18.3 Period of capitalization suspension

If the acquisition, construction or production activities of assets eligible for capitalization are abnormally interrupted and such condition lasts for more than three months, the capitalization of borrowing costs should be suspended; if the interruption is necessary procedures for the acquired, constructed or produced assets eligible for capitalization to reach the working conditions for their intended use or sale, the borrowing costs continue to be capitalized. Borrowing costs incurred during the interruption are recognized as the current profit or loss and continue to be capitalized until the acquisition, construction or production of the assets restarts.

4.18.4 Method of calculating the capitalization rate and capitalized amounts of borrowing costs

As for special borrowings borrowed for acquiring and constructing or producing assets eligible for capitalization, borrowing costs of special borrowings actually incurred in the current period less the interest income from indrawn borrowings deposited in the bank or investment income from temporary investment should be recognized as the capitalization amount of borrowing costs.

As for general borrowings used for acquiring and constructing or producing assets eligible for capitalization, the interest of general borrowings to be capitalized should be calculated by multiplying the weighted average of asset disbursements of the part of accumulated asset disbursements exceeding special borrowings and the capitalization rate of used general borrowings. The capitalization rate is calculated by weighted average interest rate of general borrowings.

Where there are discounts or premiums on borrowings, amounts of discounts or premiums should be amortized in each accounting period by the effective interest method, and the amount of interest for each accounting period should be adjusted.

4.19 Intangible assets

4.19.1 Recognition of intangible assets

The "intangible assets" refers to the identifiable non-monetary assets which have no physical shape and are possessed or controlled by the Company. Intangible assets will only be recognized when all the following criteria are satisfied:

- (1) It is probable that the economic benefits relating to the intangible assets may flow into the Company;
- (2) The costs of the fixed assets can be measured reliably.

4.19.2 Measurement of intangible assets

- (1) The Company initially measures intangible assets at cost on acquisition;
The costs of externally purchased intangible assets include purchase prices, relevant taxes and surcharges and other directly attributable expenses incurred to prepare the assets for their intended uses. If the payment for an intangible asset is delayed beyond the normal credit conditions and it is of the financing nature, the cost of the intangible asset shall be determined on the basis of the present value of the purchase price.

The intangible assets acquired which the debtor uses to pay back the debt in debt restructuring should be recognized at the fair value of the intangible assets. The difference between the book value of restructured debts and the fair value of intangible assets used to pay back the debt should be included in the current profit or loss;

On the premise that non-monetary assets trade is of commercial nature and the fair value of the assets traded in or out can be measured reliably, the entry value of the intangible assets traded in by the trade of non-monetary assets should be recognized at the fair value of the assets traded out, unless there's unambiguous evidence indicating that the fair value of the assets traded in is more reliable; as to the non-monetary assets trade not meeting the aforesaid premise, the book value of the assets traded out and related taxes and surcharges payable should be recognized as the cost of the intangible assets traded in, with profit or loss not recognized.

For intangible assets acquired from business combination under common control, the initial book value are recognized at the book value of the combinee; for intangible assets acquired from business combination not under common control, the initial book value are recognized at the fair value.

Costs of intangible assets developed internally and independently include: the costs of materials and labor services used to develop the intangible assets, the registration fee, the amortization of other patents and franchise used in the process of development, the interest of capitalization, and other direct expenses for preparing the intangible assets for their intended use.

(2) Subsequent measurement of intangible assets

The useful lives of the intangible assets are analyzed and determined on their acquisition.

For intangible assets with definite useful lives, the straight-line amortization method is adopted in the period when such intangible assets bring economic benefit to the enterprise; if such period cannot be estimated, the intangible assets will be deemed as intangible assets with indefinite useful lives and will not be amortized.

4.19.3 Estimate of useful lives of intangible assets with definite useful lives

The useful lives and amortization method of intangible assets with limited useful lives are reviewed at the end of each period.

Upon review, the useful life and amortization method of the intangible assets as at the end of the year are not different from those estimated before.

4.19.4 Determination basis of intangible assets with indefinite useful lives

The Company has no intangible assets with indefinite useful lives as at December 31, 2019.

4.19.5 Provision for impairment of intangible assets

For the intangible assets with definite useful lives, in case of any obvious indication of impairment, the impairment test will be conducted at the end of the period.

For the intangible assets with indefinite useful lives, the impairment test will be conducted at the end of the period.

Impairment test will be conducted for intangible assets, and the recoverable amount thereof will be estimated. If evidence suggests that an intangible asset is impaired, the Company will estimate its recoverable amount on an individual basis. If it is difficult for the Company to estimate the recoverable amount of the individual asset, the recoverable amount of an asset group to which the said intangible asset belongs will be determined.

The recoverable amount of the asset is the higher of the net amount of the fair value of intangible assets less disposal expenses or the present value of the estimated future cash flows of the intangible assets.

If the recoverable amount of an intangible asset is lower than its book value, the book value will be written down to the recoverable amount. The amount written down should be recognized as impairment loss of the intangible asset and included in the current profit or loss; meanwhile, corresponding provision for impairment of the intangible asset will be made.

After the confirmation of impairment loss of intangible assets, the depreciation or amortization cost of the impaired intangible assets will be adjusted accordingly in the future for amortizing the book values (deducting the estimated net residual value) of adjusted intangible assets over their remaining useful lives on a systematic basis.

The impairment loss of intangible assets should not be reversed in subsequent accounting periods, once recognized.

4.19.6 Specific criteria for classification of research phase and development phase of the Company's internal research and development projects

The Company's internal research and development expenses include those incurred in the research phase and those in the development phase.

Research phase: Research phase is the stage when creative and planned investigation and research activities are conducted to acquire and understand new scientific or technological knowledge.

Development phase: Development phase is the phase when the research achievements and other knowledge are applied to a plan or design, prior to the commercial production or use, so as to produce any new or substantially improved material, device or product.

4.19.7 Specific criteria for qualifying expenses on the development phase for capitalization

Expenditures arising from the development phase of internal research and development projects are recognized as intangible assets when the following conditions are met simultaneously:

- (1) It is feasible technically to finish intangible assets for use or sale;
- (2) It is intended to finish and use or sell the intangible assets;
- (3) The ways how the intangible assets generate economic benefits include the way where it is able to prove that the products made by using the intangible assets exist a market or that the intangible assets themselves have the market, and the way where the serviceability of the intangible assets can be proved in case they are used internally;
- (4) It is able to finish the development of the intangible assets and to use or sell the same with the support of sufficient technologies, financial resources and other resources; and
- (5) The expenditure attributable to the intangible assets during its development phase can be measured reliably.

If the above conditions are not satisfied, the development expenditure will be included in the current profit or loss when it occurs. THE research expenditure is included in the current profit or loss when it occurs.

4.20 Goodwill

For goodwill arising from business combination under common control, its initial cost is the difference of the acquisition cost in excess of the share of fair value of the acquiree's net identifiable assets acquired in the combination.

Goodwill will be transferred out upon the disposal of the related asset group or portfolio of asset groups, and included in the current profit or loss.

The Company does not amortize the goodwill, but conducts the impairment test for goodwill at least once at the end of each year.

The Company has conducted an impairment test of goodwill. The book value of goodwill arising from business combination is amortized to related asset groups by the reasonable method as of the purchase date; if it is difficult do so, such value will be amortized to the relevant portfolio of asset groups. The book value of goodwill is amortized to relevant asset group or portfolio of asset groups based on the proportion of the fair value of such asset group or portfolio of asset groups in the total fair value of relevant asset groups or portfolios of asset groups. If the fair value cannot be reliably measured, it will be amortized based on the proportion of the book value of each asset group or portfolio of asset groups in the total book value of relevant asset groups or portfolios of asset groups.

At the time of making an impairment test on the relevant asset groups or portfolios of asset groups containing goodwill, if any indication shows that the goodwill-related asset group or portfolio of asset groups may have been impaired, the Company will firstly conduct an impairment test on the asset groups or portfolios of asset groups not containing goodwill, calculate the recoverable amount and compare it with the relevant book value, to recognize the corresponding impairment loss. Then the Company will conduct an impairment test on the asset group or portfolio of asset groups containing goodwill, and compare the book value of the asset group or portfolio of asset groups (including the book value of the goodwill apportioned thereto) with the recoverable amount. If the recoverable amount of the relevant asset group or portfolio of asset groups is lower than the book value thereof, the Company will recognize the impairment loss of the goodwill.

The impairment loss of goodwill is included in the current profit or loss when incurred and will not be reversed in the subsequent accounting period.

4.21 Long-term deferred expenses

The long-term deferred expenses of the Company include the expenses for improvement of fixed asset and the renovation expenses.

Long-term deferred expenses incurred by the Company are measured at the actual costs and amortized evenly over the estimated beneficial period. If an item of long-term deferred expenses cannot bring any benefit in future accounting periods, the amortized value of such item will all be transferred to the current profit or loss.

4.22 Employee compensation

4.22.1 Short-term compensation

During the accounting period where employees serve the Company, the short-term compensation actually incurred is recognized as a liability and included in the current profit or loss or the assets-related cost.

During the accounting period when employees serve the Company, the social insurance premiums such as the medical insurance premium, work-related injury insurance premium and maternity insurance premium and housing fund, as well as labor union funds and employee education funds paid for employees by the Company are calculated and withdrawn at the withdrawing basis and proportion provided to determine the amount of employee compensation.

Employee welfare expenses in the non-monetary form are measured at fair value.

4.22.2 Dismissal benefits

When the Company fails to unilaterally withdraw the dismissal benefits offered due to the termination of the labor relation plan or layoff proposal, or confirms the costs or fees associated with the reorganization involving the payment of the dismissal benefits (whichever is earlier), the employee compensation liabilities arising from the confirmation of dismissal benefits are included in the current profit or loss.

4.22.3 Post-employment benefits

(1) Defined contribution plan

The Company pays the basic endowment insurance premiums and unemployment insurance for employees according to the relevant provisions of the local governments. During the accounting period when employees serve the Company, the paid amount which is calculated based on the payment base and proportion as stipulated in the provisions of the local place is recognized as liabilities and included in the current profit or loss or assets-related cost.

In addition to the basic endowment insurance, the Company has also established an enterprise annuity contribution system (supplementary endowment insurance) / enterprise annuity plan in accordance with the policies regarding the national enterprise annuity contribution system. The Company pays to the local social insurance agencies at a certain proportion of the total amount of wages of employees, with the corresponding expenditures included in the current profit or loss or assets-related cost.

(2) Defined benefit plan

According to the formula determined based on expected cumulative unit method, the Company will set the period that the welfare obligations deriving from the defined benefit plan, which will be included in current profit or loss or assets-related cost.

A net liability or net asset in connection with the defined benefit plan is recognized at the present value of the obligation under the defined benefit plan less the deficit or surplus arising out of the fair value of the assets under the defined benefit plan. For a surplus of defined benefit plans, the Company should measure the net asset of such defined benefit plans at the lower of the surplus of such defined benefit plans and asset upper limit thereof.

Obligations under the defined benefit plan, including the payment obligation that is expected to be done within 12 months following the annual reporting period when the employees serve for the Company, are discounted at the market yield of the national debt matching with the obligatory term of the defined benefit plan and the currency on the balance sheet date or the bonds of the high-quality companies in the active market.

The service costs of the defined benefit plan and net interest on the net liabilities or net assets in respect of the defined benefit plan are included in the current profit or loss or assets-related costs; changes in the re-measurement of net liabilities or net assets under the defined benefit plan should be included in other comprehensive income and should not be reversed in subsequent accounting periods.

For the settlement of the defined benefit plan, the balance between the present value and the settlement price in regard to the defined benefit plan confirmed on the settlement date is recognized and settled as gains or losses.

4.23 Bonds payable

The publicly offered bonds are initially measured at the amount of the fair value less the transaction cost amount and are measured subsequently based on the amortized cost under the effective interest rate method during the remaining period.

The interest costs are capitalized when they are eligible for capitalization, otherwise they are directly included in the current profit or loss.

4.24 Estimated liabilities

When the Company involves in proceedings, debt guarantees, onerous contracts and reorganization events, if such events may require delivery of assets or rendering of services in the future and the amounts of such events can be reliably measured, such events are recognized as estimated liabilities.

4.24.1 Recognition criteria of estimated liabilities

When an obligation relating to a contingency meets all the following conditions at the same time, it will be recognized as an estimated liability by the Company:

- (1) Such obligation is a present obligation of the Company;
- (2) The performance of such obligation is likely to result in outflow of economic benefits from the Company;
- (3) The amount of the obligation can be measured reliably.

4.24.2 Measurement method of estimated liabilities

The estimated liabilities of the Company are initially measured at the best estimate of expenses required for the performance of relevant present obligations.

When determining the best estimates, the Company comprehensively considers the risks, uncertainties, time value of money, and other factors relating to the contingencies. If the time value of money is significant, the best estimates will be determined after discount of relevant future cash outflows.

The best estimates are treated as follows in different circumstances:

If there is continuous range (or interval) for the necessary expenses, and probabilities of occurrence of all the outcomes within this range are equal, the best estimate will be determined at the average amount of upper and lower limits within the range.

If there is no continuous range (or interval) for the necessary expenses, or probabilities of occurrence of all the outcomes within this range are unequal despite such a range exists, in case that the contingency involves a single item, the best estimate will be determined at the most likely outcome; if the contingency involves two or more items, the best estimate will be determined according to all the possible outcomes with their relevant probabilities.

When all or part of the expenses necessary for the settlement of an estimated liabilities of the Company are expected to be compensated by a third party, the compensation will be separately recognized as an asset only when it is virtually certain that the compensation will be received. The amount recognized for the compensation should not exceed the book value of the estimated liabilities.

4.25 Revenue

4.25.1 Recognition of revenue from sales of goods

Revenues from sale of good are recognized when meeting the following conditions at the same time:

- (1) The Company has transferred significant risks and rewards of ownership of the goods to the buyer;
- (2) The Company retains neither continuous management rights associated with ownership of the goods sold nor effective control over the goods sold;
- (3) It is probable that the amount of revenue can be measured reliably;
- (4) The related economic benefits are likely to flow into the Company;
- (5) The relevant amounts of costs that have occurred or will occur can be measured reliably.

4.25.2 Recognition of revenue from rendering of services

Where the transaction result of rendering of service can be estimated reliably, revenue from rendering of service is recognized by using the percentage-of-completion method at the end of the period.

4.25.3 Recognition of revenue from transferring the use right of assets

The revenue from transferring the use right of assets can be recognized when the economic interest related to the transfer of the use right of assets is likely to flow into the enterprise and the revenue amount can be measured reliably. The revenue from transferring the use right of assets will be determined based on the following circumstances:

- (1) Interest income is determined based on the time when the monetary funds of the enterprise are used by others and the effective interest rate.
- (2) The amount of royalty revenue is determined based on the charging time and method as agreed in relevant contract or agreement.

4.25.4 Revenue from property leasing

- (1) The Company possesses the leasing contract, agreement or other settlement notification, which is recognized by the lessee.
- (2) The Company has performed the obligations specified in the contract, issued the invoice for sales and the payment has been obtained or is certain to be obtained.

- (3) Costs on leasing developed products can be measured reliably.

4.25.5 Revenue from real estate sales

- (1) The construction has been completed and qualified for house delivery.
- (2) The Company possesses the sales contract or other settlement notification, which is recognized by the buyer.
- (3) The Company has performed the obligations specified in the contract, issued the invoice for sales and the payment has been obtained or is certain to be obtained.
- (4) Relevant cost can be measured reliably.

4.25.6 Revenue from guarantee fees

According to the *Measures for the Accounting of Guarantee Enterprises*, the revenue from guarantee fees shall be recognized when the following conditions are met simultaneously:

- (1) The guarantee contract is valid, assuming relevant guarantee responsibility;
- (2) The economic benefits relevant to the guarantee contract are likely to flow into the enterprise;
- (3) The revenue related to the guarantee contract can be measured reliably.

The amount of revenue from guarantee fees is determined at the amount payable by the guaranteed party under the guarantee contract.

If the guarantee fee is collected from the guaranteed party in the one-time way, the revenue from guarantee fees will be recognized in the same way.

Before the guarantee contract becomes valid and starts to assume the guarantee responsibility, the guarantee fee paid by the guaranteed party is recognized as a liability, treated as the guarantee fee in advance, and recognized as the revenue from guarantee fees when the condition specified in the above item (2) is met.

After the guarantee contract is valid and starts to assume the guarantee responsibility, if partial guarantee fee should be refunded to the guaranteed party according to the guarantee contract as the guaranteed party has paid off the major guaranteed debt in advance, releasing the guarantee responsibility of the guarantee party, the actually refunded guarantee fee will be used to offset the current revenue from guarantee fees.

The guarantee fee refunded incurred regarding the guarantee responsibility assumed before the balance sheet date during the period from the balance sheet date to the approval date of the financial statements is treated as the adjustment event after the balance sheet date.

4.26 Government grants

4.26.1 Classification of government grants

Government grants are monetary assets and non-monetary assets freely obtained by the Company from the government, which are classified into the asset-related government grants and the income-related government grants.

- (1) Asset-related government grants are government grants the Company acquires and uses for acquisition, construction or in other ways forming long-term assets.

- (2) Income-related government grants refer to government grants other than asset-related government grants.

4.26.2 Measurement and derecognition of government grants

Government grants are recognized when the Company can meet the conditions for the government grants and can obtain the grants.

Government grants in the form of monetary assets are measured at the amount received or receivable. In which, if there is unambiguous evidence that such grants are appropriated based on the fixed quota standard, such grants will be measured at the amount receivable, otherwise, they will be measured at the amount actually received. The government grants offered in the form of non-monetary assets are measured at fair value, or at the nominal value of RMB 1 if the fair value cannot be reliably obtained.

Asset-related government grants are used to offset the book value of relevant assets or recognized as deferred income. If such grants are recognized as the deferred income, they will be included in the current profit or loss by reasonable and systematic methods within useful lives of related assets (if such grants are relevant to routine activities of the Company, they will be included in other income; if such grants are irrelevant to routine activities of the Company, they will be included in non-operating revenue);

Income-related government grants used to compensate for relevant costs or losses which will occur in the following period in the Company are recognized as the deferred income, and, during the period when relevant costs or losses are recognized, are included in the current profit or loss (if income-related government grants are relevant to routine activities of the Company, they will be included in other income; if income-related government grants are irrelevant to routine activities of the Company, they will be included in the non-operating revenue) or used to offset relevant costs or losses; income-related government grants used to compensate for relevant costs or losses incurred in the Company are included in the current profit or loss (if income-related government grants are relevant to routine activities of the Company, they will be included in the other income; if income-related government grants are irrelevant to routine activities of the Company, they will be included in the non-operating revenue) or used to offset relevant costs or losses.

The interest subsidies for policy-based preferential loans obtained by the Company shall be subject to the following accounting treatments based on two kinds of situations:

- (1) Where the finance department appropriates the interest subsidies to the lending bank, and the lending bank provides the loan at the policy-based preferential interest rate to the Company, the Company will take the book-entry value at the loan amount actually received, and relevant loan expenses are calculated based on the principal of the loan and the policy-based preferential interest rate.
- (2) Where the finance department directly appropriates the interest subsidies to the Company, the Company will use the corresponding interest subsidies to offset related borrowing costs.

4.26.3 Accounting treatment for the refund of government grants

Where recognized government grants become repayable, the Company will make the following accounting treatments: if there is relevant deferred income, the government grants repayable will be offset against the book balance of the deferred income, and the remainder will be included in the current profit or loss; if there is no relevant deferred income, the government grants repayable will be directly included in the current profit or loss.

4.27 Deferred income tax assets and deferred income tax liabilities

Deferred income tax assets are recognized at deductible temporary differences to the extent that it shall not exceed the taxable income probably obtained in future period and used to deduct the deductible temporary differences.

Taxable temporary differences are recognized as deferred income tax liabilities except in special circumstances.

Special circumstances in which deferred income tax assets or deferred income tax liabilities shall not be recognized include: the initial recognition of goodwill; other transactions or matters excluding business combinations, which affect neither accounting profits nor the taxable income (or deductible losses) when occurred.

If the Company has the legal right to settle in net amounts and intends to do so or to obtain assets and discharge liabilities simultaneously, the current income tax assets and current income tax liabilities of the Company will be presented based on the net amount after offset.

When the Company has the legal rights to settle the current income tax assets and current income tax liabilities with net amount, and deferred income tax assets and deferred income tax liabilities are related to the income tax which are imposed on the same taxpayer by the same tax collection authority or on different taxpayers, but, in each important future period in connection with the reverse of deferred income tax assets and liabilities, the involved taxpayer intends to settle the current income tax assets and current income tax liabilities with net amount or to obtain assets and discharging liabilities simultaneously, the deferred income tax assets and deferred income tax liabilities of the Company will be presented based on the net amount after offset.

4.28 Leases

4.28.1 Classification of the leasing business

The Company recognizes the lease where risks and rewards relevant to the ownership of assets have been substantially transferred (no matter whether the said ownership has been transferred finally) as the finance lease, and recognizes other leases other than the finance lease as the operating lease.

4.28.2 Accounting treatment of operating lease

- (1) Lease fees paid by the Company for leased asset are amortized by the straight-line method over the whole lease term (including the rent-free period), and included in the period charges. Initial direct costs related to lease transactions paid by the Company are included in the period charges.
- When assets lessor bears the lease-related expenses which shall be borne by the Company, the Company should deduct such expenses from the total rents and amortize the rents after deduction over the lease term and include them in the period charges.

- (2) Lease fees received by the Company from leasing assets are amortized by the straight-line method over the whole lease period (including rent-free period), and recognized as the lease income. Initial direct costs related to lease transactions paid by the Company are included in the period charges; if the amount thereof is large, they will be capitalized, and included in the current income by stages within the whole lease term on same basis for recognition of lease income.

When the Company has borne the costs related to the lease which shall be borne by the lessee, the Company should deduct the part of expenses from the total rents and amortize the rents after deduction over the lease term.

Assets leased out under the operating lease are included in relevant items in the balance sheet by the nature thereof. The provision for depreciation of fixed assets leased out under the operating lease is made according to the Company's policy for the depreciation of similar assets; assets leased out under other leases are amortized by systematic and reasonable methods.

4.28.3 Judgment criteria and accounting treatment of finance lease

- (1) A lease satisfying the following one criterion or more is recognized as a finance lease:

- 1) The ownership of the leased asset has been transferred to the lessee when the lease term expires;
- 2) The lessee has the option to buy the leased asset, and the price is expected to be far lower than the fair value of the leased asset at the time of executing the option; thus, on the commencement date of the lease, it can be reasonably determined that this option will be exercised;
- 3) Even through the ownership of the asset will not be transferred, the lease term covers the majority of the useful life of the lease asset;
- 4) The present value of the lessee's minimum lease payment on the commencement date of the lease is almost equivalent to the fair value of the leased asset on the same date; The present value of the lessor's minimum lease receipt on the commencement date of the lease is almost equivalent to the fair value of the leased asset on that day;
- 5) The lease asset is of special nature and can only be used by the lessee unless any significant modification is made thereto.

- (2) **Assets acquired under the finance lease:** On the lease commencement date, the entry value of the leased asset is recognized at the lower between the fair value of the leased asset or the present value of the minimum lease payment, while the entry value of the long-term payables is recognized at the minimum lease payment. The differences between the aforesaid book values are recognized as the unrecognized finance charges. The Company amortizes the unrecognized finance charges by the effective interest method during the lease term, and includes the amortized amount in the financial expenses. The initial direct expenses on the Company are included in the value of leased asset.

- (3) **Assets leased out under the finance lease:** on the lease commencement date, the Company recognizes the difference between the sum of finance lease payment receivable and unguaranteed residual value and the present value of the assets as unrealized finance income and as finance income in each period of future lease. The Company's initial direct expenses related to lease are included in the initial measurement of finance lease payment receivable, and the income recognized in lease term is decreased accordingly.

4.29 Measurement at fair value

The Company measures the relevant assets and liabilities at fair value based on the following assumptions:

- The sales of assets or transfer of liabilities by the market participant on the measurement date belongs to the orderly transaction under the current market conditions;
- Orderly transaction is carried out in the major market of relevant assets or liabilities. If the major market does not exist, it is assumed that such transaction is carried out in the market most beneficial to relevant assets or liabilities.
- Assumption used by the market participant in order to maximize the benefits at the time of pricing such assets or liabilities.

According to the property of the said transaction and the characteristic of the said assets or liabilities, the Company recognizes the transaction value as the fair value of initial recognition.

If other relevant accounting standards require or permit the Company to conduct initial measurement on the relevant assets or liabilities at the said fair value, and the transaction value is different from the fair value, the Company will include relevant gains or losses in the current profit or loss, unless otherwise specified in other relevant accounting standards.

For the measurement of non-financial assets at fair value, the capability of the market participant in bringing about economic interest via the best use of such assets, or the capability in selling such assets to the other market participant for bringing about economic interest with the best use of such assets should be taken into account.

The valuation techniques which are applicable to the current situation and have sufficient usable data and other information support are taken into account by the Company for the adoption of valuation technique. Relevant observable input values are preferentially adopted for valuation techniques, and the unobservable input values can be used only when the observable input values are unable or unpractical to be obtained.

Input values used in the fair value measurement are divided into three levels:

Level 1 input values are unadjusted quoted prices in the active market of identical assets or liabilities accessible on the measurement date.

Level 2 input values refer to input values that are directly or indirectly observable for relevant assets or liabilities, other than Level 1 input values.

Level 3 input values are unobservable input values for relevant assets or liabilities.

The fair value measurement is categorized in its entirety based on the lowest level where the input values that are significant to the entire measurement stand.

4.30 Asset securitization

When applying the accounting policies for securitized financial assets, the Company has considered the risk and remuneration transfer degree regarding the assets transferred to other entity, and the degree of control the Company has over such entity;

- (1) When the Company has transferred almost all risks and remunerations related to the ownership of the financial assets, it will derecognize such financial assets;

- (2) When the Company has reserved almost all risks and remunerations related to the ownership of the financial assets, it will continue to recognize such financial assets;
- (3) When the Company has neither transferred nor reserved almost all risks and remunerations related to the ownership of the financial assets, it may consider whether it has the control over such financial assets. If the Company has not reserved the control, it will derecognize such financial assets and recognize the rights and obligations arising from transfer or the same reserved as assets or liabilities respectively. If the Company has reserved the control, it will recognize such financial assets based on the degree of continuous involvement of such financial assets, and recognize relevant liabilities accordingly.

4.31 Discontinued operation

Discontinued operation refers to the component which meets one of the following conditions and can be separately distinguished, moreover such component has been disposed or classified as held for sale by the Company:

- (1) The component represents an independent major business or a sole major business area;
- (2) The component is a part of a related plan where an independent major business or a sole major business area will be disposed as planned; or
- (3) The component is a subsidiary acquired only for re-sale.

5 Notes to changes in accounting policies and accounting estimates, corrections of accounting errors and other adjustments

5.1 Changes in significant accounting policies

- 1 The Ministry of Finance promulgated the *Circular of the Ministry of Finance on Revising and Issuing the Format of Financial Statements of General Enterprises in 2019* (CK [2019] No. 6) on April 30, 2019, revising the format of the financial statements of general enterprises. Main impacts of the Company's implementation of the above-mentioned provisions are as follows:

Content of and reason for changes in accounting policies	Name and amount of affected items
(1) In the balance sheet, the item of "Notes receivable and accounts receivable" is divided into the item of "Notes receivable" and the item of "Accounts receivable". Adjust the comparative data accordingly.	The ending balance of "Notes receivable" is RMB 220,490,156.08 in 2019 and RMB 549,651,758.03 in 2018; Adjust the item of "Accounts receivable", by which the ending balance of "Accounts receivable" is RMB 1,751,552,838.31 in 2019 and RMB 1,593,877,091.91 in 2018.
(2) In the balance sheet, the item of "Notes payable and accounts payable" is divided into the item of "Notes payable" and the item of "Accounts payable". Adjust the comparative data accordingly.	The ending balance of "Notes payable" is RMB 493,721,030.52 in 2019 and RMB 730,147,252.90 in 2018; The ending balance of "Accounts payable" is RMB 9,402,920,792.84 in 2019 and RMB 11,580,171,361.31 in 2018.
(3) In the income statement, adjust the item of "Losses from impairment of assets" as "Plus: Losses from impairment of assets ("-" for losses)"	The amount of "Losses from impairment of assets" is RMB -182,620,181.23 in 2019 and RMB -271,135,331.57 in 2018.

- 2 Joint ventures of the Company's subsidiaries China Enterprise Company Limited, Shanghai Dingbao Real Estate Co., Ltd., Shanghai Yaohua Pilkington Glass Group Co., Ltd. and Shanghai Rainbow Investment Corp implemented the *Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments*, the *Accounting Standards for Business Enterprises No. 23 - Transfer of Financial Assets*, the *Accounting Standards for Business Enterprises No. 24 - Hedge Accounting*, and the *Accounting Standards for Business Enterprises No. 37 - Presentation of Financial Instruments* (Revised in 2017).
In 2017, the Ministry of Finance revised the *Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments*, the *Accounting Standards for Business Enterprises No. 23 - Transfer of Financial Assets*, the *Accounting Standards for Business Enterprises No. 24 - Hedge Accounting*, and the *Accounting Standards for Business Enterprises No. 37 - Presentation of Financial Instruments*. According to the revised standards, for financial instruments that have not been derecognized on the implementation date, if the previous confirmation and measurement are inconsistent with the revised standards, the retrospective adjustment will be made. If the comparative data of financial statements for prior periods are inconsistent with the revised standards, no adjustment will be required. The retained earnings and other comprehensive income on January 1, 2019 are adjusted based on the cumulative impact amounts generated due to the retrospective adjustment.

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Name and amount of affected items	Content of and reason for changes in accounting policies								Total
	(1) Reclassifying the item "Financial assets measured at fair value through the current profit or loss" to the item "Financial assets held for trading" on account of the change in names of the items in the financial statements	(2) Reclassifying the investment in available-for-sale equity instruments as the item "Financial assets measured at fair value through the current profit or loss"	(3) Changing the method for the provision for impairment of financial assets from the "incurred loss method" to the "expected loss method"	(4) Impact of changes in accounting policies caused by the implementation of the new standards for financial instruments by the Company	(5) Reclassifying the item "Bank financial products" to the "Financial assets held for trading", and the item "Monetary funds" to the item "Other current assets"	(6) Reclassifying bank acceptance bill to receivables financing, and reduce the same by the payment for goods collected in form of commercial acceptance bill	(7) Making provision for bad debts of commercial acceptance bill in notes receivable, and withdrawing the "deferred income tax assets"	(8) Adjusting the interest on borrowings to the book balance of the corresponding financial instrument	
Monetary funds					-250,000,000.00				-250,000,000.00
Accounts receivable			1,528,913.23						1,528,913.23
Notes receivable						-263,826,193.53	-2,343,909.57		-266,170,103.10
Receivables financing									
Other receivables			10,945,351.28			263,826,193.53			263,826,193.53
Financial assets									10,945,351.28
Financial assets measured at fair value through the current profit or loss	-40,040,000.00								
Financial assets held for trading	40,040,000.00				60,000,000.00				-40,040,000.00
Available-for-sale financial assets		99,767,226.28							199,807,226.28
Other current assets		-104,439,090.04			190,000,000.00				-104,439,090.04
Deferred income tax assets							64,620.29		190,000,000.00
Other non-current financial assets		4,671,863.76	-127,196.19						-62,575.90
Short-term borrowings									4,671,863.76
Interest payable								1,596,437.62	1,596,437.62
Non-current liabilities maturing within one year								-1,793,664.57	-1,793,664.57
Long-term borrowings								46,419.80	46,419.80
Other comprehensive income		29,610,109.14						150,807.15	150,807.15
Retained earnings		-29,610,109.14	7,948,822.14	38,373,880.99					67,983,990.13
Minority equity			4,398,246.18	-38,373,880.99			-674,505.31		-60,709,673.30
							-1,604,783.97		2,793,462.21

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Based on balances as at December 31, 2018 after the adjustment according to the document (CK [2019] No. 6) and the document (CK [2019] No. 16), China Enterprise Company Limited (hereinafter referred to as "China Enterprise") and Shanghai Yaohua Pilkington Glass Group Co., Ltd. (hereinafter referred to as "SYP") classified and measured various financial assets and financial liabilities according to the standards for recognition and measurement of financial instruments before and after the revision as follows:

Original standards for financial instruments			New standards for financial instruments			Company
Item	Measurement category	Book value	Item	Measurement category	Book value	
Monetary funds	Measured at amortized cost	250,000,000.00	Other current assets	Measured at amortized cost	250,000,000.00	SYP
Notes receivable	Measured at amortized cost		Notes receivable	Measured at amortized cost	191,070,975.62	SYP
			Receivables financing	Measured at fair value through the other comprehensive income	263,826,193.53	SYP
			Financial assets held for trading	Measured at fair value through the current profit or loss	60,000,000.00	SYP
Other current assets	Measured at amortized cost	160,000,000.00	Other current assets	Measured at amortized cost	100,000,000.00	SYP
Available-for-sale financial assets	Measured at fair value through the other comprehensive income (equity instruments)	18,007,766.40	Financial assets held for trading	Measured at fair value through the current profit or loss	18,007,766.40	SYP
	Measured at fair value through the other comprehensive income (equity instruments)					
Available-for-sale financial assets	Measured at cost (equity instruments)	81,759,459.88	Financial assets held for trading	Measured at fair value through the current profit or loss	81,759,459.88	China Enterprise
	Measured at cost (equity instruments)	4,671,863.76	Other non-current financial assets	Measured at fair value through the current profit or loss	4,671,863.76	China Enterprise

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Original standards for financial instruments			New standards for financial instruments			Company
Item	Measurement category instruments)	Book value	Item	Measurement category profit or loss	Book value	
Financial assets measured at fair value through the current profit or loss	Measured at fair value through the current profit or loss	40,040,000.00	Financial assets held for trading	Measured at fair value through the current profit or loss	40,040,000.00	China Enterprise
Short-term borrowings	Measured at amortized cost	1,202,000,000.00	Short-term borrowings	Measured at amortized cost	1,203,596,437.62	SYP
Other payables	Measured at amortized cost	218,236,186.42	Other payables	Measured at amortized cost	216,442,521.87	SYP
Non-current liabilities maturing within one year	Measured at amortized cost		Non-current liabilities maturing within one year	Measured at amortized cost		
Long-term borrowings	Measured at amortized cost	32,844,586.42	Long-term borrowings	Measured at amortized cost	32,891,006.22	SYP
		102,796,666.66			102,947,473.81	SYP

5.2 Changes in accounting estimates

The Company has no change in accounting estimates required to be explained in 2019.

5.3 Correction of significant accounting errors in prior periods

The Company has no correction of accounting errors required to be explained in 2019.

5.4 Impacts of the above adjustments on the amount as at January 1, 2019 and amount as at December 31, 2018:

Item	Amount as at December 31, 2018	Amount as at January 1, 2019	Changes in accounting policies Amount impacted by adjustment
Total assets	291,781,022,260.58	291,791,090,039.62	10,067,779.04
Total liabilities	190,888,099,655.05	190,888,099,655.05	-
Total equity attributable to owners of the parent company	83,683,144,011.50	83,690,418,328.31	7,274,316.81
Including: paid-in capital	4,200,000,000.00	4,200,000,000.00	-
Capital reserves	46,126,625,222.48	46,126,625,222.48	-
Other comprehensive income	5,796,421,239.19	5,864,405,229.32	67,983,990.13
Special reserves	9,976,128.32	9,976,128.32	-
Surplus reserves	2,100,000,000.00	2,100,000,000.00	-
General risk reserves	-	-	-
Undistributed profits	25,450,121,421.51	25,389,411,748.19	-60,709,673.32
Others	-	-	-
Minority equity	17,209,778,594.03	17,212,572,056.26	2,793,462.23

6 Taxation

6.1 Major tax types and tax rates

Tax type	Tax rate	Basis of tax assessment
VAT	3%, 4%, 5%, 6%, 9%, 10%, 11%, 13%, 16%, 17%	Levied based on the difference between the output tax (calculated based on the revenue from sales of goods and rendering of services according to tax law) and the deductible input tax for the period
Business tax	5%	Taxable income (Pay for VAT according to the policy for value-added tax in lieu of business tax as of May 1, 2016)
House property tax	1.2%, 12%	Leasing income and original value of buildings and constructions
Enterprise income tax (Remark)	10%, 15%, 16.5%, 20%, 25%	Taxable income
Land value increment tax (Remark)	1%, 2%, 4.5%	Prepaid based on the property presale and sale amount collected
Land value increment tax (Remark)	30%, 40%, 50%, 60%	Based on the tax rate corresponding to the increment amount from the property transfer

Remark: See Note 9.3.1 and Note 9.3.2 for details.

6.2 Preferential taxes and approval documents

6.2.1 Subsidiary China Enterprise Company Limited:

- (1) For its subordinate company Shanghai Xinhong Ecological Agriculture, according to the document (HGSL (1995) No. 78), the sales of self-produced agricultural products shall be exempt from VAT during the period from November 1, 2013 to December 31, 2020; according to the document (CSZ (1999) No. 198), the grain sales shall be exempt from VAT during the period from April 1, 2017 to December 31, 2020; according to the document (CS (2011) No. 137), the wholesales and sales of vegetables shall be exempt from VAT during the period from April 1, 2017 to December 31, 2020; according to the document (CS (2012) No. 75), the wholesales and sales of partial fresh meat and egg products shall be exempt from VAT during the period from April 1, 2017 to December 31, 2020; according to the document (CSZ (2016) No. 36), the transfer of land use right to agricultural producers for agricultural production shall be exempt from VAT during the period from April 1, 2017 to December 31, 2020.
- (2) Its subordinate companies Shanghai Gubei House Property Leasing Co., Ltd., Suzhou Company, Shanghai Gubei Labor Service Co., Ltd. and Shanghai Gubei Xinhong Labor Service Co., Ltd. meet the following preferential tax policies:
 - 1) According to the *Circular of the Ministry of Finance and the State Taxation Administration on Implementing the Policy on Inclusive Tax Reliefs for Small and Micro Enterprises* (CS [2019] No. 13), a small-scale VAT payer whose monthly sales volume is no more than RMB 100,000 shall be exempted from VAT. The implementation period is from January 1, 2019 to December 31, 2021;
 - 2) According to the *Circular of the Ministry of Finance and the State Taxation Administration on Extending the Exemption Scope of Relevant Governmental Funds* (CS [2016] No. 12), as of February 1, 2016, the exemption scope of educational surcharges, local educational surcharges and water conservancy construction funds shall be extended from the current payment obligors whose monthly taxable sale or turnover is not more than RMB 30,000 (RMB 90,000 for quarterly taxable sale or turnover) to those whose monthly taxable sale or turnover is not more than RMB 100,000 (RMB 300,000 for quarterly taxable sale or turnover).

6.2.2 Subsidiary Shanghai Building Materials (Group) Co., Ltd.:

- (1) As its subordinate companies Shanghai Bright Intelligent Curtain Wall Co., Ltd., Shanghai White Butterfly Pipe Technology Co., Ltd., Shanghai SYP Engineering Glass Co., Ltd., Tianjin SYP Engineering Glass Co., Ltd., Jiangmen SYP Engineering Glass Co., Ltd., SYP Kangqiao Autoglass Co., Ltd., Wuhan SYP Kangqiao Autoglass Co., Ltd., Jiangsu Huadong SYP Glass Co., Ltd. and Yizheng SYP Autoglass Co., Ltd. are high-tech enterprises, they shall enjoy the preferential tax rate of 15% for enterprise income tax according to the prevailing Law of the People's Republic of China on Enterprise Income Tax.
- (2) Its subordinate company Chongqing SYP Engineering Glass Co., Ltd. enjoys the preferential tax rate of 15% according to the preferential polity for income tax on western region development.

- (3) Its subordinate companies Glasslink Limited and Hong Kong Haijian Industry Co., Ltd. shall pay income tax at 16.5 % according to Hong Kong tax law.

6.2.3 Subsidiary Shanghai Beach Ecological Development Co., Ltd.:

- (1) For its subordinate company Shanghai Land Agriculture Investment Development Co., Ltd., according to the document (HGSL [1995] No. 78), the sales of self-produced agricultural products shall be exempt from VAT during the period from December 1, 2013 to December 31, 2020. Shanghai Land Agriculture Investment Development Co., Ltd. obtained the notification on tax reduction or exemption examination and approval (filing) (HSCHJM [F] [2014] No. 28) on January 13, 2014.
- (2) For its subordinate company Shanghai Land Agriculture Investment Development Co., Ltd., according to the notification on aforehand filing results of enterprise income tax preferences (HSCSJM [F] [2014] No. 003) obtained on January 9, 2014, the taxable income from engaging in crop and tree planting and agricultural technology promotion shall be exempt from the enterprise income tax, and the half of taxable income from engaging in water and mudflat aquaculture and flower cultivation shall be exempt from the enterprise income tax from December 2013.
- (3) For its subordinate company Shanghai Land Garden Development Co., Ltd., according to the document (HDSFB [2009] No. 00002) issued by Shanghai Fengxian District Tax Bureau, State Taxation Administration in March 2009, the sales of nursery plants - primary agricultural product under self-production and sales shall be exempt from VAT during the period from February 1, 2009 to July 6, 2016; moreover, the company had renewed the application for VAT exemption on the sales of nursery plants - primary agricultural product under self-production and sales on July 12, 2016, thus, the tax exemption period was from July 1, 2016 to June 30, 2019. On June 4, 2019, the company renewed the application for VAT exemption on the sales of self-production agricultural product, thus, the tax exemption period is from July 1, 2019 to June 30, 2022.

6.2.4 The public rental housing projects respectively managed by the Company, Shanghai Hemin Real Estate Co., Ltd., a subordinate company of the Company's subsidiary Shanghai Rainbow Investment Corp, and by the Company's subsidiary Shanghai Land Housing Security Co., Ltd. and its subordinate companies Shanghai Land Xinyue Real Estate Co., Ltd. and Shanghai Yingcheng Real Estate Co., Ltd. enjoy the following preferential tax policies:

- (1) According to Article 7 of the *Announcement of the Ministry of Finance and the State Taxation Administration on the Preferential Tax Policy for Public Rental Housing* (CS [2019] No. 61), entities engaging in public rental housing operation and management shall be exempt from VAT for leasing the public rental housing; according to Paragraph 16 of Article 1 in Appendix 3 to the *Circular of the Ministry of Finance and the State Taxation Administration on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax* (CS [2016] No. 6), entities engaging in public rental housing operation and management shall be exempt from VAT for leasing the public rental housing.

- (2) According to Article 1 of the *Circular of the Ministry of Finance and the State Taxation Administration on the Preferential Tax Policy for Public Rental Housing* (CS [2015] No. 139), for the public rental housing land, the land tax shall be exempted;
 - (3) According to Article 2 of the *Circular of the Ministry of Finance and the State Taxation Administration on the Preferential Tax Policy for Public Rental Housing* (CS [2015] No. 139), for entities engaging in the public rental housing operation and management, the stamp tax on construction and management of the public rental housing and on housing purchase for public rental housing shall be exempted;
 - (4) According to Article 7 of the *Circular of the Ministry of Finance and the State Taxation Administration on the Preferential Tax Policies for Promoting the Development of Public Rental Housing* (CS [2015] No. 139), for the public rental housing, the house property tax shall be exempted.
- 6.2.5 According to Paragraph 7, Article 1 of Appendix 3 to the *Circular of the Ministry of Finance and the State Taxation Administration on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax* (CS [2016] No. 36), for providing the medical services, Shanghai Yueyang Traditional Chinese Medicine Clinic Co., Ltd., a subordinate company of the subsidiary Shanghai Land Pension Investment Co., Ltd. shall be exempted from VAT for the period from July 1, 2019 to June 30, 2020.
- 6.2.6 As Shanghai Online Real Estate Information Co., Ltd., a subordinate company of the subsidiary Shanghai House Real Estate Sponson Co., Ltd. pays enterprise income tax on a deemed income basis, the taxable income rate in 2019 is 10%.
- 6.2.7 According to the *Circular on Implementing the Policy on Inclusive Tax Reliefs for Small and Micro Enterprises* (CS [2019] No. 13), some subordinate companies of the Company calculate the taxable income at 25% of the part of annual taxable income not exceeding RMB 1 million and pay the enterprise income tax at 20% of such taxable income; calculate the annual taxable income at 50% of the part of annual taxable income exceeding RMB 1 million but not exceeding RMB 3 million and pay the enterprise income tax at 20% of such taxable income.

7 Business combination and consolidated financial statements

(Unless otherwise specified, figures in the following tables shall be expressed in RMB '0,000)

7.1 Subsidiaries included in the scope of consolidated statements in 2019

No.	Name of enterprise	Level	Enterprise type	Registration place	Nature of business	Registered capital	Shareholding ratio	Proportion of voting rights	Investment amount	Method of acquisition
1	Shanghai Xin'an Property Co., Ltd.	2	1	Room 218, T Zone, Floor 2, Building 1, No. 15, Lane 588, Zhangliantang Road, Liantang Town, Qingpu District	Real estate development and operation	10,000	100.00%	100.00%	10,000	3
2	China Enterprise Company Limited (Remark 6)	2	1	No. 2 Huashan Road, Shanghai West 2 Area, Building 4, No. 841, Yan'an Middle Road, Jing'an District, Shanghai	Design, construction or sale for commercial residential building	609,614	68.44%	68.44%	417,220	4
3	Shanghai Jinfeng Investment Co., Ltd. (Remark 5)	2	1	Room 601, No. 5, Lane 322, Gushan Road, China (Shanghai) Pilot Free Trade Zone	Comprehensive service of real estate	51,832	51.00%	51.00%		4
4	Shanghai House Real Estate Sponson Co., Ltd. (Remark 11)	2	1	No. 116, Lane 3463, Taihe West Road, Baoshan	House loan guarantee	100,000	86.00%	86.00%	86,000	3
5	Shanghai Mingxin Real Estate Co.,	2	1		Real estate development and operation	5,000	100.00%	100.00%	5,000	1

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No.	Name of enterprise	Level	Enterprise type	Registration place	Nature of business	Registered capital	Shareholding ratio	Proportion of voting rights	Investment amount	Method of acquisition
	Ltd.			District, Shanghai						
	Shanghai Qicaihui Commercial Development Co., Ltd.	2	1	F/1, No. 65, Lane 799 Huanlin East Road, Pudong New Area, Shanghai	Real estate operation and hotel management	1,143	100.00%	100.00%	1,143	1
	Shanghai Binfen Commercial Development Co., Ltd.	2	1	F/1, No. 65, Lane 799 Huanlin East Road, Pudong New Area, Shanghai	Real estate operation	1,015	100.00%	100.00%	1,015	1
	Shanghai Zhouxin Property Co., Ltd.	2	1	F/4, No. 416, Zhoushi Road, Zhoupu Town, Pudong New Area, Shanghai	Real estate development and operation	1,000	100.00%	100.00%	1,000	3
	Shanghai Zhizun Hengshan Hotel Investment Co., Ltd.	2	1	Room 213, No. 20, Lane 77, Yueyang Road No. 1000	Hotel management	163,000	50.00%	50.00%	81,500	1
	Shanghai Real Estate Operation (Group) Co., Ltd.	2	1	Zhenchen Road, Baoshan District (Industrial Park Building 2142), Shanghai	Real estate development, assets acquisition etc.	3,000	100.00%	100.00%	3,000	1
	Shanghai Land Xinhong Property Co.,	2	1	Room 451, Building 8, No. 33 Guangshun Road, Changning	Industrial investment in real estate development and operating	3,000	100.00%	100.00%	3,000	1

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No.	Name of enterprise	Level	Enterprise type	Registration place	Nature of business investment	Registered capital	Shareholding ratio	Proportion of voting rights	Investment amount	Method of acquisition
	Ltd.			District	investment					
12	Shanghai Land Housing Security Co., Ltd.	2		Room 3E-1635, No. 2123 Pudong Avenue, China (Shanghai) Pilot Free Trade Zone	Public rental housing, relocating housing, economically affordable housing, etc.	155,000	100.00%	100.00%	155,000	1
13	Shanghai Fengliju Real Estate Co., Ltd.	2		Floors 3&4, No. 1, Lane 65, Huanlong Road, China (Shanghai) Pilot Free Trade Zone	Real estate development, operation and property management	5,000	60.00%	60.00%	3,000	3
14	Shanghai Beach Ecological Development Co., Ltd.	2		Building 13, No. 985, Dongfang Road, China (Shanghai) Pilot Free Trade Zone	Development and management of land after reclamation and silting promotion of beach for land	10,000	100.00%	100.00%	10,000	3
15	Shanghai Land Minhong (Group) Co., Ltd. (Remark 1)	2		Floors 4 and 5, Building 1, No. 501, Xuri Road, Pudong New Area	Construction and operation management, industrial investment, investment management, etc. in development area.	110,000	100.00%	100.00%	20,000	1
16	Shanghai Real Estate Asset Management	2		Floor 2, Building 2, No. 501, Xuri Road, Pudong New Area	Industrial investment, venture capital, investment management, asset	20,000	100.00%	100.00%	500	1

SHANGHAI LAND (GROUP) CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
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No.	Name of enterprise	Level	Enterprise type	Registration place	Nature of business	Registered capital	Shareholding ratio	Proportion of voting rights	Investment amount	Method of acquisition
	Co., Ltd. (Remark 3)				management, etc.					
	Shanghai Land Sanlin Binjiang Ecological Construction			No. 338 Sanlin Road, Pudong New Area, Shanghai	Integration of design and construction of building decoration construction engineering; development and management of real estate, etc.	400,000	73.75%	73.75%	295,000	1
17	Co., Ltd.	2	1	Floor 1, Building 1, No. 251, Yaohua Road, China (Shanghai) Pilot Free Trade Zone	Investment in pension industry, investment management, asset management, etc.	40,000	80.00%	80.00%	32,000	1
	Shanghai Land Pension Investment Co., Ltd. (Remark 13)	2	1	No. 240 East Beijing Road, Shanghai	Design, manufacture and sale of building materials, equipment and related products	200,000	100.00%	100.00%	288,979	4
19	Shanghai Building Materials (Group) Co., Ltd.	2	1	Southwest Area, Floor 3, No. 2123 Pudong Avenue, China (Shanghai) Pilot Free Trade Zone	Industrial investment, real estate management, venture capital, investment management, etc.	100,000	75.00%	75.00%	1,020	1
20	Shanghai Land Investment Development Co., Ltd. (Remark 2)	2	1	Room E-62, Building 6, No. 12981, Dongfang	Engage in technical development and technical	200	100.00%	100.00%	200	1
21	Construction	2	1							

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SHANGHAI LAND (GROUP) CO., LTD.
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No.	Name of enterprise	Level	Enterprise type	Registration place	Nature of business	Registered capital	Shareholding ratio	Proportion of voting rights	Investment amount	Method of acquisition
	Product R&D Co., Ltd. (Remark 12)			Road, Pudong New Area, Shanghai	consulting services in the field of construction and standardized products.					
	Shanghai Land Longyang Construction and Development Co., Ltd.	2		Room 101, No. 390, Fangleo Road, Pudong New Area, Shanghai	Supporting development of preliminary infrastructure and public facilities, and construction of municipal public utilities construction project, etc.	500	70.00%	70.00%	350	1
23	Shanghai Kangchang Business Service Co., Ltd.	2		Room 1008, Building 5, No. 3601, Dongfang Road, Pudong New Area, Shanghai	Business information consultation, conference affairs, exhibition services, etc.	100	100.00%	100.00%	100	1
24	Shanghai Land Nanzhan Co., Ltd.	2		No. 65, Kangjian Road, Xuhui District, Shanghai	Land foundation development	30,000	95.00%	95.00%	28,500	2
25	Shanghai Maiqi Real Estate Development Co., Ltd.	2		Room 905, No. 333 Zhaojiabang Road, Xuhui District, Shanghai	Development, sales, consulting and property management of real estate	12,415	100.00%	100.00%	12,415	2
26	Shanghai Land	2		Room 2306, No. 13288 Jinhai Road, Shanghai	Development and operation of	50,000	100.00%	100.00%	50,000	4

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SHANGHAI LAND (GROUP) CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

No.	Name of enterprise	Level	Enterprise type	Registration place	Nature of business	Registered capital	Shareholding ratio	Proportion of voting rights	Investment amount	Method of acquisition
	Zhongxing Caolu Base Development Co., Ltd.			Pudong New Area	construction base, development and operation of real estate, real estate consulting (excluding brokerage), sales of building materials, metal materials, mechanical and electrical equipment, building decoration, processing of building materials, and technical consulting of the above related business					
27	Shanghai Zhongxing Chengbei Real Estate Co., Ltd.	2	1	Room 1018, Building 2, Lane 128, Liuli Zhongxin Road, Jiading District	Real estate development and operation	3,000	100.00%	100.00%	3,000	4
28	Shanghai Shengju Industrial Co., Ltd.	2	1	Floor 1, Building 1, No. 251, Yaohua Road, China (Shanghai) Pilot Free Trade Zone	Property management, enterprise management consulting, exhibition and display services, etc.	3,000	100.00%	100.00%	3,000	1

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SHANGHAI LAND (GROUP) CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

No.	Name of enterprise	Level	Enterprise type	Registration place	Nature of business	Registered capital	Shareholding ratio	Proportion of voting rights	Investment amount	Method of acquisition
29	Shanghai Expo Culture Park Construction Management Co., Ltd. (Remark 8)	2		Room 2105, F/21, No. 928, Xueye Road, China (Shanghai) Pilot Free Trade Zone	Landscaping, property management, enterprise management consulting, business consulting, etc. Project construction management, professional construction of port and coastal construction engineering, property management, etc.	10,000	100.00%	100.00%	1,000	1
30	Shanghai Huangpu River Wharf Shoreline Construction Management Co., Ltd. (Remark 4)	2		Room 2106, No. 928, Xueye Road, China (Shanghai) Pilot Free Trade Zone	Industrial investment, asset management, development and operation of real estate, property management, etc.	30,000	100.00%	100.00%	7,600	1
31	Shanghai Huantong Construction and Development Co., Ltd.	2		Room 223, No. 3698, Dongfang Road, Pudong New Area, Shanghai	Development and operation of real estate, construction of municipal public construction project, asset management, etc.	60,000	50.00%	50.00%	30,000	4
32	Shanghai Fuhong Binjiang Development & Construction Investment Co., Ltd.	2		Southwest Area, Floor 3, No. 2123 Pudong Avenue, China (Shanghai) Pilot Free Trade Zone		1,000	100.00%	100.00%	1,000	4

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No.	Name of enterprise	Level	Enterprise type	Registration place	Nature of business	Registered capital	Shareholding ratio	Proportion of voting rights	Investment amount	Method of acquisition
33	EXPO Shanghai (Group) Co., Ltd.	2	1	F/3, No. 3588 Pudong South Road, China (Shanghai) Pilot Free Trade Zone	Real estate development and operation, regional development, asset management, industrial investment, etc.	410,000	100.00%	100.00%	410,000	4
34	Shanghai Rainbow Investment Corp (Remark 7)	2	1	No. 228 Jizhai Road, Minhang District, Shanghai	Construction, investment and development of urban infrastructures, and implementation of special land reserves and development in Hongqiao comprehensive transportation hub area as authorized by the government	345,454	56.579%	56.579%	195,454	4
35	Shanghai Housing and Land (Group) Co., Ltd.	2	1	F/5, Huaqiao Building, No. 129 Yan'an West Road, Shanghai	Operation and management of state-owned assets, development and management of real estate, etc.	5,000	100.00%	100.00%	5,000	4
36	Shanghai Real Estate Auction House	2	1	No. 786 Changle Road, Jing'an District, Shanghai	Auction of all kinds of commodities (excluding commodities otherwise stipulated by	1,000	100.00%	100.00%	1,000	4

SHANGHAI LAND (GROUP) CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
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No.	Name of enterprise	Level	Enterprise type	Registration place	Nature of business	Registered capital	Shareholding ratio	Proportion of voting rights	Investment amount	Method of acquisition
					national laws and regulations)					
	Shanghai Land Rental Housing Construction & Development			Room 1401, No. 928, Xueye Road, China (Shanghai)	Real estate development and operation, property management and operation of parking lots					
37	Co., Ltd.	2	1 Zone			220,000	100.00%	100.00%	220,000	1
					Real estate brokerage (excluding price difference exchange of public housing), sales of hardware and building materials, landscaping maintenance, property management, parking services					
	Shanghai Kaixin Real Estate Consulting			No. 125, Weiqing Road, Jinshanwei Town, Jinshan District, Shanghai		50	100.00%	100.00%	50	4
38	Co., Ltd.	2	1		Renovation of old areas, rental of self-owned houses, real estate development and operation, investment in construction of municipal infrastructure					
	Shanghai Urban Renewal Construction Development Co., Ltd.			Room 2215, No. 928, Xueye Road, China (Shanghai)						
39	(Remark 9)	2	1 Zone			1,000,000	100.00%	100.00%	574,376	1
40	Shanghai	2	1	Room 803, No.	Investment in	250,000	100.00%	100.00%	40,000	1

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SHANGHAI LAND (GROUP) CO., LTD.
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No.	Name of enterprise	Level	Enterprise type	Registration place	Nature of business	Registered capital	Shareholding ratio	Proportion of voting rights	Investment amount	Method of acquisition
	Land Hongqiao Construction Investment (Group) Co., Ltd. (Remark 10)			719, Shengui Road, Minhang District, Shanghai	construction projects, planning and design management, real estate development and operation, property management, real estate brokerage, construction of municipal public construction project, and management of construction engineering project					
41	Shanghai Land Beihongqiao Enterprise Development Co., Ltd.	2	1	Room JT2588, No. 7, Lane 129, Huajiang Road, Jiading District, Shanghai	Planning and design management, park management services, real estate development and operation, property management, real estate brokerage, municipal engineering construction management of construction engineering project	1,000	100.00%	100.00%	1,000	1
42	Shanghai Fujin Real	2	1	Floor 1, Building 11, No. 251,	Real estate development and	1,000	100.00%	100.00%	1,000	4

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SHANGHAI LAND (GROUP) CO., LTD.
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No.	Name of enterprise	Level	Enterprise type	Registration place	Nature of business	Registered capital	Shareholding ratio	Proportion of voting rights	Investment amount	Method of acquisition
	Estate Development Co., Ltd.			Yaohua Road, China (Shanghai) Pilot Free Trade Zone	operation, property management and operation of parking lots					
	Shanghai Fulu Real Estate Development Co., Ltd.	2	1	Floor 1, Building 1, No. 251, Yaohua Road, China (Shanghai) Pilot Free Trade Zone	Real estate development and operation, property management and operation of parking lots	1,000	100.00%	100.00%	1,000	4

Enterprise type: 1. domestic non-financial subsidiary; 2. domestic financial subsidiary; 3. foreign subsidiary; 4. public institution; 5. infrastructure unit.

Method of acquisition: 1. establishment by investment; 2. business combination under common control; 3. business combination not under common control; 4. others.

Other acquisition methods are mainly:

- 1 According to the Official Reply to the Issues Concerning the Transfer of State-owned Shares of Shanghai Jinfeng Investment Co., Ltd. and China Enterprise Company Limited (HGZWCY [2004] No. 406) by Shanghai State-owned Assets Supervision and Administration Commission, 141,360,947 state-owned shares of Shanghai Jinfeng Investment Co., Ltd. and 347,821,429 state-owned shares of China Enterprise Company Limited, held by Shanghai Housing and Land (Group) Co., Ltd., were transferred to the Company.
- 2 On September 29, 2014, in accordance with the Official Reply to Free Transfer of 100% Equity of Shanghai Building Materials (Group) Co., Ltd. (HGZWCC [2014] No. 317), Shanghai Guosheng (Group) Co., Ltd. transferred its 100% equity of Shanghai Building Materials (Group) Co., Ltd. to Shanghai Land (Group) Co., Ltd. for free. The above transfer was based on the audited net book asset value of Shanghai Building Materials (Group) Co., Ltd. on April 30, 2014.
- 3 In 2016, the subsidiary Shanghai Star Group Co., Ltd., based on major restructuring plan, transferred its 100% equity in Shanghai Ange Real Estate Development Co., Ltd., 90% equity in Shanghai Land Zhongxing Caolu Base Development Co., Ltd., and 100% equity of Shanghai Zhongxing Chengbei Real Estate Co., Ltd. to the Company.