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This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities. This announcement does not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States. The securities have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or the securities laws of any state of the United States or any other jurisdiction, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Bonds (as defined below) are being offered and sold only outside the United States in offshore transactions in compliance with Regulation S under the Securities Act. This announcement and the information contained herein are not for distribution, directly or indirectly, in or into the United States. No public offer of the securities referred to herein is being or will be made in the United States or in any other jurisdiction where such an offering is restricted or prohibited.

This announcement and the listing document referred to herein have been published for information purposes only as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and do not constitute an offer to sell nor a solicitation of an offer to buy any securities. Neither this announcement nor anything referred to herein (including the listing document referred to herein) forms the basis for any contract or commitment whatsoever. For the avoidance of doubt, the publication of this announcement and the listing document referred to herein shall not be deemed to be an offer of securities made pursuant to a prospectus issued by or on behalf of the Issuer (as defined below) for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong nor shall it constitute an advertisement, invitation or document containing an invitation to the public to enter into or offer to enter into an agreement to acquire, dispose of, subscribe for or underwrite securities for the purposes of the Securities and Futures Ordinance (Cap. 571) of Hong Kong.

Notice to Hong Kong investors: The Issuer and the Guarantor (as defined below) confirm that the Bonds (as defined below) are intended for purchase by Professional Investors (as defined in Chapter 37 of the Listing Rules) only and have been listed on The Stock Exchange of Hong Kong Limited on that basis. Accordingly, the Issuer and the Guarantor confirm that the Bonds are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

HUALU INTERNATIONAL FINANCE (BVI) LIMITED

华鲁国际财务(BVI)有限公司

(incorporated in the British Virgin Islands with limited liability)

(the “Issuer”)

U.S.\$300,000,000 2.2 PER CENT. GUARANTEED BONDS DUE 2026

(the “Bonds”, Stock Code: 40889)

UNCONDITIONALLY AND IRREVOCABLY GUARANTEED BY



HUALU HOLDINGS CO.,LTD.

(华鲁控股集团有限公司)

(incorporated in the People's Republic of China with limited liability)

(the “Guarantor”)

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Guotai Junan International

**China International Capital
Corporation**

Zhongtai International

ICBC (Asia)

**China Construction
Bank (Asia)**

**Shanghai Pudong
Development Bank Hong
Kong Branch**

**China Minsheng
Banking Corp., Ltd.,
Hong Kong Branch**

Joint Bookrunners and Joint Lead Managers

ICBC International

Bank of China

CMB Wing Lung Bank Limited

**Industrial Bank Co., Ltd.
Hong Kong Branch**

CCB International

TF International

CMBC Capital

**China Everbright Bank
Hong Kong Branch**

Haitong International

CSFG

Shenwan Hongyuan (H.K.)

**China Industrial Securities
International**

This announcement is issued pursuant to Rule 37.39A of the Listing Rules.

Reference is made to the notice of listing of the Bonds on The Stock Exchange of Hong Kong Limited dated 27 October 2021 published by the Issuer.

The offering circular dated 20 October 2021 in relation to the Bonds is appended to this announcement.

Hong Kong, 28 October 2021

As at the date of this announcement, the board of directors of the Issuer comprises Mr. Cheng Xuezhao, Mr. Bai Xianzhong, Mr. Zhao Jiequan and Mr. Sun Peidong; and the board of directors of the Guarantor comprises Mr. Fan Jun, as Chairman of the board of directors, and Mr. Ding Zhenbo, Mr. Sun Youmin, Mr. Zhang Yuming, Mr. Lou Hongxiang, Mr. Cao Kai, Mr. Li Zhanchen and Ms. Su Xin.

Appendix 1 – Offering Circular dated 20 October 2021

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering circular (the “**Offering Circular**”). You are advised to read this disclaimer carefully before accessing, reading or making any other use of the attached Offering Circular. In accessing the attached Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from the Issuer or the Guarantor (each as defined in the attached Offering Circular) as a result of such access. In order to be eligible to view the attached Offering Circular or make an investment decision with respect to the securities, investors must be outside the United States (as defined under Regulation S under the United States Securities Act of 1933, as amended (the “**Securities Act**”)).

Confirmation of your representation: The attached Offering Circular is being sent to you at your request and by accepting the e-mail and accessing the attached Offering Circular, you shall be deemed to represent to the Issuer, the Guarantor and the Managers (as defined in the attached Offering Circular) that (1) you and any customers you represent are outside the United States and that the e-mail address that you gave the Issuer, the Guarantor and/or the Managers and to which this e-mail has been delivered is not located in the United States, its territories or possessions, (2) you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission, and (3) to the extent you purchase the securities described in the attached Offering Circular, you will be doing so in an offshore transaction as defined in Regulation S under the Securities Act in compliance with Regulation S thereunder.

The attached Offering Circular has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and, consequently, none of the Issuer, the Guarantor, the Managers, the Trustee (as defined in the attached Offering Circular), the Agents (as defined in the attached Offering Circular) or any of their respective affiliates, directors, officers, employees, representatives, agents, advisers and each person who controls any of them accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version available to you upon request from the Issuer, the Guarantor and the Managers.

Restrictions: The attached Offering Circular is being furnished in connection with an offering in offshore transactions to persons outside the United States in compliance with Regulation S under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described herein.

THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE OFFERING IS MADE SOLELY OUTSIDE THE UNITED STATES IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT.

Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of the Issuer, the Guarantor or any Manager to subscribe for or purchase any of the securities described therein in any jurisdiction where it is unlawful to do so, and access has been limited so that it shall not constitute in the United States or elsewhere a general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act). If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Managers or any affiliate is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Manager or such affiliate on behalf of the Issuer and the Guarantor in such jurisdiction. The attached Offering Circular and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person. You are reminded that you have accessed the attached Offering Circular on the basis that you are a person into whose possession the attached Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the attached Offering Circular, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you are not allowed to purchase any of the securities described in the attached Offering Circular.

Actions that you may not take: If you receive this document by e-mail, you should not reply by e-mail to this document, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected.

YOU ARE NOT AUTHORISED TO AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING CIRCULAR, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING CIRCULAR IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

You are responsible for protecting against viruses and other destructive items. If you receive the attached Offering Circular by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

STRICTLY CONFIDENTIAL

Hualu International Finance (BVI) Limited 华鲁国际财务(BVI)有限公司

(incorporated in the British Virgin Islands with limited liability)

U.S.\$300,000,000 2.2 PER CENT. GUARANTEED BONDS DUE 2026
unconditionally and irrevocably guaranteed by



Hualu Holdings CO.,LTD. (华鲁控股集团有限公司)

(incorporated in the People's Republic of China with limited liability)

ISSUE PRICE FOR THE BONDS: 100 PER CENT.

The U.S.\$300,000,000 2.2 per cent. guaranteed bonds due 2026 (the “**Bonds**”) will be issued by Hualu International Finance (BVI) Limited 华鲁国际财务(BVI)有限公司 (the “**Issuer**”). The Bonds will be unconditionally and irrevocably guaranteed (the “**Guarantee**”) by Hualu Holdings CO.,LTD. (华鲁控股集团有限公司) (the “**Guarantor**”).

The Bonds will bear interest on their outstanding principal amount from and including 27 October 2021 (the “**Issue Date**”) at the rate of 2.2 per cent. per annum. Interest on the Bonds is payable semi-annually in equal instalments in arrear on 27 April and 27 October in each year, commencing on 27 April 2022. Unless previously redeemed, or purchased and cancelled, the Bonds will mature on 27 October 2026 at their principal amount.

The Bonds will constitute direct, unconditional, unsubordinated and subject to Condition 4(a) of the terms and conditions of the Bonds (the “**Terms and Conditions of the Bonds**”), unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable laws and regulations and subject to Condition 4(a) of the Terms and Conditions of the Bonds, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations. Payments on the Bonds will be made without deduction for or on account of taxes of the British Virgin Islands and the PRC to the extent described in “*Terms and Conditions of the Bonds – Taxation*”.

The Guarantor has made an application for the pre-issuance registration (the “**Pre-Issuance Registration**”) in relation to the Bonds with the National Development and Reform Commission of the People's Republic of China or its competent local counterparts (the “**NDRC**”) in accordance with the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) issued by the NDRC and which came into effect on 14 September 2015 (the “**NDRC Notice**”). The Guarantor has obtained the Pre-Issuance Registration on 2 August 2021. The Guarantor will be required to file or cause to be filed with the NDRC the requisite information and documents within 10 PRC Business Days (as defined in the Terms and Conditions of the Bonds) after the Issue Date in accordance with the NDRC Notice and any implementation rules, regulations, certificates, circulars or notices in connection therewith issued by the NDRC from time to time (the “**NDRC Post-issue Filing**”).

The Guarantor will enter into a deed of guarantee (the “**Deed of Guarantee**”) with China Construction Bank (Asia) Corporation Limited (中國建設銀行(亞洲)股份有限公司) as trustee (the “**Trustee**”) on the Issue Date. The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable laws and regulations and subject to Condition 4(a) of the Terms and Conditions of the Bonds, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations. The Guarantor undertakes that it will file or cause to be filed with the Shandong Branch (or other relevant branch) of the State Administration of Foreign Exchange of the People's Republic of China (“**SAFE**”) within 15 PRC Business Days after the execution of the Deed of Guarantee in accordance with the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees (跨境擔保外匯管理規定) promulgated by SAFE on 12 May 2014 which came into effect on 1 June 2014 (the “**Cross-Border Security Registration**”). The Guarantor shall use its best endeavours to complete the Cross-Border Security Registration and obtain a registration certificate from SAFE (or any other document evidencing the completion of registration issued by SAFE) on or before the Registration Deadline (as defined in the Terms and Conditions of the Bonds) and shall comply with all applicable PRC laws and regulations in relation to the Guarantee.

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (as defined in the Terms and Conditions of the Bonds) and in writing to the Trustee and the Principal Paying Agent (as defined in the Terms and Conditions of the Bonds) (which notice shall be irrevocable), at their principal amount together with any unpaid interest accrued to, but excluding, the date fixed for redemption, if the Issuer and/or the Guarantor (as the case may be) satisfies the Trustee immediately prior to the giving of such notice that (i) the Issuer (or, if the Guarantee were called, the Guarantor) has or will become obliged to pay Additional Tax Amounts (as defined in the Terms and Conditions of the Bonds) as provided or referred to in Condition 8 of the Terms and Conditions of the Bonds as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or the PRC, or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of, such laws or regulations (including but not limited to any decision by a court of competent jurisdiction), which change and/or amendment becomes effective on or after 20 October 2021, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds (or the Guarantee, as the case may be) then due. At any time following the occurrence of a Change of Control or a No Registration Event (each as defined in the Terms and Conditions of the Bonds), the holder of any Bonds will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Bonds on the Put Settlement Date (as defined in the Terms and Conditions of the Bonds) at 101 per cent. (in the case of a redemption for a Change of Control) or 100 per cent. (in the case of a redemption for a No Registration Event) of their principal amount, together with, in each case, accrued and unpaid interest up to but excluding such Put Settlement Date. See “*Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for Relevant Event*”.

For a more detailed description of the Bonds, see “*Terms and Conditions of the Bonds*” beginning on page 39.

Investing in the Bonds involves risks. See “*Risk Factors*” beginning on page 13 for a discussion of certain risk factors to be considered in connection with an investment in the Bonds.

The Bonds and the Guarantee have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a description of these and certain restrictions on offers and sales of the Bonds and the Guarantee and the distribution of this Offering Circular, see “*Subscription and Sale*”.

Fitch Ratings Inc. (“**Fitch**”) and Moody's Investors Service, Inc. (“**Moody's**”) have assigned corporate ratings of “A-” and “A3”, respectively, to the Guarantor. The Bonds are expected to be rated “A-” and “A3”, respectively, by Fitch and Moody's. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

Application will be made to The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) for the listing of the Bonds by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) (“**Professional Investors**”) only. This Offering Circular is for distribution to Professional Investors only.

Notice to Hong Kong investors: The Issuer and the Guarantor confirm that the Bonds are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer and the Guarantor confirm that the Bonds are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Offering Circular to Professional Investors only have been reproduced in this Offering Circular. Listing of the Bonds on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Bonds, the Issuer, the Guarantor, the Group or the quality of disclosure in this Offering Circular. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

The denomination of the Bonds shall be U.S.\$200,000 each and integral multiples of U.S.\$1,000 in excess thereof.

The Bonds will be represented initially by beneficial interests in a global certificate (the “**Global Certificate**”) in registered form which will be registered in the name of a nominee of, and shall be deposited on or about 27 October 2021 with, a common depositary for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream**”). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for the Bonds will not be issued in exchange for interests in the Global Certificate.

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Guotai Junan International	China International Capital Corporation	Zhongtai International
ICBC (Asia)	China Construction Bank (Asia)	Shanghai Pudong Development Bank Hong Kong Branch
		China Minsheng Banking Corp., Ltd. Hong Kong Branch

Joint Bookrunners and Joint Lead Managers

ICBC International	Bank of China	CMB Wing Lung Bank Limited
Industrial Bank Co., Ltd. Hong Kong Branch	CCB International	TF International
CMBC Capital	China Everbright Bank Hong Kong Branch	Haitong International
CSFG	Shenwan Hongyuan (H.K.)	China Industrial Securities International

This Offering Circular dated 20 October 2021

NOTICE TO INVESTORS

THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY SECURITIES IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE THE OFFER OR SOLICITATION IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS OFFERING CIRCULAR NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER, THE GUARANTOR OR ANY OF THEIR RESPECTIVE SUBSIDIARIES OR THAT THE INFORMATION SET FORTH IN THIS OFFERING CIRCULAR IS CORRECT AS AT ANY DATE SUBSEQUENT TO THE DATE HEREOF.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer, the Guarantor and the Group. The Issuer and the Guarantor accept full responsibility for the accuracy of the information contained in this Offering Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

The contents of this Offering Circular have not been reviewed by any regulatory authority in Hong Kong or elsewhere. Investors are advised to exercise caution in relation to the offering of the Bonds. If any investor is in any doubt about any of the contents of this Offering Circular, that investor should obtain independent professional advice.

Each of the Issuer and the Guarantor confirms that (i) this Offering Circular contains all information with respect to the Issuer, the Guarantor and the Guarantor's subsidiaries (collectively, the "**Group**"), the Bonds and the Guarantee which is material in the context of the issue and offering of the Bonds (including all information required by applicable laws and the relevant rules and regulations imposed by The Stock Exchange of Hong Kong Limited and the information which, according to the particular nature of the Issuer, the Guarantor, the Guarantee and the Bonds, is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, the Guarantor and the Group and of the rights attaching to the Guarantee and the Bonds); (ii) the statements contained in this Offering Circular are true and accurate in all material respects and not misleading; (iii) the opinions and intentions expressed in this Offering Circular are, with regard to the Issuer, the Guarantor and the Group are honestly and reasonably held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Issuer, the Guarantor, the Group, the Guarantee or the Bonds the omission of which would, in the context of the issue and offering of the Bonds, make any statement, opinions or intentions expressed in this Offering Circular misleading; (v) all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements in this Offering Circular; and (vi) this Offering Circular does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements herein, in light of the circumstances under which they were made, not misleading.

The PRC government (including the Shandong SASAC and the Shandong Provincial Government) is not an obligor and shall under no circumstances have any obligation arising out of or in connection with the Bonds in lieu of the Issuer and/or the Guarantor. Any reference to government support in this Offering Circular shall not be read as indication that financial support will be given in respect of the Issuer's or the Guarantor's obligations under the Bonds. See "*Risk Factors – Risks Relating to the Bonds and the Guarantee – The PRC government (including the Shandong SASAC and the Shandong Provincial Government) has no obligation to pay any amount under the Bond or the Guarantee*".

This Offering Circular has been prepared by the Issuer and the Guarantor solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, Guotai Junan Securities (Hong Kong) Limited, China International Capital Corporation Hong Kong Securities Limited, Zhongtai International Securities Limited, Industrial and Commercial Bank of China (Asia) Limited, China Construction Bank (Asia) Corporation Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, China Minsheng Banking Corp., Ltd., Hong Kong Branch, ICBC International Securities Limited, Bank of China Limited, CMB Wing Lung Bank Limited, Industrial Bank Co., Ltd. Hong Kong Branch, CCB International Capital Limited, TFI Securities and Futures Limited,

CMBC Securities Company Limited, China Everbright Bank Co., Ltd., Hong Kong Branch, Haitong International Securities Company Limited, CSFG International Securities Limited, Shenwan Hongyuan Securities (H.K.) Limited and China Industrial Securities International Brokerage Limited (the “**Managers**”) to inform themselves about and to observe any such restrictions. None of the Issuer, the Guarantor or any of the Managers represents that this Offering Circular may be lawfully distributed, or that the Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the circulation of documents relating thereto, in certain jurisdictions including the United States, the United Kingdom, the PRC, Hong Kong, Singapore, Japan and the British Virgin Islands, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see “*Subscription and Sale*”. By purchasing the Bonds, investors represent and agree to all of those provisions contained in that section of this Offering Circular. This Offering Circular is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for, or otherwise acquire, the Bonds. Distribution of this Offering Circular to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorised. Each prospective investor, by accepting delivery of this Offering Circular, agrees to the foregoing and to make no photocopies of this Offering Circular or any documents referred to this Offering Circular.

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Guarantor, the Group, the Bonds, the Guarantee other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Managers, the Trustee or the Agents (as defined in Terms and Conditions of the Bonds) or their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Guarantor or the Group since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them to subscribe for or purchase the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

This Offering Circular may not be copied or reproduced in whole or in part. It may be distributed only to and its contents may be disclosed only to the prospective investors to whom it is provided. By accepting delivery of this Offering Circular each investor agrees to these restrictions.

No representation or warranty, express or implied, is made or given by the Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them. None of the Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them has independently verified any of the information contained in this Offering Circular and can give assurance that such information is accurate, truthful or complete.

To the fullest extent permitted by law, the Managers, the Trustee and the Agents and any of their respective affiliates, directors, officers, employees, agents, representatives and advisers or any person who controls any of them do not accept any responsibility for the contents of this Offering Circular and assume no responsibility for the contents, accuracy, completeness or sufficiency of any such information or for any other statement, made or purported to be made by the Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them or on their behalf in connection with the Issuer or the issue and offering of the Bonds. Each of the Managers, the Trustee and the Agents and their respective affiliates, directors,

officers, employees, agents, representatives and advisers and each person who controls any of them accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them undertakes to review the financial condition or affairs of the Issuer, the Guarantor or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investors in the Bonds of any information coming to the attention of the Managers, the Trustee or any Agent or their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them.

This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Guarantor, the Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them that any recipient of this Offering Circular should subscribe for or purchase the Bonds. Prospective investors should not construe anything in this Offering Circular as legal, business or tax advice. Each prospective investor should determine for itself the relevance of the information contained in this Offering Circular and consult its own tax, legal and business advisers needed to make its investment decision and determine whether it is legally able to purchase the Bonds under applicable laws or regulations.

IN CONNECTION WITH THIS OFFERING, ANY OF THE MANAGERS APPOINTED OR ACTING AS STABILISATION MANAGER (THE “STABILISATION MANAGER”) OR ANY PERSON(S) ACTING ON BEHALF OF THE STABILISATION MANAGER MAY, SUBJECT TO ALL APPLICABLE LAWS, OVER-ALLOT THE BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE(S) OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO OBLIGATION ON THE STABILISATION MANAGER (OR PERSON(S) ACTING ON BEHALF OF THE STABILISATION MANAGER) TO DO THIS. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF ALLOTMENT OF THE BONDS. SUCH STABILISATION SHALL BE IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A (1) of the SFA), that the Bonds are “prescribed capital markets products” (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

The Bonds and the Guarantee have not been and will not be registered with the United States Securities and Exchange Commission under the Securities Act or with any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense in the United States.

Any of the Managers and their respective affiliates may purchase the Bonds for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Bonds and/or other securities of the Issuer, the Guarantor or their respective subsidiaries or associates at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds). Furthermore, investors in the Bonds may include entities affiliated with the Group.

In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantor and the Group and the terms of the offering of the Bonds, including the merits and risks

involved. See “*Risk Factors*” for a discussion of certain factors to be considered in connection with an investment in the Bonds. Investors are advised to read and understand the contents of this Offering Circular before investing and consult their attorney and adviser if in doubt.

Listing of the Bonds on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Issuer, the Guarantor, the Group or the Bonds. The Issuer, the Guarantor, the Group, the Managers, the Trustee and the Agents and their respective affiliates, directors, officers, employees, agents, representatives and advisers, and each person who controls any of them are not making any representation to any purchaser of Bonds regarding the legality of any investment in the Bonds by such purchaser under any legal investment or similar laws or regulations. The contents of this Offering Circular should not be construed as providing legal, business, accounting or investment advice. Each person receiving this Offering Circular acknowledges that such person has not relied on the Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents, representatives and advisers or and each person who controls any of them in connection with its investigation of the accuracy of such information or its investment decision.

INDUSTRY AND MARKET DATA

Market data and certain industry forecasts and statistics in this Offering Circular have been obtained from both public and private sources, including internal surveys, market research, publicly available information, various government sources and industry publications. Although this information is believed by the Issuer and the Guarantor to be reliable, it has not been independently verified by the Issuer, the Guarantor, the Managers, the Trustee or the Agents or their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them, and none of the Issuer, the Guarantor, the Managers, the Trustee or the Agents or their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them makes any representation as to the correctness, accuracy or completeness of that information. Such information may not be consistent with other information compiled within or outside the PRC. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified. Accordingly, such information should not be unduly relied upon. This Offering Circular summarises certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents.

PRESENTATION OF FINANCIAL INFORMATION

The consolidated financial information of the Group as at and for the year ended 31 December 2018 has been extracted from the Guarantor’s audited consolidated financial statements as at and for the year ended 31 December 2019 (the “**2019 Audited Financial Statements**”), which are included elsewhere in this Offering Circular. The consolidated financial information of the Group as at and for the years ended 31 December 2019 and 2020 has been extracted from the Guarantor’s audited consolidated financial statements as at and for the year ended 31 December 2020 (the “**2020 Audited Financial Statements**”, together with the 2019 Audited Financial Statements, the “**Audited Financial Statements**”), which are included elsewhere in this Offering Circular. The Audited Financial Statements have been audited by WUYIGE Certified Public Accountants LLP (大信會計師事務所) (“**Daxin**”), the independent auditors of the Guarantor. The Audited Financial Statements were prepared and presented in accordance with the Accounting Standards for Business Enterprises in China (“**PRC GAAP**”).

Pursuant to the Notice on the Revision of the Format for Issuing General Enterprise Financial Statements for 2019 (Cai Kuai [2019] No. 6) (“**New Accounting Requirements**”), which was promulgated by the Ministry of Finance of the People’s Republic of China (“**MOF**”) in April 2019, among other things, notes receivable and accounts receivable have been adjusted and divided into two separate line items, notes payable and accounts payable have been adjusted and divided into two separate line items. In addition, MOF also promulgated certain new account standards in recent years (together with New Accounting Requirements, the “**New Accounting Standards and Requirements**”). As a result, the presentation of certain accounting items in the Guarantor’s Financial Statements may not be comparable to the financial figures in the Guarantor’s financial statements for the previous periods. For details of the New Accounting Standards and Requirements and its impacts on the Guarantor, see Note 5 “*Changes of significant accounting policies and accounting estimates*” to the 2019 Audited Financial Statements and Note 5 “*Changes in significant accounting policies and accounting estimates*” to the Reviewed Financial Statements (as defined below) included elsewhere in this Offering Circular.

The unaudited but reviewed consolidated interim financial information of the Guarantor as at and for the six months ended 30 June 2020 and 2021 has been derived from its unaudited but reviewed consolidated financial statements as at and for the six months ended 30 June 2021 (the “**Reviewed Financial Statements**”, together with the Audited Financial Statements, the “**Historical Financial Statements**”), which is included elsewhere in this Offering Circular, and which has been reviewed by Daxin. Such financial information has not been audited and should not be relied upon by potential investors to provide the same type or quality of information associated with information that has been subject to an audit. None of the Managers, the Trustee or the Agents or their respective affiliates, directors, officers, agents, employees, representatives or advisers or any person who controls any of them makes any representation or warranty, express or implied, regarding the accuracy or sufficiency of such unaudited but reviewed consolidated financial statements for an assessment of, and potential investors must exercise caution when using such data to evaluate, the Guarantor’s financial condition and results of operations. Accordingly, potential investors must exercise caution when using such data to evaluate the Group’s financial position, results of operations and cash flows. Such unaudited consolidated interim financial information as at and for the six months ended 30 June 2021 should not be taken as an indication of the expected financial condition, results of operations and cash flows of the Group for the full financial year ending 31 December 2021.

PRC GAAP differs in certain respects from International Financial Reporting Standards (“**IFRS**”). See “*Description of Certain Differences Between PRC GAAP and IFRS*”.

This Offering Circular includes figures relating to EBITDA. EBITDA is not a standard measure under PRC GAAP or IFRS. EBITDA is a widely used financial indicator of a company’s ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities of the Issuer, the Guarantor or the Group. In evaluating EBITDA, investors should consider, among other things, the components of EBITDA such as operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. The Issuer has included EBITDA because it believes that EBITDA is a useful supplement to cash flow data as a measure of the Group’s performance and its ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare the Group’s EBITDA to EBITDA presented by other companies because not all companies use the same definition.

ROUNDING

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

CERTAIN DEFINITIONS AND CONVENTIONS

In this Offering Circular, unless otherwise specified or the context otherwise requires, references to:

- “**API**” are to active pharmaceutical ingredients;
- “**China**” or the “**PRC**” are to the People’s Republic of China and, for the purpose of this Offering Circular only, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
- “**Environmental Sciences Research and Design Company**” are to Shandong Environmental Sciences Research and Design Co., Ltd. (山東省環境保護科學研究設計院有限公司);
- “**Hong Kong**” are to the Hong Kong Special Administrative Region of the People’s Republic of China;
- “**Hualu-Hengsheng**” are to Shandong Hualu-Hengsheng Chemical Co., Ltd. (山東華魯恒升化工股份有限公司);

- **“Hualu-Hengsheng Group”** are to Shandong Hualu-Hengsheng Group Co., Ltd. (山東華魯恒升集團有限公司);
- **“Lukang Pharmaceutical”** are to Shandong Lukang Pharmaceutical Co., Ltd. (山東魯抗醫藥股份有限公司);
- **“MOFCOM”** are to the Ministry of Commerce of the People’s Republic of China or its competent local counterparts;
- **“NDRC”** are to the National Development and Reform Commission of the People’s Republic of China or its competent local counterparts;
- **“PBOC”** are to the People’s Bank of China, the central bank of the PRC;
- the **“PRC government”** are to the central government of the PRC and its political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof or, where the context requires, any of them;
- **“Renminbi”**, **“RMB”** or **“CNY”** are to the lawful currency of the PRC;
- **“SAFE”** are to the State Administration of Foreign Exchange of the People’s Republic of China or its competent local counterparts;
- **“SASAC”** are to the State-owned Assets Supervision and Administration Commission or its competent local counterparts;
- the **“Shandong SASAC”** are to the Shandong Provincial State-owned Assets Supervision and Administration Commission;
- **“U.S. dollars”** or **“U.S.\$”** are to the lawful currency of the United States of America; and
- **“Xinhua Pharmaceutical”** are to Shandong Xinhua Pharmaceutical Co., Ltd. (山東新華製藥股份有限公司).

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only.

Historical amounts translated into Renminbi have been translated at historical rates of exchange. Such translations should not be construed as representations that the amounts referred to herein could have been or could be converted into Renminbi at those rates or any other rate at all. Unless otherwise specified, where financial information in relation to the Group has been translated into U.S. dollars, it has been so translated, for convenience only, at the rate of CNY6.4566 to U.S.\$1.00 (the noon buying rate in New York City on 30 June 2021 as set forth in the weekly H.10 statistical release of the Federal Reserve Board of the Federal Reserve Bank of New York). For further information relating to exchange rates, see *“Exchange Rate Information”*.

FORWARD-LOOKING STATEMENTS

The Issuer and the Guarantor have made certain forward-looking statements in this Offering Circular. All statements other than statements of historical facts contained in this Offering Circular constitute “forward-looking statements”. The forward-looking statements contain information regarding, among other things, the Group’s future operations, performance, financial condition, expansion plans and business strategies. These forward-looking statements are inherently subject to risks, uncertainties and assumptions, including, among other things:

- the Group’s business and operating strategies;
- the Group’s capital commitment and development plans;
- the amount and nature of, and potential for, future development of the Group’s business;
- various business opportunities that the Group may pursue;
- the regulatory environment of the industries in which the Group operates;
- changes in political, economic, legal and social conditions, in particular in the PRC, including the specific policies of the PRC central and local governments affecting the regions where the Group operates;
- the prospective financial condition and performance regarding the Group’s businesses;
- availability and costs of financing;
- changes in competitive conditions and the Group’s ability to compete under these conditions;
- the Group’s ability to obtain additional capital on acceptable terms;
- reduction or discontinuance of the government subsidies and other government grants or the mismatch in terms of timing of the availability of the government fiscal support and that of the Group’s cash flow requirement; and
- other risks identified in “*Risk Factors*” in this Offering Circular.

Words such as “aim”, “believe”, “anticipate”, “believe”, “can”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “potential”, “predict”, “project”, “seek”, “should”, “target”, “will”, “would” and similar expressions identify forward-looking statements. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding expected financial condition and results of operations, business plans and prospects are forward-looking statements. These forward-looking statements include but are not limited to statements as to the business strategy, operation income, profitability, planned projects and other matters as they relate to the Issuer, the Guarantor or the Group discussed in this Offering Circular regarding matters that are not historical facts. The Issuer, the Guarantor and any member of the Group can give no assurance that the expectations reflected in the forward-looking statements will prove to be correct. The Issuer, the Guarantor and any member of the Group undertakes no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events, change of conditions or circumstances on which any statement was based or otherwise.

Each of the Issuer and the Guarantor cautions investors not to place undue reliance on these forward-looking statements which reflect the Issuer’s and/or the Guarantor’s managements’ view only as at the date of this Offering Circular. In light of the foregoing and the risks, uncertainties and assumptions in “*Risk Factors*” and elsewhere in this Offering Circular, the forward-looking statements in this Offering Circular are not and should not be construed as assurances of future performance and the actual results, performance or achievements of the Issuer, the Guarantor or the Group could differ materially from those anticipated in or implied by these forward-looking statements.

These forward-looking statements speak only as at the date of this Offering Circular. The Issuer and the Guarantor expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Group’s expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

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SUMMARY

The summary below is only intended to provide a very limited overview of information described in more detail elsewhere in this Offering Circular. This summary does not contain all the information that may be important to prospective investors in deciding to invest in the Bonds. Terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should read the entire Offering Circular, including the section entitled “Risk Factors” and the financial statements and related notes thereto, before making an investment decision.

DESCRIPTION OF THE ISSUER

Overview

The Issuer was incorporated in the British Virgin Islands as a company limited by shares on 19 March 2021 under the BVI Business Companies Act (as amended) of the British Virgin Islands (company number: 2057677). The registered office of the Issuer is at Ritter House, Wickhams Cay, PO Box 3170, Road Town, Tortola VG1110, British Virgin Islands.

As at 30 June 2021, the Issuer was a wholly-owned subsidiary of China Shandong Group Limited (華魯集團有限公司) (“**Hong Kong Hualu**”), which, in turn, was wholly-owned by the Guarantor. The Issuer was established for the purpose of issuing bonds and on-lending the proceeds to the Guarantor or its subsidiaries or affiliates.

DESCRIPTION OF THE GROUP

Overview

The Group is a majority owned subsidiary of Shandong SASAC, and is engaged in coal chemicals, pharmaceuticals and other critical industries primarily operating in Shandong province. Since its establishment in 2005, the Group has played an important role in implementing the Shandong Provincial Government’s blueprint for the promotion and construction of comprehensive new growth energy resources to replace older energy resources (新舊動能轉換), and contribute to the industrial upgrade of Shandong. The Group acts as an important bridge to connect Shandong province with cities and territories in other parts of China as well as globally. In particular, Hong Kong Hualu, the Guarantor’s wholly owned subsidiary, is a Hong Kong-based company serving as a bridge that fosters, among other things, economic and political ties between Shandong Province and Hong Kong.

Benefitting from its strategic importance in Shandong Province and its strong support from the Shandong Provincial People’s Government and Shandong SASAC toward its strategic development, the Group has experienced rapid growth and achieved major milestones. The Group focuses on high-end coal chemicals, high-end pharmaceuticals and other businesses including the ecological and environmental businesses. The Group has gained extensive experience and expertise in the industries in which it operates and has become the leading player in its core businesses. As at 30 June 2021, Hualu-Hengsheng, the Group’s major operating entity in the coal chemical business, was the largest producer of dimethylformamide (二甲基甲酰胺) (“**DMF**”) worldwide, with an annual production capacity of 330,000 tons per year, while Xinhua Pharmaceutical, one of the Group’s two subsidiaries engaged in the high-end pharmaceutical business, is a major producer and exporter of antipyretic and analgesic APIs in Asia, and the other subsidiary, Lukang Pharmaceutical, has one of the most important antibiotics production bases in China. The “Lukang” brand has been recognised as a well-known trademark in China.

Set forth below is an overview of the principal business segments of the Group:

Coal Chemical: The Group conducts its coal chemical business primarily through Hualu-Hengsheng, a subsidiary of the Hualu-Hengsheng Group. The coal chemical business primarily involves the production, distribution and sale of fertilizer, organic amine (有機胺), adipic acid and intermediates (己二酸及中間品), acetic acid and derivatives (醋酸及衍生品) and polyol (多元醇). For the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021, operating income generated from the Group’s coal chemical business was approximately RMB14,411 million, RMB14,159 million, RMB12,805 million, RMB5,952 million and RMB11,425 million, respectively, representing approximately 60.1 per cent., 57.3 per cent., 52.6 per cent., 51.3 per cent. and 62.8 per cent. of the Group’s total operating income, respectively. For the years ended 31 December 2018, 2019 and 2020 and

the six months ended 30 June 2020 and 2021, gross profit generated from the Groups coal chemical business was approximately RMB4,534 million, RMB3,923 million, RMB2,781 million, RMB1,339 million and RMB4,813 million, respectively, representing approximately 62.6 per cent., 55.3 per cent., 48.0 per cent., 49.3 per cent. and 73.5 per cent. of the Group's gross profit, respectively.

Pharmaceuticals: The Group conducts its pharmaceuticals business through Xinhua Pharmaceutical and Lukang Pharmaceutical and their respective subsidiaries, joint ventures and affiliates. Xinhua Pharmaceutical, listed on both the Hong Kong Stock Exchange (stock code: 0719) and Shenzhen Stock Exchange (stock code: 000756), was the first chemosynthetic pharmaceutical company founded in China. It engages in the development, production and distribution of API, preparations and medical intermediates and distributes its products in the domestic and overseas markets, including the United States, Europe and other regions. The businesses of Lukang Pharmaceutical, listed on the Shanghai Stock Exchange (stock code: 600789), include the production of API and preparations for human use and veterinary and botanic drugs and the development of ecotechnology. The "Lukang" brand has been recognised as a well-known trademark in China. The high-end pharmaceutical business of the Group is one of the driving forces for utilizing comprehensive new growth energy resources to replace older energy resources in Shandong Province. For the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021, operating income generated from the Group's pharmaceutical business was approximately RMB4,960 million, RMB9,209 million, RMB9,769, million, RMB5,223 million and RMB5,788 million, respectively, representing approximately 20.7 per cent., 37.3 per cent., 40.1 per cent., 45.0 per cent. and 31.8 per cent. of the Group's total operating income, respectively. For the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021, gross profit generated from the Group's pharmaceutical business was approximately RMB1,406 million, RMB2,895 million, RMB2,755 million, RMB1,351 million and RMB1,634 million, respectively, representing approximately 19.4 per cent., 40.8 per cent., 47.6 per cent., 49.8 per cent. and 25.0 per cent. of the Group's gross profit, respectively.

Others: The Group engages in certain other businesses, including the ecological and environmental business. The Group conducts its ecological and environmental business primarily through its wholly owned subsidiary, Environmental Sciences Research and Design Company. It is the largest scientific research institute of environmental protection in Shandong and a leading provider of comprehensive ecological and environmental services in the province.

Recent Development

Issue of ultra-short-term financing bills in the PRC

In August 2021, the Guarantor issued an aggregate principal amount of RMB500 million ultra-short-term financing bills due January 2022 in the PRC with a term of 150 days and an initial coupon of 2.60 per cent.

Competitive Strengths

The Group believes that its competitive strengths as outlined below distinguish it from its competitors and are important to its success and future development:

- Unique and strategic importance in Shandong Province;
- Close relationship with and strong support from the Shandong Provincial People's Government and Shandong SASAC;
- Optimised and diversified business portfolio and product offering;
- A leading industry player with significant market presence and effective cost management;
- Strong research and development capability and experienced management and execution team;
- Extensive marketing network and sales channels;

- Comprehensive capital investment model and prudent financial policies;
- Access to multiple financing channels; and
- Experienced management team and well-established corporate governance structure.

Business Strategies

- Further enhance the Group's cost management and operational efficiency;
- Continue to upgrade an automated and intelligent production and operation system; and
- Continue to invest in research and development and rapidly advance the development of its pharmaceutical product candidates.

SUMMARY OF THE OFFERING

The following is a brief summary of the terms of the offering of the Bonds and is qualified in its entirety by the remainder of this Offering Circular. For a more complete description of the Terms and Conditions of the Bonds, see “Terms and Conditions of the Bonds” and “Summary of Provisions Relating to the Bonds in Global Form”. Some of the terms described below are subject to important limitations and exceptions. Defined terms used in this summary shall have the meanings given to them in “Terms and Conditions of the Bonds”.

Issuer	Hualu International Finance (BVI) Limited 华鲁国际财务(BVI)有限公司.
Guarantor	Hualu Holdings CO.,LTD. (华鲁控股集团有限公司).
Guarantee	The Guarantor will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Trust Deed and the Bonds. The Guarantor’s obligations in that respect will be contained in the Deed of Guarantee.
Issue	U.S.\$300,000,000 in aggregate principal amount of 2.2 per cent. guaranteed bonds due 2026.
Issue Price	100 per cent. of the principal amount of the Bonds.
Form and Denomination	The Bonds will be issued in the specified denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.
Interest	The Bonds will bear interest from and including 27 October 2021 at the rate of 2.2 per cent. per annum, payable semi-annually in equal instalments in arrear on 27 April and 27 October in each year, commencing on 27 April 2022.
Issue Date	27 October 2021.
Maturity Date	27 October 2026.
Status of the Bonds	The Bonds will constitute direct, unconditional, unsubordinated and (subject to Condition 4(a) of the Terms and Conditions of the Bonds) unsecured obligations of the Issuer and shall at all times rank <i>pari passu</i> and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable laws and regulations and subject to Condition 4(a) of the Terms and Conditions of the Bonds, at all times rank at least equally with all the Issuer’s other present and future unsecured and unsubordinated obligations.
Status of the Guarantee	The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable laws and regulations and subject to Condition 4(a) of the Terms and Conditions of the Bonds, at all times rank at least equally with all the Guarantor’s other present and future unsecured and unsubordinated obligations.
Negative Pledge	The Bonds contain a negative pledge provision as further described in Condition 4(a) of the Terms and Conditions of the Bonds.
Events of Default	The Bonds contain certain events of default provisions as further described in Condition 9 of the Terms and Conditions of the Bonds.

Taxation	All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee shall be made free and clear of, and without set-off or counterclaim and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands, the PRC or, in each case, any political subdivision or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In such event, the Issuer (or the Guarantor, as the case may be) shall, subject to the limited exceptions specified in the Terms and Conditions of the Bonds, pay such additional amounts (“ Additional Tax Amounts ”) as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required. See Condition 8 of the Terms and Conditions of the Bonds.
Final Redemption	Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Maturity Date.
Redemption for Taxation Reasons	The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice to the Bondholders and in writing to the Trustee and the Principal Paying Agent (which notice shall be irrevocable), at their principal amount together with any unpaid interest accrued to, but excluding, the date fixed for redemption, if the Issuer and/or the Guarantor (as the case may be) satisfies the Trustee immediately prior to the giving of such notice that (i) the Issuer (or, if the Guarantee were called, the Guarantor) has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 8 of the Terms and Conditions of the Bonds as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or the PRC, or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of, such laws or regulations (including but not limited to any decision by a court of competent jurisdiction), which change and/or amendment becomes effective on or after 20 October 2021, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds (or the Guarantee, as the case may be) then due, as further described in Condition 6(b) of the Terms and Conditions of the Bonds.
Redemption for Relevant Event	At any time following the occurrence of a Change of Control or a No Registration Event (each a “ Relevant Event ”), the holder of any Bond will have the right, at such holder’s option, to require the Issuer to redeem all, but not some only, of that holder’s Bonds on the Put Settlement Date at 101 per cent. (in the case of a redemption for a Change of Control) or 100 per cent. (in the case of a redemption for a No Registration Event) of their principal amount, together with, in each case, accrued and unpaid interest up to but excluding such Put Settlement Date. See “ <i>Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for Relevant Event</i> ”.

Clearing Systems	The Bonds will be issued in registered form and represented initially by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and deposited on the Issue Date with, a common depositary for Euroclear and Clearstream. Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described in the Global Certificate and this Offering Circular, certificates for the Bonds will not be issued in exchange for beneficial interests in the Global Certificate.
Clearance and Settlement . . .	The Bonds have been accepted for clearance through Euroclear and Clearstream under Common Code number 239395716 and the International Securities Identification Number for the Bonds is XS2393957167.
Legal Entity Identifier	655600GN5O5WU42UTQ39.
Governing Law	English law.
Trustee	China Construction Bank (Asia) Corporation Limited (中國建設銀行(亞洲)股份有限公司).
Principal Paying Agent	China Construction Bank (Asia) Corporation Limited (中國建設銀行(亞洲)股份有限公司).
Transfer Agent and Registrar	China Construction Bank (Asia) Corporation Limited (中國建設銀行(亞洲)股份有限公司).
Further Issues	The Issuer may from time to time without the consent of the Bondholders create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the issue date, the first payment of interest on them, and the timing for complying with the Registration Conditions and the making and completion of the Cross Border Security Registration and the NDRC Post-issue Filing) and so that such further issue shall be consolidated and form a single series with the outstanding Bonds, as further described in Condition 15 of the Terms and Conditions of the Bonds.
Use of Proceeds	See “ <i>Use of Proceeds</i> ”.
Risk Factors	For a discussion of certain risk factors that should be considered in evaluating an investment in the Bonds, see “ <i>Risk Factors</i> ”.
Listing	Application will be made to the Hong Kong Stock Exchange for the listing of the Bonds by way of debt issues to Professional Investors only and such permission is expected to become effective on or about 28 October 2021.
Selling Restrictions	The Bonds will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See “ <i>Subscription and Sale</i> ”.
Ratings	Fitch and Moody’s have assigned corporate ratings of “A-” and “A3”, respectively, to the Guarantor. The Bonds are expected to be rated “A-” and “A3”, respectively, by Fitch and Moody’s. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION OF THE GUARANTOR

The following tables set forth the summary consolidated financial information of the Group as at and for the periods indicated.

The summary consolidated financial information of the Group as at and for the year ended 31 December 2018 has been extracted from the 2019 Audited Financial Statements, which have been audited by Daxin. The consolidated financial information of the Group as at and for the years ended 31 December 2019 and 2020 has been extracted from the 2020 Audited Financial Statements, which have been audited by Daxin. The Group's Audited Financial Statements were prepared and presented in accordance with PRC GAAP.

The summary consolidated financial information of the Group at of and for the six months ended 30 June 2020 and 2021, as set forth below, is derived from its unaudited but reviewed consolidated financial statements as at and for six months ended 30 June 2021 included elsewhere in this Offering Circular. The unaudited but reviewed consolidated financial statements of the Group as at and for the six months ended 30 June 2021 have been reviewed by Daxin and prepared and presented in accordance with PRC GAAP. Such financial information has not been audited and should not be relied upon by potential investors to provide the same type or quality of information associated with information that has been subject to an audit. None of the Managers, the Trustee or the Agents or their respective affiliates, directors, officers, employees, agents, representatives or advisers or any person who controls any of them makes any representation or warranty, express or implied, regarding the accuracy or sufficiency of such unaudited but reviewed consolidated financial statements for an assessment of, and potential investors must exercise caution when using such data to evaluate, the Guarantor's financial condition and results of operations. Accordingly, potential investors must exercise caution when using such data to evaluate the Group's financial position, results of operations and cash flows. Such unaudited consolidated interim financial information as at and for the six months ended 30 June 2020 and 2021 should not be taken as an indication of the expected financial condition, results of operations and cash flows of the Group for the full financial year ending 31 December 2021.

In recent years, MOF promulgated the New Accounting Standards and Requirements. As a result, the presentation of certain accounting items in the Guarantor's Financial Statements may not be comparable to the financial figures in the Guarantor's financial statements for the previous periods. For details of the New Accounting Standards and Requirements and its impacts on the Guarantor, see Note 5 "Changes of significant accounting policies and accounting estimates" to the 2019 Audited Financial Statements and Note 5 "Changes in significant accounting policies and accounting estimates" to the Reviewed Financial Statements included elsewhere in this Offering Circular.

The summary consolidated financial information as set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant audited or reviewed consolidated financial statements of the Guarantor and the notes thereto included elsewhere in this Offering Circular. The Guarantor's historical consolidated financial information should not be taken as an indication of its future financial performance. See "Risk Factors – Risks Relating to the Financial and Other Information – The Group's historical consolidated financial information may not be indicative of the Group's future results of operations".

PRC GAAP differs in certain respects from IFRS. See "Description of Certain Differences between PRC GAAP and IFRS".

Summary Consolidated Statement of Income

	Year ended 31 December			For the six months ended 30 June	
	2018	2019	2020	2020	2021
	(RMB'000) (audited)	(RMB'000) (audited)	(RMB'000) (audited)	(RMB'000) (unaudited but reviewed)	(RMB'000) (unaudited but reviewed)
1. Total operating income	23,981,672	24,710,478	24,346,134	11,607,060	18,178,538
Including: Operating income	23,981,672	24,710,478	24,346,134	11,607,060	18,178,538
2. Total operating cost	19,736,365	21,262,124	21,763,178	–	–
Including: Operating costs	16,734,766	17,620,397	18,551,855	8,893,737	11,634,410
Taxes and surcharges	217,782	194,663	208,808	103,166	102,343
Selling and distribution expenses	1,421,686	1,717,167	1,146,005	567,224	628,867
General and administrative expenses	725,578	777,036	804,167	346,031	425,225
Research and development expenses	404,665	735,767	808,798	380,836	426,255
Finance expenses	231,887	217,095	243,546	116,010	111,146
Including: Interest expenses	315,586	305,454	250,045	138,194	131,399
Interest income	73,444	54,901	53,722	23,848	30,965
Net loss on foreign exchange (“-” for gains)	–25,600	–44,648	37,567	–	–
Add: Other income	81,917	82,762	92,420	44,017	28,752
Investment income (“-” for loss)	36,468	59,697	81,312	40,845	27,722
Including: Investment income from associates and joint ventures	3,123	–2,355	1,093	–2,245	2,440
Gain from fair value changes (“-” for loss)	–482	13,591	–20,221	–6,542	10,027
Credit impairment losses (“-” for loss)	–	–	–	–	–12,517
Impairment on assets (“-” for loss)	–362,464	–237,452	–203,989	–5,150	–47,911
Gains from disposal of assets (“-” for loss)	30,045	8,890	204,552	207,360	–12
3. Operating profits (“-” for loss)	4,030,791	3,375,843	2,737,029	1,480,584	4,856,353
Add: Non-operating income	35,118	66,494	18,395	12,715	3,997
Including: Government grants	10,919	7,821	1,363	–	721
Less: Non-operating expenses	81,468	15,992	36,382	9,700	5,088
4. Profit before tax (“-” for loss)	3,984,440	3,426,344	2,719,042	1,483,599	4,855,262
Less: income tax expenses	619,855	508,128	427,601	204,492	764,793
5. Net profit (“-” for net loss)	3,364,585	2,918,216	2,291,442	1,279,106	4,090,469
1. Net profit attributable to parent company	994,025	1,037,571	744,083	396,754	1,305,533
2. Profit/loss attributable to minority shareholders	2,370,560	1,880,645	1,547,358	882,352	2,784,936
3. Profit or loss from continuing operations	3,364,585	2,918,216	2,291,442	1,279,106	4,090,469

	Year ended 31 December			For the six months ended 30 June	
	2018	2019	2020	2020	2021
	(RMB'000) (audited)	(RMB'000) (audited)	(RMB'000) (audited)	(RMB'000) (unaudited but reviewed)	(RMB'000) (unaudited but reviewed)
6. Net income of other comprehensive after tax	37,262	-33,229	-24,114	141,846	-37,629
Total comprehensive income attributable to parent company	22,035	-14,746	-18,296	-44,487	-12,250
(1) Comprehensive income not to be reclassified to profit or loss	-	-	-	-45,026	-12,127
1) Fair value changes in other equity instrument investments	-	-	-	-45,026	-12,127
(2) Comprehensive income to be reclassified to profit or loss	22,035	-14,746	-18,296	539	-123
1) Gain or loss from fair value changes of available-for-sale financial assets	-504	-17,920	-1,863	-	-
2) Currency translation difference	-	3,174	-16,434	539	-123
3) Others	22,539	-	-	-	-
Net other comprehensive income attributable to minority shareholders after tax	15,226	-18,482	-5,818	186,333	-25,378
7. Total comprehensive income	3,401,847	2,884,987	2,267,328	1,420,952	4,052,840
Total comprehensive income attributable to parent company	1,016,061	1,022,824	725,787	352,267	1,293,282,789
Total comprehensive income attributable to minority shareholders	2,385,787	1,862,163	1,541,540	1,068,685	2,759,557,187
8. Earnings per share					
Basic earnings per share	-	-	-	-	-
Diluted earnings per share	-	-	-	-	-

Summary Consolidated Balance Sheet Data

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	(RMB'000) (audited)	(RMB'000) (audited)	(RMB'000) (audited)	(RMB'000) (unaudited but reviewed)
Current Assets				
Monetary capital	4,905,997	3,663,891	4,755,546	3,700,679
Transactional Financial Assets	—	—	—	1,842,985
Financial assets measured at fair value through profit or loss for the current period	1,048	1,151	83,417	—
Notes receivables	1,446,177 ⁽¹⁾	1,330,825	904,884	2,995,961
Account receivables	1,134,747 ⁽¹⁾	1,000,030	1,202,009	1,429,923.75
Advance payment	294,566	194,111	337,132	42,053.14
Other receivables	888,001	841,521	130,577	150,598
Inventory	2,494,142	2,460,796	2,406,597	2,711,210
Incl: Raw materials	532,809	586,862	468,575	2,711,210
Products	1,399,005	1,221,953	1,246,628	863,890.18
Non-current assets due within one year	999,219	470,231	87,606	65,452
Other current assets	1,588,175	1,596,471	1,400,046	198,223.27
Total of current assets	13,752,072	11,559,028	11,307,814	13,727,043
Non-current assets				
Available-for-sale financial asset . .	212,172	882,306	1,620,175	—
Held-to-maturity investment	146,640	216,779	318,262	440,597
Long-term receivables	915,500	690,184	197,507	189,143
Long-term equity investment	69,977	49,649	46,243	90,281
Investment real estate	318,979	325,608	396,062	388,590
Fixed assets	18,282,327	17,654,123	18,174,635	18,977,053
Construction in process	849,961	1,612,953	4,160,613	4,453,345
Intangible asset	1,313,979	1,939,408	2,144,927	2,348,188
Development expenditures	70,168	146,851	179,052	192,460
Long-term deferred expense	95,218	83,551	89,894	88,837
Deferred income tax asset	143,552	201,859	207,885	189,037
Other non-current asset	726,615	1,256,213	1,401,165	1,826,459
Total of non-current asset	23,145,088	25,059,484	28,936,422	30,770,209
Total assets	36,897,160	36,618,512	40,244,235	44,497,253

Note:

1. This financial information for the year ended 31 December 2018, originally included in the Guarantor's consolidated financial statements as at and for the year ended 31 December 2018, has been adjusted in the 2019 Audited Financial Statements. For details of such adjustments, see Note 4 of the 2019 Audited Financial Statements which are included elsewhere in this Offering Circular.

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	(RMB'000) (audited)	(RMB'000) (audited)	(RMB'000) (audited)	(RMB'000) (unaudited but reviewed)
Current liabilities				
Short-term loan	1,469,993	1,807,091	1,946,822	1,465,910
Notes payable	839,337 ⁽¹⁾	926,786	685,727	720,951
Account payable	2,900,616 ⁽¹⁾	2,208,124	3,035,457	3,500,531
Advance receipt	888,943	984,262	1,112,240	819,310
Payroll payable	232,123	243,336	308,291	345,881
Including: Salary payable	105,016	112,499	169,806	204,343.56
Benefit payable	25,428	24,378	23,920	23,891.10
Tax and charge payable	392,106	241,344	263,500	497,660
Including: Tax payable	386,769	236,388	232,159	486,047.35
Other payable	1,018,137	989,383	967,598	985,863
Non-current asset due within one year	2,814,059	3,278,955	1,323,656	1,357,407
Other current liabilities	10,083	4,981	2,148,864	581,651
Total current liabilities	10,565,396	10,684,261	11,792,157	10,275,165
Non-current liabilities				
Long-term loan	3,944,178	2,107,727	2,102,469	3,228,176
Bonds payable	1,600,000	–	1,000,000	2,000,000
Other long-term payables	498,794	625,159	189,428	168,129
Estimated liabilities	45,251	45,251	52,608	49,810
Deferred income	285,673 ⁽¹⁾	287,266	331,104	331,800
Deferred income tax liability	40,583	78,944	108,624	115,012
Other non-current liabilities	13,465	3,562	3,562	3,562
Including: Special reserves	–	3,562	3,562	–
Total of non-current liabilities	6,427,945	3,147,908	3,787,795	5,898,975
Total liabilities	16,993,341	13,832,169	15,579,951	16,174,140
Owner's equity (or shareholder equity)				
Paid-up capital (or stock)	3,000,000	3,103,000	3,103,000	3,103,000
Capital reserve	792,653	1,035,178	1,142,573	1,142,573
Other comprehensive income	91,352	76,606	58,309	46,059
Incl: Currency exchange adjustment	–	25,939	9,505	9,382
Special reserve	1,758	2,032	2,832	3,431
Surplus reserve	976	20,126	34,433	34,433
Incl: Statutory reserve	976	20,126	34,433	34,433
Undistributed profit	3,399,968	4,331,683	4,775,578	6,058,212
Total owner's equity attributed to the parent company	7,286,706	8,568,624	9,116,725	10,387,707
Minority shareholder equity	12,617,113	14,217,719	15,547,559	17,935,406
Total owner's equity (or shareholder equity)	19,903,819	22,786,343	24,664,284	28,323,113
Total of liabilities and owner's equity (or shareholder equity)	36,897,160	36,618,512	40,244,235	44,497,253

Note:

1. This financial information for the year ended 31 December 2018, originally included in the Guarantor's consolidated financial statements as at and for the year ended 31 December 2018, has been adjusted in the 2019 Audited Financial Statements. For details of such adjustments, see Note 4 of the 2019 Audited Financial Statements which are included elsewhere in this Offering Circular.

Summary Consolidated Statement of Cash Flow

	Year ended 31 December			For the six months ended 30 June	
	2018	2019	2020	2020	2021
	(RMB'000) (audited)	(RMB'000) (audited)	(RMB'000) (audited)	(RMB'000) (unaudited but reviewed)	(RMB'000) (unaudited but reviewed)
Net cash flow from operating activities . .	4,729,782	5,385,302	4,422,108	1,734,013	2,406,516
Net cash flow from investing activities . .	(3,632,840)	(3,487,524)	(3,250,451)	(1,072,589)	(2,895,967)
Net cash flow from financing activities . .	(1,275,231)	(3,102,455)	(43,159)	(346,314)	(488,194)
Influence of exchange ratio's change on cash and cash equivalent	27,443	14,899	(27,015)	2,001	(2,449)
Net increase of cash and cash equivalents .	(150,846)	(1,189,777)	1,101,484	317,111	(980,094)
Add: opening balance of cash and cash equivalent	4,639,031	4,488,186	3,298,409	3,298,409	4,399,893
Closing balance of cash and cash equivalent	4,488,186	3,298,409	4,399,893	3,615,520	3,419,799

Other Financial Data

	As at and for the year ended 31 December			As at and for the six months ended 30 June	
	2018	2019	2020	2020	2021
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
EBITDA ⁽¹⁾ (RMB million)	6,100	5,600	5,000	2,600	6,100
Liability to asset ratio ⁽²⁾ (per cent.)	46	38	39	39	36

Notes:

- EBITDA for any year or period equals the sum of operating profit (operating income minus operating costs), interest income, depreciation and amortisation and for the year. EBITDA is not a standard measure under PRC GAAP or IFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Guarantor's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. The Guarantor has included EBITDA because the Guarantor believes that it is a useful supplement to cash flow data as a measure of its performance and its ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare the Guarantor's EBITDA to EBITDA presented by other companies because not all companies use the same definition. Interest expense excludes amounts capitalised.
- Liability to asset ratio as at a particular date equals to total liabilities dividing by total assets as at a particular date.

RISK FACTORS

An investment in the Bonds is subject to a number of risks. Investors should carefully consider all of the information in this Offering Circular and, in particular, the risks described below, before deciding to invest in the Bonds. The following describes some of the significant risks relating to the Issuer, the Guarantor, the Group, the Group's business and the market in which the Group operates. PRC laws and regulations may differ from the laws and regulations in other countries. Some risks may be unknown to the Issuer, the Guarantor or the Group and other risks, currently believed to be immaterial, could in fact be material. Any of these could materially and adversely affect the business, financial condition, results of operations or prospects of the Issuer, the Guarantor or the Group or the value of the Bonds. All of these factors are contingencies which may or may not occur and the Issuer, the Guarantor or the Group is not in a position to express a view on the likelihood of any such contingency occurring. This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The actual results of the Group could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this Offering Circular.

None of the Issuer, the Guarantor and the Group represents that the statements below regarding the risk factors are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

RISKS RELATING TO THE GROUP'S BUSINESS IN GENERAL

The Group's businesses, financial condition, results of operations and prospects are heavily dependent on the level of economic development in Shandong Province.

The Group's businesses and assets are highly concentrated in Shandong Province. Therefore, its business, financial condition, results of operations and prospects have been, and will continue to be, heavily dependent on the level of economic development of Shandong Province and the PRC. Economic conditions in the PRC generally, and in Shandong Province in particular, are key factors affecting the development of the Group. China's economy has experienced rapid growth in the past 40 years; however, there has been a slowdown in the growth rate since the second half of 2013. According to the National Statistics Bureau of the PRC, the annual growth rate of China's GDP declined from 6.9 per cent. in 2015 to 2.3 per cent. in 2020. Shandong Province has similarly experienced slowing economic growth in recent years. During the same period, the annual growth rate of GDP in Shandong Province slowed from 8.3 per cent. to 2.9 per cent., respectively, according to the Shandong Province Statistics Bureau (山東省統計局). There is no assurance that the level of economic development in Shandong Province will continue to grow at the rates seen in recent years. Any continuing slowdown in Shandong Province's economic development may affect its development plans, which may decrease the demand for the Group's products and services and adversely affect the Group's business, financial condition, results of operations and prospects.

The Shandong Provincial People's Government can exert significant influence on the Group, and could cause the Group to make decisions or modify the scope of its activities, or impose new obligations on the Group, which may not be in the Group's best interests or meet the demands of the Group's clients or may not maximise the Group's profits.

The Group is a state-owned company established by the Shandong Provincial People's Government (the "Shandong Provincial Government"). The Shandong Provincial Government, as the Group's actual controller, participates in and closely monitors the Group's decision-making process for key projects, reviews the Group's development strategy and investment plan, conducts annual appraisals, and appoints the directors and supervisors of the Group. Because of the involvement of the Shandong Provincial Government in the affairs of the Group as the actual controller of the Group, there can be no assurance that the Shandong Provincial Government will not interfere with the business and operations of the Group, and any such interference may have a material adverse effect on the Group's business, financial condition, results of operations, financial performance and prospects. In addition, the Shandong Provincial Government may exert significant influence on the Group's major business decisions and strategies, including the Group's scope of operations, investment decisions and dividend policies. There is no assurance that the Shandong Provincial Government would always make decisions that are in the Group's best interests or with the aim of maximising the Group's profits. For example, the Shandong Provincial Government may influence the Group's business and strategies in a manner that is beneficial to the economic and technological development zones in Shandong Province as a whole but that are not

necessarily in the Group's best interests. The Shandong Provincial Government could also change its policies, plans, preferences, views, expectations, projections, forecasts and opinions, as a result of changes in the PRC's economic, political and social environment and its projections of population and employment growth. Any such change may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

A reduction or discontinuance of government support could materially and adversely affect the Group's business, financial condition and results of operations.

The Company regularly receives financial support and certain preferential treatments from the Shandong Provincial Government. These supports come in various forms, such as favourable policies, government subsidies, asset transfer and capital injection and tax incentives. However, there is no assurance that the Shandong Provincial Government will continue to provide support to the Group or that the existing or other types of government support will not be adjusted or terminated due to any change in government policies or otherwise. If any favourable incentive or government support which is currently available to the Group is reduced or discontinued in the future, the Group's business, financial condition, results of operations and prospects would be materially and adversely affected. The controlling relationship between the Shandong SASAC and the Group does not necessarily correlate to, or provide any assurance as to the Group's financial condition. See also the risk factors entitled "*The PRC government has no payment or other obligations under the Bonds.*" in the section entitled "*– Risks relating to Conducting Business in the PRC.*"

The ownership and control of the Group by the PRC government does not provide assurance on the Group's financial condition.

Although the Guarantor is a state-owned enterprise, the ownership and control of the Group by the PRC government (including the Shandong Provincial Government, Shandong SASAC, Shandong Finance Bureau and other state-owned entities) does not necessarily correlate to, or provide any assurance as to, the financial condition of the Issuer, the Guarantor or the Group. Therefore, a potential investor should not invest in the Bonds unless it has the expertise (either alone or with the help of a financial adviser) to evaluate the risks before making an investment decision.

PRC regulations on the administration of local governments restrict the Group's financing model.

The PRC government has in recent years issued multiple regulations intended to restrict local governments from using state-owned enterprises to incur debt that should be directly incurred by government bodies. These regulations include: the Opinion on Enhancing the Administration of Fiscal Debts of Local Governments (關於加強地方政府性債務管理的意見) released by the State Council in September 2014 ("**Circular 43**"), the Notice concerning Further Regulation of Local Government Borrowing and Financing Conduct (關於進一步規範地方政府舉債融資行為的通知) jointly issued by the MOF, the NDRC, the Ministry of Justice of the PRC, the PBOC, the China Banking Regulatory Commission and the China Securities Regulatory Commission in April 2017 ("**Circular 50**"), the Notice of MOF on Issues concerning Regulations on the Financing Activities Conducted by Financial Institutions for Local Governments and State-owned Enterprises (財務部關於規範金融企業對地方政府和國有企業投融資行為有關問題的通知) issued by the MOF in March 2018 ("**Circular 23**"), the Circular of the NDRC and the MOF on Improvement of Market Regulatory Regime and Strict Prevention of Foreign Debt Risks and Local Government Indebtedness Risks (國家發展改革委、財政部關於完善市場約束機制嚴格防範外債風險和地方債務風險的通知) jointly issued by the NDRC and the MOF in May 2018 ("**Circular 706**"), the Guiding Opinion on Strengthening the Asset and Liability Constraints of State-Owned Enterprises (中共中央辦公廳、國務院辦公廳《關於加強國有企業資產負債約束的指導意見》) jointly issued by the General Office of the Central Committee of the Communist Party of China and the State Council on 13 September 2018 (the "**Joint Opinion**") and the Circular of the General Office of the NDRC on the Relevant Requirements for Filing and Registration of Foreign Debts Issuance by Local State-owned Enterprises (國家發展改革委辦公廳關於對地方國有企業發行外債申請備案登記有關要求的通知) ("**Circular 666**") and the Guidelines for Banking and Insurance Institutions to Further Prevent and Defuse the Risks of Implicit Local Government Debt (Yin Bao Jian Fa [2021] No.15) (銀行保險機構進一步做好地方政府隱性債務風險防範化解工作的指導意見(銀保監發[2021]15號)) issued by the China Banking and Insurance Regulatory Commission ("**Circular 15**") issued by the General Office of the NDRC on 6 June 2019. (Circular 43, Circular 50, Circular 23, Circular 706 and, Joint Opinion, Circular 666 and Circular 15, together, the "**Debt Control Circulars**").

Circular 50 reaffirmed Circular 43 policy that local governments are not permitted to use any means other than local government bonds for debt financing and are prohibited from requesting or ordering enterprises to issue debt on their behalf. Circular 23 and Circular 706 established policies for foreign debt issuance including prohibitions on enterprises from listing public assets as enterprise assets and restrictions on making disclosure in offering circulars that imply government endorsement of the issuance or an association with the government's credit. The Joint Opinion, consistent with Circular 43 and Circular 50, bans local governments from engaging in "disguised" borrowing by using state-owned enterprises to issue corporate debt on their behalf. Circular 666 aims to strengthen the management of local government debt and avoid or mitigate risks relating to medium and long-term foreign debt as well as hidden debt of local governments. Circular 666 expressly restricts the use of proceeds of foreign debt securities issued by state-owned enterprises which undertake local government financing functions to the repayment of medium and long-term offshore debt due within the impending one year. In July 2021, the China Banking and Insurance Regulatory Commission issued Circular 15, which stipulates that banks and insurance institutions shall not increase any new local government implicit debt in any form. Circular 15 also stipulates that, banks and insurance institutions shall meet the following requirements: (i) the financing provided by banks and insurance institutions shall not be borne by government fiscal funds or guaranteed by the government; (ii) banks and insurance institutions shall not require or accept guarantee documents issued by local government or its departments; (iii) banks and insurance institutions shall not require or have any security interest over the state-owned assets of local government, public institution or social organisation; (iv) banks and insurance institutions shall not require or have any security interest over government reserve land, nor shall they require or accept expected land sale income as guarantee; (v) in PPP projects or government investment fund projects, banks and insurance institutions shall not require local government to repurchase their invested capital, bear the loss of the invested capital or guarantee the minimum return; (vi) financing services provided by banks and insurance institutions shall not be included in government purchase services; (vii) existing local government financing shall be rectified in accordance with relevant regulations; and (viii) banks and insurance institutions are not allowed to increase any implicit local government debt in any form. For further details on the Debt Control Circulars, see *"PRC Regulations – Regulations on Fiscal Debts of Local Governments"*.

In 2015, the MOF rolled out a nationwide debt swap programme (the **"Debt Swap Programme"**) under which local governments were permitted to exchange bank loans of their financing platforms incurred for funding the developing of government projects and other public interest projects with long-term and low-interest government bonds they issued within the quota allocated by the MOF. As at 30 June 2021, the Group had total indebtedness (comprising short-term loans, non-current liabilities maturing within one year (interest-bearing portion), other current liabilities (interest-bearing portion), long-term loans, bonds payable and long-term accounts payables (interest-bearing portion)) of the Group amounted to approximately RMB8.6 billion.

The Group believes that the PRC government will continue to implement the Debt Control Circulars to control local government debts. Accordingly, the Group should rely on the cash flow generated from its operations and external borrowings for financing its operating activities and to satisfy its cash needs for servicing its outstanding indebtedness. Pursuant to the terms of the Bonds and as required by the Debt Control Circulars, neither the Shandong Provincial Government nor any other PRC governmental entity has any obligation to repay any amount under the Bonds and will not provide a guarantee of any kind for the Bonds. The Bonds are solely to be repaid by the Issuer, failing which, the Guarantor, and the obligations of the Issuer and the Guarantor under the Bonds or the Trust Deed (as defined in the Conditions) shall solely be fulfilled by the Issuer and the Guarantor as independent legal persons. The liability of Shandong SASAC is limited to its equity contribution in the Guarantor. If the Issuer or the Guarantor does not fulfil its obligations under the Bonds or the Trust Deed, the Bondholders will only have recourse against the Issuer and/or the Guarantor, and not the Shandong Provincial Government, Shandong SASAC or any other PRC governmental entity.

While the Group believes that it does not have any assets that qualify as public assets under Circular 706 and intends to ensure that the issue of the Bonds does not conflict with or result in a breach or violation of the Debt Control Circulars, the PRC government may continue to release new policies or amend existing regulations intended to control increases in local government debts in China. The Group may be required to further change its financing model and business model in response to such regulations, which may have a material impact on its business, financial condition, results of operations and prospects.

As a holding company, the Group depends on distributions from its subsidiaries to meet its payment obligations, and the amount of such distributions could be limited by provisions of applicable laws or contractual restrictions.

The Group is a holding company and derives substantially all of its operating income from, and holds substantially all of its assets through its subsidiaries. As a result, the Group generally depends on distributions from its subsidiaries in order to meet its payment obligations. The provisions of applicable laws, such as those limiting the legal sources of dividends, may limit the ability of the Group's subsidiaries to make payments or other distributions to the Group, and these subsidiaries could also agree to contractual restrictions on their ability to make distributions. The Group and its subsidiaries may incur significant additional secured or unsecured indebtedness in the future, and there can be no assurance that the Group will have sufficient cash flows from distributions by its subsidiaries to satisfy its obligations in respect of the Bonds and the Guarantee. Although the Group believes that it will be able to meet its obligations in respect of the Bonds and the Guarantee, any shortfall would have to be met from other sources of cash, such as a sale of investments or any financing available to the Group.

The Group operates in different industries and, therefore, is exposed to a wider variety of circumstances compared to companies operating in a single business segment.

The Group operates in various industries including coal chemicals, pharmaceuticals, ecological and environmental and other sectors. There is no assurance that the Group can effectively manage its multiple businesses and integrate its internal resources across different business divisions. Failure to do so may result in operational inefficiency, higher management costs and other problems including the following:

- The Group needs to devote significant resources to monitor the operations of each business and changes in the respective operating environment to accurately assess risks. If the Group does not effectively monitor these changes in the operating environment, its business, financial condition, results of operations and prospects would be adversely affected;
- The Group operates and invests in several listed subsidiaries which are subject to different regulatory regimes. These regulations impose restrictions related to the transfer of funds in or out of such companies, and impose compliance obligations including issuing announcements, obtaining independent shareholders' approval at general meetings and disclosing events in the annual reports. The market prices and trading volumes of the listed subsidiaries' shares may fluctuate significantly, which could in turn affect the return on the Group's investment;
- The Group may face risks relating to ineffective management of its subsidiaries, senior management and employees. The success of the Group's operations require effective management and performance incentives for management personnel. If there is any significant deficiency in the management and control systems of the Group, its business would be adversely affected.

The Group's business operations are capital intensive and any failure of the Group to obtain sufficient capital resources on acceptable terms or in a timely manner may adversely affect its business and prospects.

The Group's business and operations are capital intensive, and they regularly incur capital expenditures in order to expand operations and production facilities, maintain production equipment and auxiliary facilities, increase operating efficiency and comply with laws and regulations. The Group plans to finance such expenditures with, among others, the net proceeds of this offering, cash and cash equivalents on hand, other financing sources and cash to be generated from future operations.

If the Group is unable to obtain required additional funds, it may not be able to fund in full the capital expenditure necessary to expand its production facilities, upgrade or purchase additional facilities and equipment or implement its business strategies. Even if the Group were able to secure sufficient funding, it may not be able to obtain the funds on commercially acceptable terms, which would increase its financing costs.

The Group's ability to generate sufficient operating cash flow is affected by a number of factors, such as its ability to carry on its business activities in an efficient manner, due performance of the Group's contractors, changes in general market conditions, and regulatory environment.

Any of the above could impede the implementation of the Group's business strategies or prevent it from entering into transactions that would otherwise benefit the Group's business and could materially and adversely affect its business, financial condition or results of operations.

Substantial indebtedness may restrict the Group's business activities and increase its exposure to various operational risks.

The Group relies on external financing to satisfy a portion of its capital requirements and it has had a significant amount of outstanding indebtedness. As at 30 June 2021, the Group's total indebtedness was approximately RMB28 billion, accounting for approximately 43.48 per cent. of total liabilities, respectively. The Group's total indebtedness forms a large proportion of its total liability, and the Group's indebtedness repayment ability and profitability could be materially and adversely affected by the high interest rate of the indebtedness and interest rate fluctuations.

Substantial indebtedness could impact the Group's businesses in a number of ways, including:

- requiring the Group to dedicate part of its operating cash flows to service its indebtedness before it receives government funding;
- increasing the Group's finance costs, thus affecting the overall profits of the Group;
- limiting the Group's flexibility in planning for, or responding to, changes in the Group's businesses and the industries in which it operates;
- limiting, together with the financial and other restrictive covenants of the Group's indebtedness, among other things, the Group's ability to borrow additional funds; and
- increasing the Group's vulnerabilities to adverse general economic and industry conditions.

As the Group's business scale continues to grow, its capital requirements and reliance on external financing may continue to increase. The Group's financial performance and operating results may be materially and adversely affected if its cash flows and capital resources are insufficient to fund its debt service obligations. Failure to service the Group's debts could result in the imposition of penalties, including increases in rates of interest, or the costs that the Group pays on the legal actions brought against the Group by its creditors, or bankruptcy.

Significant inventories, accounts receivable and other accounts receivable may affect the Group's liquidity.

As at 31 December of 2018, 2019, and 2020, and as at 30 June 2021, the Group's accounts receivable were approximately RMB1,134.7 million, RMB1,000.0 million, RMB1,202.0 million and RMB1,429.9 million, respectively, which accounted for approximately 8.3 per cent., 8.7 per cent., 10.6 per cent. and 4.6 per cent., respectively, of the total current assets of the Group. The Group's accounts receivable has historically been, and in the near future will be, primarily attributable to the pharmaceuticals sector. Most of the receivables are owed by medical institutions, which customarily have long payment cycles in China's pharmaceutical industry. The long-term presence of a large amount of receivables may affect the Group's overall fluidity of assets and may add pressure to the Group's cash flow and, in turn, have a material and adverse impact on the Group's business, financial condition and results of operations.

The Group's business may be adversely affected if it is unable to retain and hire qualified employees.

The success of the Group's business is dependent to a large extent on its ability to attract and retain key personnel who possess in-depth knowledge and understanding of investment, as well as the industries in which the Group invests or operates. These key personnel include members of the Group's senior management, experienced scientists and chemists, investment managers and finance professionals, project development and management personnel, legal professionals, risk management personnel, information technology and other operation personnel. Competition for attracting and retaining these individuals is intensive. Such competition may require the Group to offer higher compensation and other benefits in order to attract and retain qualified professionals, which could materially and adversely affect the Group's financial condition and results of operations. As a result, the Group may be unable to attract or retain such personnel to achieve its business objectives and its failure to do so could severely disrupt its business and prospects. The occurrence of any of the events discussed above could lead to unexpected loss to the Group and adversely affect its financial condition and results of operations.

The Group's operations involve hazardous working conditions.

The Group's production facilities are heavy industrial plants where design, machinery or system failures can result in substantial injury or damage to third parties. Litigation arising from any such failures, injury or damage may result in the relevant member of the Group being named as a defendant in lawsuits asserting large claims against such member of the Group or subject such member of the Group to significant regulatory penalties. There can be no assurance that the Group's insurance policies will be sufficient to cover any damages or penalties required to be paid in respect of such events, or that any such event would not adversely affect the Group's reputation and public perception. The occurrence of such an event could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group is subject to extensive environmental regulations, the compliance with which may be difficult and costly.

The Group's business is subject to extensive environmental laws and regulations of the jurisdictions where it operates. In particular, the legal framework in the PRC for environmental protection and operational health and safety is becoming more comprehensive and complex. For example, the Group is required to continuously strengthen its energy efficiency and reduce emissions in its production process. The Group is also required to continuously monitor its compliance with relevant environmental laws and regulations during its project planning and implementation and upgrade or dispose of its production facilities. Compliance with these laws and regulations and future laws and regulations that may be applicable to the Group could increase its respective operating costs and adversely affect its respective financial results of operations and cash flows. Furthermore, the more stringent environmental policies may affect the stability of supply from upstream suppliers and demand from downstream users. If the Group fails to observe any of these or future applicable laws, regulations or restrictions, it could be punished or fined and, as a result, its business, prospects and public image may be adversely affected.

The Group may be subject to legal, litigation and regulatory proceedings.

The Group is involved, from time to time, in legal proceedings arising in the ordinary course of its operations. Litigation arising from any failure, injury or damage from the Group's operations may result in the relevant members of the Group being named as defendant in lawsuits asserting large claims against such group member or subject such group member to significant regulatory penalties. These risks often may be difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time. Actions brought against the Group may result in settlements, injunctions, fines, penalties or other results adverse to its reputation, financial condition and results of operations. Even if the Group were successful in defending against these actions, the costs of such defence may be significant. In market downturns, the number of legal claims and amount of damages sought in litigations and regulatory proceedings may increase. A significant judgment, arbitration award or regulatory action against the Group, or a disruption in its business arising from adverse adjudications in proceedings against its directors, senior management or key employees, would materially and adversely affect its liquidity, business, financial condition, results of operations and prospects.

The Group may not be able to successfully manage its growth.

The Group has been rapidly expanding its business in recent years. To develop the Group's business and strengthen its competitiveness and profitability, the Group plans to further expand its existing business to new industry sectors or geographical markets. Such expansion is subject to various risks, including the Group's lack of operational experience in certain industries or markets, changes in government policies and regulations and other risks associated with such industries or markets. As the Group continues to grow, it needs to continue to improve its managerial, technical and operational knowledge and allocation of resources, and to implement an effective management-information system. To effectively manage the Group's expanded operations, it needs to continue to recruit and train managerial, accounting, internal audit, engineering, technical, sales and other staff to satisfy its development requirements. In order to fund the Group's ongoing operations and its future growth, the Group needs to have sufficient internal sources of liquidity or access to additional financing from external sources. Further, the Group will be required to manage relationships with a greater number of customers, suppliers, contractors, service providers, lenders and other third parties. The Group will need to further strengthen its internal control and compliance functions to ensure that it is able to comply with its legal and contractual obligations and reduce its operational and compliance risks. There can be no assurance that the Group will not experience

issues such as capital constraints, operational difficulties or difficulties in expanding its existing businesses and/or training an increasing number of personnel to manage and operate the expanded businesses. Neither can the Group assure investors that its expansion plans will not adversely affect its existing operations and thereby have a material adverse effect on its business, financial condition, results of operations and prospects.

The Group is subject to risks arising from technological innovation and upgrade.

There are continuously new technology developments in each industry the Group operates in. New services are frequently introduced and industrial standards are constantly evolving. Technological transformation reduces cost and price, and competitors in the same industry may try to provide more competitive and creative products and services. It is uncertain if the Group will be able to effectively adapt to technological transformation and industrial development. To maintain its competitiveness, the Group must continuously invest, which will have demands on financing and cash flow of the Group on the one hand, and expose the Group to the risk of delayed return or declining return rate on the other hand.

The rapid change of technology is likely to increase competition and may make the Group's technology, products or services obsolete, or result in a loss of market share. The Group's research and development efforts may not be successful or generate economic interests at the expected level. Even if the research and development were successful, the Group may not be able to apply the new technology to market commercially acceptable products, or capture market opportunities. In addition, the expected market demand during the development phase of any product may not be realised, or when the Group launches new products, the market may not accept the new products. If the Group cannot predict trends in technology or product development, and develop the new and innovative technology products required by customers, it may fail to produce sufficiently advanced products at competitive prices, which may adversely affect on the Group's results of operations, financial condition and profitability.

The lack of permits, licences, approvals, filings and certificates may be a serious impediment to the Group's business and operations, and is subject to regular inspection, investigation, inquiry and audit of regulatory agencies.

The Group must obtain and maintain valid permits, licences, approvals, filings and certificates from government authorities to engage in certain businesses. The Group is subject to the restrictions and conditions stipulated by government authorities to maintain its permits, licences, approvals, filings and certificates. If the Group fails to comply with the provisions or fails to meet the necessary conditions to maintain permits, licences, approvals, filings and certificates, its permits, licences, approvals, filings and certificates may be suspended or revoked. If the Group extends such permits, licences, approvals, filings and certificates after the valid period, there may be delays or rejections on the applications; licence terms or regulations may also be changed at short notice and it may be difficult to comply with the amended terms in a timely fashion or without significant cost. Any of these factors may lead to an adverse effect on the Group's results of operations, financial condition and profitability.

The Group is exposed to litigation risks.

The Group may from time to time be involved in disputes with various parties, including partners, contractors, suppliers, employees, customers and other third parties during the course of the Group's daily operations. In addition, the Group may have disagreements with regulatory bodies in the course of its operations, which may subject it to administrative proceedings or unfavourable decrees that may result in liabilities and cause delays to its developments and interruptions of its operations.

The Group may not be able to protect its intellectual property rights.

The Group has developed trademarks, patents, design patents, know-how, processes, technologies, and other intellectual property rights that are of significant value to it. There can be no assurance that any of its intellectual property will not be challenged, misappropriated, or circumvented by third parties. In addition, the legal regime governing intellectual property in China is still evolving, and the level of protection of intellectual property rights in China may differ from the level provided by other jurisdictions. In the event that the steps the Group has taken, and the protection provided by law do not adequately safeguard its intellectual property rights, the Group could suffer material losses in profits due to the sales of competing products, which exploit its intellectual property rights.

The Group engages in related party transactions from time to time, which may create potential conflicts of interest.

The Group has engaged in a variety of transactions with, among others, its associates and joint ventures. Although the Group has taken steps to ensure such transactions are fair and based on market price with approval from relevant authorities, there can be no assurance that those transactions would be deemed as arm's-length or its related parties will not take actions that favour their interests over the Group's. The internal control regarding the management of various related party transactions can also be challenging and demanding for the Group. Failure to adequately control and manage its related party transactions could have an adverse effect on the Group's business, financial condition or results of operations.

The Group may not be able to detect and prevent fraud or other instances of misconduct committed by its former or current employees, representatives, agents, customers or other third parties.

The Group may be exposed to fraud or other instances of misconduct committed by its former or current employees, representatives, agents, customers or other third parties that could subject it to financial losses and sanctions imposed by government authorities, which in turn affects its reputation. Such misconduct could include:

- hiding unauthorised or unsuccessful activities, resulting in unknown and unmanaged risks or losses;
- intentionally concealing material facts, or failing to perform necessary due diligence procedures designed to identify potential risks, which are material to the Group in deciding whether to make investments or dispose of assets;
- improperly using or disclosing confidential information;
- recommending products, services or transactions that are not suitable for the Group's customers;
- misappropriation of funds;
- conducting transactions that exceed authorised limits;
- engaging in misrepresentation or fraudulent, deceptive or otherwise improper activities when marketing or selling products;
- engaging in unauthorised or excessive transactions to the detriment of the Group's customers;
- making or accepting the bribery activities;
- conducting any inside dealing; or
- otherwise not complying with applicable laws or the Group's internal policies and procedures.

The Group's internal control procedures are designed to monitor its operations and ensure overall compliance. However, such internal control procedures may be unable to identify all incidents of non-compliance or suspicious transactions in a timely manner if at all. Furthermore, it is not always possible to detect and prevent fraud and other instances of misconduct, and the precautions the Group takes to prevent and detect such activities may not be effective. There can be no assurance that fraud or any other misconduct will not occur in the future. If such fraud or other misconduct does occur, it may cause negative publicity as a result and the relevant government agencies may freeze its assets or impose fines or other penalties on the Group. Any of these outcomes may materially and adversely affect the Group's reputation, financial condition and results of operations.

The Guarantor's composition of boards of directors is not in compliance with the requirements in its articles of association.

As at the date of this Offering Circular, the Guarantor's board of directors is comprised of eight members, including two executive directors (including the chairman and one director) and six independent directors but no employee director. Such composition does not comply with relevant requirements in the PRC

Company Law and as stipulated in the current articles of association of the Guarantor, which require the Guarantor to maintain, *inter alia*, a board of directors comprising three executive directors, three independent directors and one employee director. The Guarantor confirms that such non-compliance is temporary and it is actively liaising with all relevant parties and regulatory authorities to remedy the non-compliance.

As at the date of this Offering Circular, there is no express PRC law stipulating sanctions or penalties for such non-compliances, and hence, there remain uncertainties on what the likely consequences will be. Although the legal advisers to the Guarantor as to PRC law confirmed the resolutions of the board of directors of the Guarantor authorising the issue of the Bonds and giving of the Guarantee dated 31 March 2021 remain valid and not revoked, there can be no assurance that any future resolutions passed by the current board of directors will not be challenged by shareholders or other stakeholders. In addition, there is no assurance that the Guarantor will not be penalised or sanctioned as a result of such non-compliance. If any of the resolutions are challenged or held by competent courts to be invalid, or the Guarantor is subject to any adverse decisions by any regulator or authority as a result of such non-compliance, the Guarantor's corporate governance, reputation, financial condition and result of operations may be adversely affected.

RISKS RELATING TO THE COAL CHEMICAL BUSINESS

The cyclical nature of the coal chemical business may cause significant fluctuations in the Group's results of operations.

The Group's historical results of operations reflect the cyclical and volatile nature of supply and demand within the coal chemical industry. The coal chemical industry has experienced alternating periods of inadequate capacity and supply, allowing prices and profit margins to increase, followed by periods when substantial capacity is added, resulting in oversupply and overcapacity, declining prices and profit margins. Some of the markets in which the Group's customers participate, such as sales of fertilizer, are cyclical in nature. Excess industry capacity may also continue to depress volumes and margins on some products. In addition, a broad decline in general economic or business conditions in the industries served by the Group's customers could adversely affect the demand for the Group's products and impair the ability of the Group's customers to satisfy their obligations to the Group, resulting in uncollected receivables and unanticipated contract terminations or project delays. Such conditions could impact the utilisation of manufacturing capacity which may require the Group to recognise impairment losses on tangible assets such as property, plant and equipment as well as on intangible assets such as intellectual property or goodwill. Furthermore, volatility and disruption of financial markets could limit the Group's customers' ability to obtain adequate financing to maintain operations, which could result in a decrease in sales volume and have a negative impact on the Group's results of operations.

In addition, coal is one of the main raw materials used in coal chemical production and is subject to significant price volatility and availability of supply. The availability and prices of raw materials for coal chemical production are subject to market forces, most of which are beyond the control of the Group. The prices and availability of raw material may be negatively affected by factors including but not limited to increases in global demand for raw materials, depletion of existing sources and decreasing availability of new sources, interruptions in production by suppliers, bargaining power of raw material suppliers, suppliers' allocations to other purchasers and the business continuity of suppliers, wars, natural disasters and other similar events. There can be no assurance that the Group will be able to secure a sufficient supply of raw materials at commercially acceptable prices. To the extent that fluctuations in coal chemical products do not correspond to fluctuations in raw material (principally iron ore) prices, they could have a material impact on the Group's profit margins.

The Group faces competition from domestic companies, which may affect the Group's market share and profit margins.

The coal chemical industry is highly competitive in the PRC. The Group actively competes with domestic companies producing the same or similar products and, in some instances, with companies producing different products designed for similar uses. The Group's competitors may have greater access to financial resources, more experience in resource allocation, better ability in product innovation and longer operating histories. Some of the Group's competitors may have more sophisticated management and may utilise more advanced technology than the Group does. The Group's competitors in any particular market may also benefit from raw material supplies or production facilities that are closer to such markets, which could provide them with competitive advantages in terms of cost and proximity to customers. The Group's failure to compete effectively could materially and adversely affect the Group's business, financial condition, results of operations and market position.

The Group is required to comply with various environmental, health and safety laws which are extensive and the compliance of which may be onerous or expensive.

The Group is subject to applicable national and local laws and regulations with respect to the protection of the environment and the health and safety of employees and the public in the countries in which the Group operates. These laws and regulations govern, among other things, aerial emissions, waste water discharges, the storage, use and handling of hazardous substances, waste disposal, potential investigation and remediation of soil and ground water contamination and protection of the health and safety of employees. The Group's manufacturing processes and products are subject to stringent quality, environmental and occupational safety standards. If the Group fails to comply with these laws and regulations, it could be subject to penalties, fines, suspension or revocation of its licences or permits to conduct business, administrative proceedings and litigation. Due to the magnitude and complexity of these laws and regulations, compliance with them or the establishment of effective monitoring systems may be onerous and could require a significant amount of financial and other resources. As these laws and regulations continue to evolve, no assurance can be given that the relevant regulatory authorities will not impose additional or more onerous laws or regulations, compliance with which may cause the Group to incur significantly increased costs that it may not be able to pass on to its customers.

Fluctuations in the average selling prices of the Group's products may adversely affect its results of operations.

The average selling prices of most of the Group's coal chemical products are subject to fluctuation. Fluctuations in the average selling prices of the Group's products are primarily caused by intense market competition, changes in raw material costs and other factors that are beyond the Group's control. The Group cannot assure investors that it will not continue to experience volatile or declining average selling prices for the Group's products in the future. If the Group cannot increase the Group's sales volume to compensate for the loss of revenue caused by volatile or declining average selling prices for the Group's products, the Group's results of operations could be adversely affected.

The Group may be affected by import policies of the countries to which it exports its products and the export policies of China.

A portion of the Group's products is directly exported to the international markets. Accordingly, the Group is subject to applicable laws and regulations of the countries that import its products. Should its export markets introduce new laws and regulations, measures and standards that make it more difficult or costly for the Group's products to be exported to them, or take steps to prevent, limit or prohibit the importation of the Group's products, the Group's business, results of operations and financial condition may be materially and adversely affected. Where certain countries impose customs duties and import tariffs, the Group may not be able to pass on such additional costs to the customers.

The Group's business depends on a stable and adequate supply of raw materials, which are subject to supply disruptions, price volatility and other risks.

The Group uses a large volume of raw materials in its coal chemical business, including coal, benzene and propene. The occurrence of natural disasters (such as droughts, sandstorms, snowstorms, earthquakes or floods), pest infestations, contamination, energy shortages, disruptions in transportation infrastructure or embargoes may interrupt the supply of raw materials, and the Group's suppliers may not be able to continue to supply an adequate amount of raw materials to meet the Group's present and future production demands and quality requirements. Any interruptions to or declines in the supply or quality of its raw materials could materially disrupt the Group's production, which could materially and adversely affect the Group's business, financial condition or results of operations.

Furthermore, the raw materials that the Group companies use in their production processes are subject to price volatility caused by various factors, such as climate and environmental conditions, price fluctuations in commodity markets, currency fluctuations and changes in government policies. Should raw material prices increase significantly and should the Group companies be unable to source raw materials at reasonable prices or at all or be unable to pass price increases on to customers, the Group's business, financial condition or results of operations could be materially and adversely affected.

Interruption or a shortage in the supply of raw materials due to the abovesaid reasons could result in the Group being unable to operate its production facilities at full capacity or, if the shortage is severe, any production at all, thereby leading to reduced revenues or no production output and sales. Any failure to secure a steady supply of major raw materials will materially and adversely affect the Group's business, financial condition and results of operations.

RISKS RELATING TO THE PHARMACEUTICAL BUSINESS

The Group's business may be materially and adversely affected by policy changes in the pharmaceutical industry.

In recent years, as the PRC government continues to reform the healthcare system, a number of policies and regulations for the pharmaceutical industry have been enacted and implemented, including, among others, the Drug Catalogue for National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (國家基本醫療保險、工傷保險和生育保險藥品目錄), as adjusted in 2019 and 2020 respectively (the “**Medicines Catalogue for Medical Insurance**”) and the Drug Administration Law of the People's Republic of China (中華人民共和國藥品管理法) as amended in 2019, which has had a profound impact on the entire pharmaceutical industry in China. The adjustment in the Drug Catalogue for Medical Insurance and the implementation and expansion of centralized drug procurement have significantly reduced the cost of drugs. Policies expanding the scope of the consistency evaluation between generic drugs and original drugs have promoted the improvement of generic drugs' overall quality and accelerated the replacement of original drugs with generic drugs. There can be no assurance that the Group would be able to adapt its operations to these new policies, regulations and measures that may come into effect from time to time with respect to the pharmaceutical industry in a timely manner. If such policy changes disrupt the Group's business, the Group's financial condition, results of operations and prospects may be materially and adversely affected.

Any failure to comply with existing regulations and industry standards or any adverse actions by the drug approval authorities against the Group could negatively impact its reputation and business, financial condition, results of operations and prospects.

In many countries or regions where a pharmaceutical drug is intended to be ultimately sold, such as China, the United States, Europe and Japan, the relevant government agencies and industry regulatory authorities impose high standards on the efficacy of such drug, as well as strict rules, regulations and industry standards on how the Group or its customers should develop and manufacture such drug. These regulatory authorities may conduct scheduled or unscheduled periodic inspections of the Group's facilities to monitor its regulatory compliance. Although the Group has passed all the inspections and obtained clearance in relation to drug discovery, testing, development and manufacturing from the relevant regulatory authorities in all material respects during the past three years ended 31 December 2020 and the past six months ended 30 June 2021, the Group cannot ensure that it will be able to do so going forward. Any failure to comply with existing regulations or industry standards could result in fines or other punitive actions against the Group or its customers or the termination of ongoing projects, each of which could have a material adverse impact on the Group's reputation, business, financial condition, results of operations and prospects. In addition, any action against the Group for violation of the relevant regulations or industry standards, even if the Group were to successfully defend against it, could cause the Group to incur significant legal expenses, divert management's attention from the operation of the Group's business and adversely affect its reputation and financial results.

The Group is subject to risks in relation to research and development in the pharmaceutical industry.

Research and development in the pharmaceutical industry is characterised by high investment cost, high risk, long cycle, and low success rate. There are many unpredictable factors during preclinical research, clinical trial, registration and approval application and marketing, any of which could lead to a failure of product development. Therefore, the Group's investment in research and development for its pharmaceutical business may not be commensurate with the benefits it could bring. Facing increasing competition in the pharmaceutical and biotechnology industries, the Group continues to invest in more complex and sophisticated capabilities and capacities in discovering, testing, developing and manufacturing new drugs. If the Group's investment in research and development fails to gain timely and sufficient rewards, its business, results of operations and prospects may be materially and adversely affected.

The Group may not be successful in developing, enhancing, adapting to or acquiring new technologies.

The global pharmaceutical market is constantly evolving, and the Group must keep pace with new technologies to maintain its competitive position through research and development or acquisitions. The Group must continue to invest significant amounts of human and capital resources to develop or acquire technologies that will allow it to enhance the quality of its products and expand the market. The Group intends to continue to enhance its technical capabilities, which can be capital intensive and require significant time to be built. The Group cannot assure investors that it will be able to develop, enhance, adapt to or acquire new technologies in a timely manner or at reasonable cost. Any failure to do so may make the Group's techniques and products obsolete, which could significantly reduce customers' demand for the Group's products and harm its business and prospects.

In addition, in order to develop and market its new technologies successfully, the Group must accurately assess and meet customers' needs, make significant capital expenditures, optimize the process of discovering, testing, developing and manufacturing drugs, hire, train and retain necessary personnel, obtain required regulatory clearances or approvals, increase customer awareness and acceptance of the Group's products, provide high-quality services in a timely manner, price the Group's products competitively and effectively integrate customers' feedback into the Group's business planning. If the Group fails to create demand for or incorrectly predict customers' demand for new products or technologies, the Group's future business, results of operations, financial condition and prospects could be materially and adversely affected.

The Group may not be successful in protecting its customers' or its own intellectual property.

The Group's success depends on the protection of its customers' and its own intellectual property in relation to pharmaceuticals and biotechnology. The Group relies on its own know-how, trade secrets and other intellectual property to manufacture its products and carry out its services.

Despite the measures the Group has taken to protect its customers' or its own intellectual property, unauthorized parties may nevertheless attempt to obtain and use them. Failure to protect customers' intellectual property may subject the Group to liability for breach of contract, as well as significantly damage the Group's reputation, which is fundamental to its business. Failure to protect the Group's own intellectual property may severely disrupt its business operation and reduce or eliminate any competitive advantage it has developed. Either result could materially harm the Group's business, financial condition, results of operations and prospects, and any attempt at remediation may significantly divert management's attention and resources from the Group's other business activities.

The quality of the Group's products may not meet relevant standards if it is adversely affected by factors including raw materials, manufacturing process, transportation and storage.

A drug is a special kind of product. In addition to strict requirements on raw materials, production technology and internal storage environment, the external conditions during the transportation and storage of drugs may also affect their quality and cause them to fall short of the relevant national standards. The Group's drug production and manufacturing facilities have received the national GMP certification and the Group has established a complete quality assurance system in strict accordance with the national GMP requirements. The Group's entire production process, from inputting raw materials to outputting manufactured products, is strictly controlled and supervised by professional personnel. However, due to various external factors as mentioned above, the Group cannot assure investors that its products will always be able to meet the relevant standards and failure to do so could result in fines or other punitive actions against the Group, which may materially and adversely affect the Group's reputation, financial condition, results of operations and prospects.

In conducting discovery, testing, development and manufacturing of pharmaceuticals, the Group faces potential liabilities, in particular, product liability risks.

The Group faces a range of potential liabilities, including but not limited to those arising out of or relating to the Group's negligence, willful misconduct or other unlawful activities in conducting testing, development and manufacturing of pharmaceuticals. In particular, the Group may face product liability risks if the drugs the Group helps to discover, test, develop or manufacture are subject to product liability claims. The Group's liability is not always capped under its long-term agreements with its customers, and in certain cases, the product liability cap is not applicable for claims relating to personal injuries or death.

The Group discovers, tests, develops and manufactures drugs that are intended ultimately to be used in humans, either in clinical trials or as marketed products. If any of these drugs harms people due to the Group's material negligence, willful misconduct or unlawful activities, the Group may be subject to litigation and may be required to pay damages. Damages awarded in a product liability action could be substantial and could have a material and adverse impact on the Group's reputation, business, financial condition, results of operations and prospects. The Group currently does not maintain product liability and professional liability insurance, any claim against the Group for products not covered by any insurance may be material and adverse to the Group's financial conditions, results of operations and business.

Other jurisdictions in which the Group's products are, or may in the future be, sold, in particular in developed markets including the United States, Europe and Japan, may have similar or more onerous product liability and pharmaceutical product regulatory regimes, as well as a more litigious environment that may further expose the Group to the risk of product liability claims. Even if the Group is able to successfully defend itself against any such product liability claims, doing so may require significant financial resources and the time and attention of the Group's management.

The Group is subject to environmental protection and health and safety laws and regulations and may be exposed to potential costs for compliance and liabilities, including accidental contamination, biological or chemical hazards, or personal injury.

The Group's operations are subject to national and local laws with respect to environmental protection, health and safety, including but not limited to the treatment and discharge of pollutants into the environment and the use of toxic and hazardous chemicals in the process of its pharmaceuticals business operations. In recent years, the PRC government has paid more attention to environmental protection, and environmental protection departments at all municipal levels have increased their supervision and control over environmental protection. In particular, the PRC government has imposed more stringent requirements on environmental protection management and pollutants discharge against pharmaceutical production enterprises. As requirements imposed by such laws and regulations may change and more stringent laws or regulations may be adopted, the Group may not be able to comply with, or accurately predict any potential substantial cost of compliance with these laws and regulations. If the Group fails to comply with environmental protection and health and safety laws and regulations, it may be subject to rectification orders, substantial fines, potentially significant monetary damages, or production suspensions in its business operations.

In addition, the Group cannot fully eliminate the risk of accidental contamination, biological or chemical hazards or personal injury at its facilities during the process of discovering, testing, developing and manufacturing drugs. In the event of such accident, the Group could be held liable for damages and clean-up costs which, to the extent not covered by existing insurance or indemnification, could harm the Group's business. The Group may also be forced to close or suspend its operations at certain affected facilities temporarily, or, in the worst case scenario, permanently. As a result, any accidental contamination, biological or chemical hazards or personal injury could have a material and adverse impact on the Group's business, financial condition, results of operations and prospects.

RISKS RELATING TO DOING BUSINESS IN THE PRC

Changes in the economic, political, and social conditions in the PRC and government policies adopted by the PRC government could affect the Group's business and prospects.

As a substantial majority of the Group's business operations are conducted, and most of the Group's assets are located, in the PRC, the Group's business, financial condition, results of operations and prospects may be affected by material changes in the political, economic and social conditions, laws, regulations and policies in China. The economy of the PRC differs from the economies of most developed countries in many respects, including with respect to government involvement, level of development, economic growth rate, control of foreign exchange and allocation of resources. The economy of the PRC has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC government has implemented a series of measures emphasising market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises.

Although China has experienced rapid economic growth over the past decades, its rate of growth has slowed since the second half of 2008 and its annual GDP growth rate has declined from 6.95 per cent. in 2017 to 6.75 per cent. in 2018 and further to 6.11 per cent. in 2019. The Chinese economy encountered enormous challenges during the first half of 2020 in the face of the outbreak of the novel coronavirus (COVID-19) pandemic, with GDP declining at a rate of 1.6 per cent. year-on-year. There is no assurance that the economy will rebound or that future growth will be sustained at similar rates or at all.

Changes and developments in China's economic, political and social conditions could adversely affect the Group's financial condition and results of operations. For example, the pharmaceutical market may grow at a slower pace than expected, which could adversely affect the Group's business, financial condition or results of operations. There is no assurance that the changes in such laws and regulations will bring positive effects to the Group's business operations.

Uncertainty with respect to the PRC legal system could affect the Group.

As a substantial majority of the Group's business operations are conducted, and most of the Group's assets are located, in the PRC, the Group's operations are governed principally by PRC laws and regulations. The PRC legal system is based on written statutes while prior court decisions can only be cited as reference. In addition, any litigation in the PRC may be protracted and result in substantial costs and divert resources and management's attention. Moreover, it may be difficult to obtain a swift and equitable enforcement of laws in the PRC, or the enforcement of judgments by a court of another jurisdiction. These uncertainties relating to the interpretation and implementation of PRC laws and regulations may adversely affect the legal protections and remedies that are available to the Group in its operations and to the holders of the Bonds.

The payment of dividends by the Group's operating subsidiaries in the PRC is subject to restrictions under PRC law.

PRC law requires that dividends be paid only out of net profit, calculated according to PRC accounting principles, which differ from generally accepted accounting principles in other jurisdictions. In addition, PRC law requires enterprises set aside part of their net profit as statutory reserves before distributing the net profit for the current financial year. These statutory reserves are not available for distribution as cash dividends. Since the availability of funds to fund its operations and to service its indebtedness depends upon dividends received from these subsidiaries, any legal restrictions on the availability and usage of dividend payments from the Group's subsidiaries may impact its ability to fund its operations and to service its indebtedness.

It may be difficult to serve process within the PRC or to enforce any judgments obtained from non-PRC courts against the Group's directors.

Most of the Group's assets and subsidiaries and affiliates are located in China. The PRC may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedure Law based either on treaties between China and the country where the judgment is made or principles of reciprocity between jurisdictions. China does not currently have treaties providing for the reciprocal recognition or enforcement of judgments of courts located in the United States, the United Kingdom, Singapore, Japan and most other Western countries. Hence it may be difficult to serve process in China or enforce judgments obtained from non-PRC courts against the Group's directors.

Government control of currency conversion may adversely affect the value of investors' investments.

Most of the Group's operating income is denominated in Renminbi, which is also the reporting currency. Renminbi is not a freely convertible currency. A portion of the Group's cash may be required to be converted into other currencies in order to meet the Group's foreign currency needs, including cash payments on declared dividends, if any, on the Bonds. However, the PRC government may, at its discretion, restrict future access to foreign currencies for current account transactions. If this were to occur, the Group might not be able to pay dividends to the holders of the Bonds in foreign currencies. On the other hand, foreign exchange transactions under capital account in the PRC continue to be not freely convertible and require the approval of the State Administration of Foreign Exchange. These limitations could affect the Group's ability to obtain foreign currencies through equity financing, or to obtain foreign currencies for capital expenditures.

Any future occurrence of natural disasters or outbreaks of contagious diseases in China may have a material adverse effect on the Group's operations, financial condition, and results of operations.

The Group's business may be affected by natural disasters, epidemics and other acts of God which are beyond the Group's control. Outbreaks of earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Middle East Respiratory Syndrome (MERS), Severe Acute Respiratory Syndrome (SARS), H5N1 avian flu, human swine flu (also known as Influenza A (H1N1)) or the recent COVID-19 pandemic has a material adverse impact on the economic and social condition in the affected regions. The continuing COVID-19 pandemic in different parts of the world, including the places of businesses at which the Group operates, has a significant adverse impact on most economies due to the community standstill, disruption of business activities, behavioural change, weakened sentiment in consumption, restricted labour supply and production and confidence effects, in addition to travel restrictions. Although COVID-19 vaccines have been developed and large-scale vaccination programmes have been launched by certain countries, the situation of this highly infectious disease is still evolving. The heightened uncertainties surrounding the pandemic including the spread of new COVID-19 variants may pose a negative impact on the Group's businesses, financial conditions, results of operations or growth prospects. There can be no assurance that there will not be another significant global outbreak of a severe communicable disease, and if such an outbreak were to occur, it may have an adverse impact on the operations of the Group and its results of operations may suffer.

RISKS RELATING TO FINANCIAL AND OTHER INFORMATION

Certain accounting items in the Guarantor's Financial Statements may not be comparable to the financial information in the Guarantor's consolidated financial statements for the previous periods.

In recent years, MOF promulgated the New Accounting Standards and Requirements. As a result, the presentation of certain accounting items in the Historical Financial Statements may not be comparable to the financial figures in the financial statements for the previous periods. The Historical Financial Statements were prepared and presented in accordance with the relevant applicable New Accounting Standards and Requirements. As a result, the presentation of certain accounting items in the Historical Financial Statements may not be comparable to the financial figures in the Guarantor's financial statements for the previous periods. For details of the New Accounting Standards and Requirements and its impacts on the Guarantor, see Note 5 "Changes of significant accounting policies and accounting estimates" to the 2019 Audited Financial Statements and Note 5 "Changes in significant accounting policies and accounting estimates" to the Reviewed Financial Statements included elsewhere in this Offering Circular.

There can be no assurance that MOF will not promulgate other new accounting standards or requirements in relation to financial statements which may affect the Guarantor's accounting policies or the presentation of the Guarantor's financial statements.

The auditors of the Guarantor have received adverse regulatory decisions and warnings issued by relevant PRC authorities in recent years.

Daxin, the independent auditors of the Guarantor for the years ended 31 December 2019 and 2020 and the six months ended 30 June 2021, is a registered accounting firm in the PRC supervised by relevant PRC regulatory agencies, including MOF and the China Securities Regulatory Commission.

In recent years, Daxin was subject to certain administrative and regulatory actions, where the relevant PRC regulatory agencies indicated that Daxin had failed to identify certain accounting irregularities during the audit processes carried out for certain companies. As confirmed by Daxin, the companies involved in the administrative and regulatory actions above were all unrelated to the Group and the audit and/or review work performed for the Group is not affected by the above incidents and each of the audit reports and the review report included elsewhere in this Offering Circular remains valid and effective. Daxin also confirmed that its ability to provide comfort letters and the qualification of the auditors or accountants involved are not affected by such administrative and regulatory actions. However, there can be no assurance that the relevant PRC regulatory agencies would not carry out any review of Daxin's audit, review and/or other assurance work conducted in relation to other companies. There can also be no assurance that Daxin's involvement in such administrative and regulatory actions or any negative publicity about Daxin would not affect investors' confidence in companies and financial statements audited by it or have a material and adverse effect on the Group.

In addition, the Guarantor's auditors and their management, officers or employees may from time to time be investigated by PRC regulatory agencies such as MOF and the China Securities Regulatory Commission and may be subject to adverse regulatory decisions, warnings, sanctions, penalties and/or revocations and suspension of business operations as a result of such investigations. Adverse regulatory decisions, warnings, sanctions, penalties and/or revocations and suspension of business operations against the Guarantor's auditors may restrict the relevant auditors or accountants from providing audit services, review services or other services in connection with the Group's financing transactions. In that case, the Guarantor may have to discontinue its engagement with the relevant auditors or accountants, which may adversely affect the Guarantor's business operations and harm its reputation. Also, any adverse regulatory decisions, warnings, sanctions, penalties and/or revocations and suspension of business operations against the Guarantor's auditors or accountants may affect investors' confidence in the Guarantor's financial statements audited by its auditors. Potential investors should consider these factors prior to making any investment decision.

The Group's historical consolidated financial information may not be indicative of the Group's future results of operations.

The Group's historical financial information included in this Offering Circular is not indicative of the Group's future financial results. This financial information is not intended to represent or predict the results of operations of any future periods. The Group's future results of operations may change materially for various reasons, including factors beyond the Group's control, such as changes in economic environment, PRC environmental rules and regulations and the domestic and international competitive landscape of the industries in which the Group operates its business. The Group may also acquire businesses or companies or dispose of its subsidiaries or assets from time to time in accordance with the Group's business objectives. Period-to-period comparisons of the Group's historical operating results must be evaluated in light of the impact of any such transactions.

The Historical Financial Statements have been prepared and presented in accordance with PRC GAAP, which is different from IFRS in certain respects. The Guarantor's auditors have limited international capital markets experience.

The Audited Financial Statements have been audited by Daxin, the independent auditors of the Guarantor. In addition, the Reviewed Financial Statements have been reviewed by Daxin. The Historical Financial Statements were prepared and presented in accordance with PRC GAAP. PRC GAAP differs in certain respects from IFRS. Please see "*Description of Certain Differences between PRC GAAP and IFRS*" for details. Each investor should consult its own professional advisers for an understanding of the differences between PRC GAAP and IFRS and/or between PRC GAAP and other generally accepted accounting principles, and how those differences might affect the financial information contained herein.

Daxin is a registered member of The Chinese Institute of Certified Public Accountants and although it has significant audit experience in the PRC, it has limited international capital markets experience. Prospective investors should consider these factors prior to making any investment decision.

The Guarantor published and may continue to publish periodical financial information in the PRC pursuant to applicable PRC regulatory rules. Investors should be cautious and not place any reliance on the financial information other than that disclosed in this Offering Circular.

The Guarantor from time to time issues debt securities in the domestic capital markets in the PRC. According to applicable PRC securities regulations on debt capital markets, the Guarantor needs to publish its quarterly, semi-annual and annual financial information to satisfy its continuing disclosure obligations relating to its debt securities. After the Bonds are issued, the Guarantor is obligated by the terms of the Bonds, among others, to provide the Trustee with its audited financial statements and certain unaudited periodical financial statements. The quarterly and semi-annual financial information published by the Group in the PRC is normally derived from the Group's management accounts which have not been audited or reviewed by independent auditors. As such, the financial information published in the PRC should not be referred to or relied upon by potential investors to provide the same quality of information associated with any audited or reviewed information. The Guarantor is not responsible to holders of the Bonds for the unaudited and unreviewed financial information from time to time published in the PRC and therefore potential investors should not place any reliance on any such financial information.

Certain facts and statistics in this Offering Circular are derived from publications not independently verified by the Issuer, the Guarantor, the Managers, the Trustee or the Agents or their respective affiliates, directors, officers, agents, employees, representatives or advisers or any person who controls any of them.

This Offering Circular contains facts and statistics relating to the economy of the PRC, Shandong Province and the industries in which the Group operates. While the Issuer and the Guarantor have taken reasonable care to select reputable and reliable information sources and ensure that the facts and statistics relating to the PRC, the Shandong Province economy and the industries in which the Group operates presented are accurately extracted from such sources, such facts and statistics have not been independently verified by the Issuer, the Guarantor, the Managers, the Trustee or the Agents or their respective affiliates, directors, officers, agents, employees, representatives or advisers or any person who controls any of them and, therefore, none of them makes any representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC. Due to ineffective calculation and collection methods and other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies and should not be unduly relied upon.

RISKS RELATING TO THE BONDS AND THE GUARANTEE

The PRC government (including the Shandong SASAC and the Shandong Provincial Government) has no obligation to pay any amount under the Bond or the Guarantee.

The PRC government (including the Shandong SASAC and the Shandong Provincial Government) is not an obligor and shall under no circumstances have any obligation arising out of or in connection with the Bonds in lieu of the Issuer. This position has been reinforced by Circular 23, the Joint Opinion, Circular 706 and Circular 666.

The Shandong Provincial Government as the ultimate shareholder of the Guarantor only has limited liability in the form of their equity contribution in the Guarantor. As such, neither the Shandong SASAC nor the Shandong Provincial Government has any payment obligations under the Bonds or in connection with the Bonds in lieu of the Guarantor. The Bonds are solely to be repaid by the Issuer or the Guarantor (as the case may be) as the obligor under the relevant transaction documents and as an independent legal person. In addition, any ownership or control of the Group by the PRC government (including the People's Government of Shandong Province and Shandong SASAC) does not necessarily correlate to, or provide any assurance as to, the financial condition of the Issuer and the Guarantor. Therefore, potential investors should base their investment decisions on the financial condition of the Issuer, the Guarantor and the Group only and any perceived credit risk associated with an investment in the Bonds based on the financial information of the Group as reflected in the Historical Financial Statements.

If the Guarantor fails to complete SAFE registration in connection with the Guarantee within the time period prescribed by SAFE, there may be logistical hurdles for cross-border payment under the Guarantee.

Pursuant to the Deed of Guarantee executed by the Guarantor, the Guarantor will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Bonds and the Trust Deed. The Guarantor is required to submit the Deed of Guarantee to the local SAFE for registration in accordance with, and within the time period prescribed by, the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees promulgated by SAFE on 12 May 2014 and which came into effect on 1 June 2014. Although the non-registration does not render the Guarantee ineffective or invalid under PRC law, SAFE may impose penalties on the Guarantor if registration is not carried out within the stipulated time frame. The Guarantor intends to use its best endeavours to register the Guarantee on or before the Registration Deadline (being 90 PRC Business Days after the Issue Date). In addition, if the Guarantor fails to complete the SAFE registration, there may be logistical hurdles at the time of remittance of funds (if any cross-border payment is to be made by the Guarantor under the Guarantee) as domestic banks may require evidence of SAFE registration in connection with the Deed of Guarantee in order to effect such remittance, although this does not affect the validity of the Guarantee itself.

Uncertainties abound with respect to the implementation of the NDRC Notice on the issue of the Bonds.

The NDRC issued the NDRC Notice on 14 September 2015, which came into effect on the same day. According to the NDRC Notice, domestic enterprises and their overseas controlled entities shall procure the registration of any debt securities issues outside the PRC with the NDRC prior to the issue of the securities and notify the particulars of the relevant issues within 10 working days after the completion of the issue of the securities.

The NDRC Notice itself is silent on the legal consequences of non-compliance with the pre-issue registration requirement. Although the Guarantor obtained the pre-issuance registration certificates in respect of the offering of the Bonds from NDRC on 2 August 2021, if the NDRC finds the Guarantor to be guilty of maliciously obtaining quota of foreign debts or providing false information, the NDRC may blacklist or publish on the national credit information platform a bad credit record against the Guarantor, or even punish the Guarantor with other related authorities. In the worst case scenario, it might become unlawful for the Issuer and the Guarantor to perform or comply with any of their respective obligations under the Bonds, the Guarantee, the Trust Deed and the Deed of Guarantee. Potential investors of the Bonds are advised to exercise due caution when making their investment decisions.

Similarly, there is no clarity on the legal consequences of non-compliance with the post-issue notification requirement under the NDRC Notice. The Guarantor has undertaken to notify the NDRC of the particulars of the issue of the Bonds within the prescribed timeframe after the Issue Date.

The Bonds and the Guarantee are unsecured obligations.

The Bonds and the Guarantee are unsecured obligations of the Issuer and the Guarantor, respectively. The repayment of the Bonds and payment under the Guarantee may be adversely affected if:

- the Issuer or the Guarantor enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's or the Guarantor's future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's or the Guarantor's indebtedness.

If any of these events were to occur, the Issuer's or the Guarantor's assets may not be sufficient to pay amounts due on the Bonds.

The Issuer or the Guarantor may not be able to redeem the Bonds upon the due date for redemption thereof.

The Issuer, at maturity or at any time following the occurrence of a Relevant Event (as defined in the Terms and Conditions of the Bonds), will be required to redeem all but not some only of the Bonds. If such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. The Issuer's or the Guarantor's failure to repay, repurchase or redeem the tendered Bonds by the Issuer or the Guarantor could constitute an event of default under the Bonds, which may also constitute a default under the terms of the Group's other indebtedness.

The Guarantee will be structurally subordinated to the existing and future indebtedness and other liabilities of each of the Guarantor's existing and future subsidiaries (other than the Issuer), and effectively subordinated to the Guarantor's secured debt to the extent of the value of the collateral securing such indebtedness.

The Guarantee will be structurally subordinated to any debt and other liabilities and commitments, including trade payables and lease obligations, of the Guarantor's existing and future subsidiaries, whether or not secured. The Guarantor's obligations under the Guarantee will not be guaranteed by any of the Guarantor's subsidiaries, and the Guarantor's ability to make payments under the Guarantee depends partly on the receipt of dividends, distributions, interest or advances from its subsidiaries. The ability of

such subsidiaries to pay dividends to the Guarantor is subject to various restrictions under applicable laws. The Guarantor's subsidiaries are separate legal entities that have no obligation to pay any amounts due under the Guarantee or make any funds available therefor, whether by dividends, loans or other payments. The Guarantor's right to receive assets of any of the Guarantor's subsidiaries, upon that subsidiary's liquidation or reorganisation, will be effectively subordinated to the claim of that subsidiary's creditors (except to the extent that the Guarantor is a creditor of that subsidiary). Consequently, the Guarantee will be effectively subordinated to all liabilities, including trade payables and lease obligations, of any of the Guarantor's subsidiaries and any subsidiaries that the Guarantor may in the future acquire or establish. The outstanding indebtedness of the subsidiaries of the Guarantor may also contain covenants restricting the ability of such subsidiaries to pay dividends in certain circumstances for so long as such indebtedness remains outstanding. Moreover, the Guarantor's percentage interests in its subsidiaries and joint ventures could be reduced in the future.

The Guarantee is the Guarantor's unsecured obligations and will (i) rank equally in right of payment with all the Guarantor's other present and future unsubordinated and unsecured indebtedness; and (ii) be effectively subordinated to all of the Guarantor's present and future secured indebtedness to the extent of the value of the collateral securing such obligations. Accordingly, claims of secured lenders, whether senior or junior, with respect to assets securing their loans will take priority with respect to those assets. In the event of the Guarantor's bankruptcy, insolvency, liquidation, reorganisation, dissolution or other winding up, or upon any acceleration of the Bonds, these assets will be available to pay obligations on the Guarantee only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to the Bondholders rateably with all of the Guarantor's other unsecured and unsubordinated creditors, including trade creditors. If there are not sufficient assets remaining to pay all these creditors, then all or a portion of the Bonds then outstanding would remain unpaid.

The Bonds may be redeemed by the Issuer prior to maturity.

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount together with any interest accrued to, but excluding, the date fixed for redemption if, subject to certain conditions, as a result of a change in tax law, the Issuer (or, if the Guarantee were called, the Guarantor) has or will become obliged to pay Additional Tax Amounts (as defined in the Terms and Conditions of the Bonds), as further described in Condition 6(b) of the Terms and Conditions of the Bonds.

If the Issuer redeems the Bonds prior to their maturity dates, investors may not receive the same economic benefits they would have received had they held the Bonds to maturity, and they may not be able to reinvest the proceeds they receive in a redemption in similar securities. In addition, the Issuer's ability to redeem the Bonds may reduce the market price of the Bonds.

If the Guarantor or any of its subsidiaries, including the Issuer, is unable to comply with the restrictions and covenants in their respective debt agreements (if any), or the Bonds, as applicable, there could be a default under the terms of these agreements, or the Bonds, as applicable, which could cause repayment of the debt of the Guarantor or any of its subsidiaries to be accelerated.

If the Guarantor or any of its subsidiaries, including the Issuer, is unable to comply with the restrictions and covenants in the Bonds, or current or future debt obligations and other agreements (if any), there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Guarantor or any of its subsidiaries, including the Issuer, accelerate repayment of the debt, declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, those debt agreements and the Bonds contain or may contain cross-acceleration or cross-default provisions. As a result, the default by the Guarantor or any of its subsidiaries under one debt agreement may cause the acceleration of repayment of not only such but other debt, including the Bonds, or result in a default under its other debt agreements, including the Bonds. If any of these events occur, there can be no assurance that there would be sufficient assets and cash flows of the Guarantor or any of its subsidiaries to repay in full all of their respective indebtedness, or that it would be able to find alternative financing. Even if the Guarantor and its subsidiaries could obtain alternative financing, there can be no assurance that it would be on terms that are favourable or acceptable to the Guarantor and its subsidiaries.

The Issuer may be deemed to be a PRC tax resident enterprise by the PRC tax authorities and certain withholding taxes may be applicable.

The Issuer is incorporated under the laws of the British Virgin Islands. Pursuant to the EIT Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose “de facto management bodies” are within the territory of China will be deemed as PRC tax resident enterprises for the purpose of the EIT Law and must pay enterprise income tax at the rate of 25 per cent. in respect of their income sourced from both within and outside China. The “de facto management body” is defined as the organisational body that effectively exercises overall management and control over production and business operations, personnel, finance and accounting, and properties of the enterprise. In April 2009, the State Administration of Taxation specified certain criteria for the determination of the “de facto management bodies” for foreign enterprises that are controlled by PRC enterprises. Most of the Issuer’s directors and senior management are currently based inside China and they may keep their respective books of account inside China. The above elements may be relevant for the tax authorities to determine whether the Issuer is a PRC resident enterprise for tax purposes. It remains unclear how the PRC tax authorities will interpret such a broad definition. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the “de facto management body” of the Issuer is within the territory of PRC, the Issuer may be deemed as a PRC tax resident enterprise for the purpose of the EIT Law and be subject to PRC enterprise income tax at the rate of 25 per cent. in respect of its income sourced from both within and outside PRC.

As confirmed by the Issuer, as at the date of this Offering Circular, the Issuer has not been notified or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law. As such, non-resident enterprise holders of the Bonds will not be subject to withholding tax, income tax or any other taxes or duties (including stamp duty) imposed by any governmental authority in the PRC in respect of the holding of the Bonds or any repayment of principal and payment of interest made thereon by the Issuer. However, there can be no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future.

Pursuant to the EIT Law and its implementation regulations, any non-resident enterprise without establishment within the PRC or whose income has no actual connection to its establishment within the PRC must pay enterprise income tax at the rate of 10 per cent. on its income sourced inside the PRC, unless a lower rate is available under an applicable tax treaty and such income tax must be withheld by sources with the PRC payer acting as the obligatory withholder, withholding the tax amount from each payment or payment due. Accordingly, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer will be required to withhold income tax from the payments of interest in respect of the Bonds to any non-PRC enterprise Bondholder, and any gain realised by non-PRC enterprise Bondholders from the transfer of the Bonds may be regarded as being derived from sources within the PRC and accordingly would be subject to a 10 per cent. PRC withholding tax, unless a lower rate is available under an applicable tax treaty.

Changes in market interest rates may adversely affect the value of the Bonds.

The Bondholders may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in the prices of the Bonds, resulting in a capital loss for the Bondholders. However, the Bondholders may reinvest the interest payments at higher prevailing interest rates. Conversely, when interest rates fall, the prices of the Bonds may rise. The Bondholders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

The Bonds will carry a fixed interest rate. Consequently, investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds. If Bondholders sell the Bonds they hold before the maturity of such Bonds, they may receive an offer less than their investment.

The liquidity and price of the Bonds following this offering may be volatile.

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in the revenues, earnings and cash flows of the Group and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies, changes in government regulations, any adverse change in the credit rating and results of operations could cause the price of the Bonds to change. Any such developments may result in large and sudden changes in the volume and price at which the Bonds will trade. There can be no assurance that these developments will not occur in the future.

International financial markets and world economic conditions may adversely affect the market price of the Bonds.

The market price of the Bonds may be adversely affected by declines in the international financial markets and world economic conditions. The market for the Bonds is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including China. Since the global financial crisis of 2008 and 2009, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Bonds could be adversely affected.

A trading market for the Bonds may not develop.

The Bonds are a new issue of securities for which there is currently no trading market. There can be no assurance as to the liquidity of the Bonds or that an active trading market will develop. If such a market were to develop, the Bonds could trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, the Group's operations and the market for similar securities. Although application will be made for the listing of the Bonds on the Hong Kong Stock Exchange, such listing can give no assurance as to the liquidity of, or trading market for, the Bonds. The Managers are not obligated to make a market in the Bonds and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Managers. In addition, the Bonds are being offered pursuant to exemptions from registration under the Securities Act and, as a result, the holders of the Bonds will only be able to resell the Bonds in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. It is investors' obligation to ensure that offers and sales of the Bonds within any countries comply with applicable securities laws. Please see "Subscription and Sale". Neither the Issuer nor the Guarantor can predict whether an active trading market for the Bonds will develop or be sustained.

Gains on the transfer of the Bonds may be subject to income tax under PRC tax laws.

Under the EIT Law and its implementation rules, any gains realised on the transfer of the Bonds by holders who are deemed under the EIT Law as non-resident enterprises may be subject to PRC enterprise income tax if such gains are regarded as incomes derived from sources within the PRC. Under the EIT Law, a "non-resident enterprise" means an enterprise established under the laws of a jurisdiction other than the PRC and whose actual administrative organisation is not in the PRC, which has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained incomes derived from sources within the PRC. In addition, there is uncertainty as to whether gains realised on the transfer of the Bonds by individual holders who are not PRC citizens or residents will be subject to PRC individual income tax. If such gains are subject to PRC income tax, the 10 per cent. enterprise income tax rate and 20 per cent. individual income tax rate will perhaps apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Bonds minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income. According to an arrangement between mainland China and Hong Kong for avoidance of double taxation, Bondholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Bonds.

If a Bondholder, being a non-resident enterprise or non-resident individual, is required to pay any PRC income tax on gains on the transfer of the Bonds, the value of the relevant Bondholder's investment in the Bonds may be materially and adversely affected.

The insolvency laws of the British Virgin Islands and the PRC and other local insolvency laws may differ from those of another jurisdiction with which the holders of the Bonds are familiar.

As the Issuer and the Guarantor are incorporated under the laws of the British Virgin Islands and the PRC, respectively, any insolvency proceeding relating to the Issuer or the Guarantor would likely involve British Virgin Islands or PRC insolvency laws, respectively, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Bonds are familiar.

Investment in the Bonds is subject to exchange rate risks.

The Bonds are denominated and payable in U.S. dollars. If a Bondholder measures its investment returns by reference to a currency other than U.S. dollars, an investment in the Bonds entails foreign exchange related risks, including changes in the value of U.S. dollars relative to the currency by reference to which an investor measures its investment returns, such risks arising from, among other things, economic, political and other factors over which the Group has no control. Depreciation of the U.S. dollars against such currency could cause a decrease in the effective yield of the Bonds below their stated coupon rates and could result in a loss when the return on the Bonds is translated into such currency. In addition, there may be tax consequences for Bondholders as a result of any foreign currency gains resulting from any investment in the Bonds.

The Trustee may request holders of the Bonds to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances, including without limitation the giving of notice to the Issuer and the Guarantor pursuant to Condition 9 of the Terms and Conditions of the Bonds and the taking of steps and/or actions and/or the instituting of proceedings pursuant to Condition 13 of the Terms and Conditions of the Bonds, the Trustee may request holders of the Bonds to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes steps and/or actions and/or institutes proceedings on behalf of holders of the Bonds. The Trustee shall not be obliged to take any such steps and/or actions and/or institute any such proceedings if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such steps and/or actions can be taken and/or when such proceedings can be instituted. The Trustee may not be able to take steps and/or actions and/or institute proceedings, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed, the Deed of Guarantee or the Terms and Conditions of the Bonds and in such circumstances, or where there is uncertainty or dispute as to the applicable laws or regulations, to the extent permitted by the agreements and the applicable law, it will be for the holders of the Bonds to take such steps and/or actions and/or to institute such proceedings directly.

Decisions that may be made on behalf of all holders of the Bonds may be adverse to the interests of individual holders of the Bonds.

The Trust Deed contains provisions for convening meetings of holders of the Bonds to consider any matters affecting their interests. These provisions permit defined majorities to bind all holders of the Bonds including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority. Furthermore, there is a risk that the decision of the majority of the holders of the Bonds may be adverse to the interests of the individuals.

Modifications and waivers may be made in respect of the Terms and Conditions of the Bonds, the Trust Deed, the Agency Agreement and/or the Deed of Guarantee by the Trustee or less than all of the holders of the Bonds.

The Terms and Conditions of the Bonds provide that the Trustee may (but shall not be obliged to), without the consent of the Bondholders, agree to any modification of the Terms and Conditions of the Bonds or any provisions of the Trust Deed, the Agency Agreement and/or the Deed of Guarantee which in the opinion of the Trustee will not be materially prejudicial to the interests of Bondholders and to any modification of the Terms and Conditions of the Bonds or any provisions of the Trust Deed, the Agency Agreement and/or the Deed of Guarantee (other than a proposed modification related to the subject of certain reserved matters) which in the opinion of the Trustee is of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provision of law.

In addition, the Trustee may, without the consent of the Bondholders, authorise or waive any breach or proposed breach of the Terms and Conditions of the Bonds or any provisions of the Trust Deed, the Agency Agreement and/or the Deed of Guarantee if, in the opinion of the Trustee, the interests of the Bondholders will not be materially prejudiced thereby.

The Bonds may not be a suitable investment for all investors.

Each potential investor in any Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds;
- understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in Bonds which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of such Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) Bonds are legal investments for it, (b) Bonds can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase of any Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

The Bonds will initially be represented by the Global Certificate and holders of a beneficial interest in the Global Certificate must rely on the procedures of the relevant Clearing System.

The Bonds will initially be represented by the Global Certificate. Such Global Certificate will be deposited with a common depositary for Euroclear and Clearstream (each of Euroclear and Clearstream, a “**Clearing System**”). Except in the circumstances described in the Global Certificate, investors will not be entitled to receive definitive Bonds of. The relevant Clearing System will maintain records of the beneficial interests in the Global Certificate.

While the Bonds are represented by the Global Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems. While the Bonds are represented by the Global Certificate, the Issuer will discharge its payment obligations under the Bonds by making payments to the common depositary for Euroclear and Clearstream, for distribution to their account holders. A holder of a beneficial interest in the Global Certificate must rely on the procedures of the relevant Clearing System to receive payments under the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate. Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System to appoint appropriate proxies.

Bondholders should be aware that a definitive Certificate which has a principal amount that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade.

In relation to any Bond which has a principal amount consisting of a minimum specified denomination plus a higher integral multiple of another smaller amount, it is possible that the Bonds may be traded in amounts in excess of the minimum specified denomination that are not integral multiples of such

minimum specified denomination. In such a case a Bondholder who, as a result of trading such amounts, holds a principal amount of less than the minimum specified denomination will not receive a definitive Certificate in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that it holds an amount equal to one or more specified denominations. If definitive Bonds are issued, holders should be aware that a definitive Certificate which has a principal amount that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade.

Additional procedures may be required to be taken to bring English law governed matters or disputes to the Hong Kong courts and the Bondholders would need to be subject to the exclusive jurisdiction of the Hong Kong courts. There can also be no assurance that the PRC courts will recognise and enforce judgments of the Hong Kong courts in respect of English law governed matters or disputes.

The Terms and Conditions of the Bonds, the Deed of Guarantee, the Trust Deed and the Agency Agreement are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters or disputes, the Hong Kong courts may require certain additional procedures to be taken. Under the Choice of Court Arrangement, judgments of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts. However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC or meets other circumstances specified by the Choice of Court Arrangement. While it is expected that the PRC courts will recognise and enforce a judgment given by the Hong Kong courts in respect of a dispute governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the holders of the Bonds will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the holders' ability to initiate a claim outside of Hong Kong will be limited.

A change in English law which governs the Bonds may adversely affect holders of the Bonds.

The Terms and Conditions of the Bonds are governed by English law. No assurance can be given as to the impact of any possible judicial decision or change of English law or administrative practice after the date of issue of the Bonds.

The Issuer is a special purpose vehicle.

The Issuer is a special purpose vehicle used for the purpose of raising finance through issuances of bonds and will use the net proceeds from the issuances to on-lend to the Guarantor and/or its subsidiaries or associates. As such, the Issuer has limited assets as recourse for Bondholders. The Issuer does not and will not have any business activities other than raising finance, and its ability to make payments under the Bonds will depend on its receipt of timely remittance of funds from the Guarantor and/or its subsidiaries and other members of the Group.

The Issuer may issue additional securities in the future.

The Issuer may from time to time without the consent of the Bondholders create and issue further securities having the same terms and conditions as the Bonds in all respects (or in all respects except for the issue date, the first payment of interest on them, and the timing for complying with the Registration Conditions (as defined in the Terms and Conditions of the Bonds) and the completion of the Cross-Border Security Registration and the NDRC Post-issue Filing) or otherwise raise additional capital through such means and in such manner as it may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Bonds. The issue of any such debt securities may also reduce the amount recoverable by investors in the Bonds upon the Issuer's bankruptcy, winding-up or liquidation.

EXCHANGE RATE INFORMATION

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to 20 July 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set daily by the PBOC on the basis of the previous day's inter-bank foreign exchange market rates and then current exchange rates in the world financial markets. During this period, the official exchange rate for the conversion of Renminbi to U.S. dollars remained generally stable. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currencies for current account items, conversion of Renminbi into foreign currencies for capital items, such as foreign direct investment, loan principals and securities trading, still requires the approval of SAFE and other relevant authorities

On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2 per cent. against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. The PBOC authorised the CFETS effective since 4 January 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi at 9:15 a.m. on each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over the counter exchange rate for that business day. On 18 May 2007, the PBOC enlarged, effective on 21 May 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5 per cent. above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0 per cent. on 16 April 2012. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 26.9 per cent. from 21 July 2005 to 31 December 2013. On 17 March 2014, the PBOC further widened the floating band against the U.S. dollar to 2.0 per cent. On 11 August 2015, the PBOC announced to improve the central parity quotations of Renminbi against the U.S. dollar by authorising market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. Following the announcement by the PBOC on 11 August 2015, Renminbi depreciated significantly against the U.S. dollar. On 11 December 2015, the CFETS, a sub-institutional organisation of the PBOC, published the CFETS Renminbi exchange rate index for the first time which weighs the Renminbi based on 13 currencies, to guide the market in order to measure the Renminbi exchange rate from a new perspective. The Renminbi continued to experience further fluctuation in value against the U.S. dollar in 2019. On 5 August 2019, the PBOC set the Renminbi daily reference rate above RMB7 per U.S. dollar for the first time in over a decade. There can be no assurance as to how and to what extent the exchange rate of the Renminbi will fluctuate against the U.S. dollar or any other foreign currency in the future. There remains significant market trend and international pressure on the PRC government to adopt a more liberalised and flexible currency policy, which could result in greater fluctuation of the Renminbi against the U.S. dollar.

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods presented:

Period	Renminbi per U.S. Dollar Noon Buying Rate ⁽¹⁾			
	End	Average ⁽²⁾	High	Low
		(CNY per U.S.\$1.00)		
2016	6.9430	6.6549	6.9580	6.4480
2017	6.5063	6.7569	6.9575	6.4773
2018	6.8755	6.6090	6.9737	6.2649
2019	6.9618	6.9014	7.1786	6.6822
2020	6.5250	6.9042	7.1681	6.5208
2021				
January	6.4282	6.4672	6.4822	6.4282
February	6.4730	6.4600	6.4869	6.4344
March	6.5518	6.5109	6.5716	6.4648
April	6.4749	6.5186	6.5649	6.4710
May	6.3674	6.4321	6.4749	6.3674
June	6.4566	6.4250	6.4811	6.3796
July	6.4609	6.4763	6.5104	6.4562
August	6.4604	6.4768	6.5012	6.4604
September	6.4434	6.4563	6.4702	6.4320
October (through 8 October 2021)	6.4435	6.4434	6.4435	6.4434

Notes:

1. Exchange rates between Renminbi and U.S. dollar represent the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.
2. Annual and semi-annual averages have been calculated from month-end rate. Monthly averages have been calculated using the average of the daily rates during the relevant period.

TERMS AND CONDITIONS OF THE BONDS

The following are the terms and conditions of the Bonds substantially in the form in which they (other than the text in italics) will be endorsed on the definitive Certificates and referred to in the global certificate.

The issue of the U.S.\$300,000,000 2.2 per cent. guaranteed bonds due 2026 (the “**Bonds**”, which expression, unless the context requires otherwise, includes any further bonds issued pursuant to Condition 15 and to be consolidated and forming a single series therewith) of Hualu International Finance (BVI) Limited 華魯國際財務(BVI)有限公司 (the “**Issuer**”) was authorised by a written resolution of the board of directors of the Issuer on 20 September 2021 and the giving of the Guarantee (as defined in Condition 3(a)) was authorised by a resolution of the board of directors of Hualu Holdings CO.,LTD. (華魯控股集團有限公司) (the “**Guarantor**”) on 31 March 2021. The Bonds are constituted by a trust deed dated on or about 27 October 2021 (the “**Issue Date**”) (as amended and/or supplemented from time to time, the “**Trust Deed**”) made between the Issuer, the Guarantor and China Construction Bank (Asia) Corporation Limited (中國建設銀行(亞洲)股份有限公司) (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for itself and the Holders (as defined below). These terms and conditions (these “**Conditions**”) include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. The Bonds have the benefit of a deed of guarantee (as amended and/or supplemented from time to time, the “**Deed of Guarantee**”) dated on or about 27 October 2021 executed by the Issuer, the Guarantor and the Trustee relating to the Bonds. An agency agreement (as amended and/or supplemented from time to time, the “**Agency Agreement**”) dated on or about 27 October 2021 relating to the Bonds has been entered into between the Issuer, the Guarantor, the Trustee, China Construction Bank (Asia) Corporation Limited (中國建設銀行(亞洲)股份有限公司) as principal paying agent (the “**Principal Paying Agent**”, which expression shall include any successor principal paying agent appointed from time to time in connection with the Bonds), as registrar (the “**Registrar**”, which expression shall include any successor registrar appointed from time to time in connection with the Bonds) and as transfer agent (the “**Transfer Agent**”, which expression shall include any additional or successor transfer agent appointed from time to time pursuant to the Agency Agreement) and the other agents appointed thereunder. Copies of the Trust Deed, the Deed of Guarantee and the Agency Agreement are available for inspection at all reasonable times during usual business hours (being between 9.00 a.m. (Hong Kong time) and 3.00 p.m. (Hong Kong time), from Monday to Friday (excluding public holidays)) at the specified office of the Principal Paying Agent (being as at the date of issue of the Bonds at 20/F, CCB Tower, 3 Connaught Road Central, Central, Hong Kong) following prior written request and proof of holding and identity to the satisfaction of the Principal Paying Agent. “**Paying Agents**” means any paying agents appointed from time to time pursuant to the Agency Agreement with respect to the Bonds and includes the Principal Paying Agent and “**Agents**” means the Principal Paying Agent, any other Paying Agents, the Registrar, any Transfer Agent and any other agent or agents appointed from time to time pursuant to the Agency Agreement with respect to the Bonds. The Bondholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Deed of Guarantee and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed.

1 FORM, SPECIFIED DENOMINATION AND TITLE

The Bonds are issued in the specified denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (each, a “**Specified Denomination**”). The Bonds are represented by registered certificates (the “**Certificates**”) and, save as provided in Condition 2(a), each Certificate shall represent the entire holding of Bonds by the same Holder.

Title to the Bonds shall pass by transfer and registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”), as described in Condition 2. The Holder of any Bond shall (except as ordered by a court of competent jurisdiction or as otherwise required by law) be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on the Certificate (other than the endorsed form of transfer) representing it or the theft or loss of such Certificate and no person shall be liable for so treating the Holder.

In these Conditions, “**Bondholder**” or, in respect of any Bond, “**Holder**” means the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first named thereof).

Upon issue, the Bonds will be represented by a global certificate (the “Global Certificate”) registered in the name of a nominee of, and deposited with, a common depositary for Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream”). These Conditions are modified by certain provisions contained in the Global Certificate while any of the Bonds are represented by the Global Certificate.

Except in the limited circumstances described in the Global Certificate, owners of interests in Bonds represented by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of Bonds. The Bonds are not issuable in bearer form.

2 TRANSFERS OF BONDS AND ISSUE OF CERTIFICATES

(a) Transfer

A holding of Bonds may, subject to Conditions 2(d) and 2(e) and the provisions of the Agency Agreement, be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Bonds to be transferred, together with the form of transfer endorsed on such Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or the relevant Transfer Agent may require. In the case of a transfer of part only of a holding of Bonds represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Bonds to a person who is already a Holder, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. No transfer of title to a Bond will be valid unless and until entered on the Register.

A Bond may not be transferred unless the principal amount of such Bonds to be transferred and (where not all of the Bonds held by a holder are being transferred) the principal amount of the balance of such Bonds not being transferred are equal to or more than the Specified Denomination.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules and procedures of the relevant clearing systems.

(b) Delivery of New Certificates

Each new Certificate to be issued upon transfer of any Bonds pursuant to Condition 2(a) shall be made available for delivery within seven business days of receipt by the Registrar or, as the case may be, the relevant Transfer Agent of a duly completed form of transfer and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of the relevant Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer and Certificate shall have been made or, at the option of the Holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the Holder entitled to the new Certificate to such address as may be so specified, unless such Holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(b), “**business day**” means a day, other than a Saturday or Sunday or public holiday, on which commercial banks are generally open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(c) Transfer Free of Charge

On transfer, Certificates shall be issued and registered without charge to the relevant Bondholder by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment by the relevant Bondholder of any and all tax, duty, assessment or other governmental charges that may be imposed in relation to them (or the giving of such indemnity and/or security and/or pre-funding as the Registrar or the relevant Transfer Agent may require).

(d) Restricted Transfer Periods

No Holder may require the transfer of a Bond to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of that Bond, (ii) after a Put Exercise Notice has been deposited in respect of such Bond pursuant to Condition 6(c), (iii) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7(a)(ii)), or (iv) during the period of 15 days prior to (and including) any date on which Bonds may be called for redemption by the Issuer pursuant to Condition 6(b).

(e) Regulations

All transfers of Bonds and entries on the Register will be made in accordance with the detailed regulations concerning transfer and registration of Bonds, the initial form of which is scheduled to the Agency Agreement. Each of the Issuer and the Registrar may change the regulations from time to time, with the prior written approval of the Trustee and (in the case of any change proposed by the Issuer) of the Registrar. A copy of the current regulations will be made available (free of charge to the Bondholder and at the Issuer's expense) by the Registrar to any Bondholder at the specified office of the Registrar for inspection by any Bondholder at all reasonable times during normal business hours (being between 9:00 a.m. (Hong Kong time) and 3:00 p.m. (Hong Kong time), Monday to Friday other than public holidays) following prior written request and proof of holding and identity to the satisfaction of the Registrar.

3 GUARANTEE AND STATUS

(a) Guarantee

The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed and the Bonds. Its obligations in that respect (the "**Guarantee**") are contained in the Deed of Guarantee. The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable laws and regulations and subject to Condition 4(a), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

(b) Status

The Bonds constitute direct, unconditional, unsubordinated and (subject to Condition 4(a)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable laws and regulations and subject to Condition 4(a), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

4 COVENANTS

(a) Negative Pledge

So long as any Bond remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will, and each of the Issuer and the Guarantor will ensure that none of their respective Subsidiaries (other than Listed Subsidiaries) will, create, or have outstanding, any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Bonds (i) the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or (ii) such other security as either the Trustee shall in its absolute discretion deem not materially less beneficial to the interest of the Bondholders or shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

(b) Issuer Activities

So long as any Bond remains outstanding (as defined in the Trust Deed), the Issuer shall not, and the Guarantor shall procure that the Issuer will not, carry on any business activity whatsoever other than in connection with the issue of the Bonds or any other bonds and any other activities reasonably incidental thereto (such activities shall, for the avoidance of doubt, include the on-lending of the proceeds of the issue of the Bonds or any other bonds to any other Subsidiaries of the Guarantor).

(c) Undertakings Relating to SAFE

The Guarantor undertakes to file or cause to be filed with the Shandong Branch (or other relevant branch) of the State Administration of Foreign Exchange (“SAFE”) the Deed of Guarantee within 15 PRC Business Days of the execution of the Deed of Guarantee in accordance with the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees (跨境擔保外匯管理規定) promulgated by SAFE on 12 May 2014 which came into effect on 1 June 2014 (the “Cross-Border Security Registration”). The Guarantor shall use its best endeavours to complete the Cross-Border Security Registration and obtain a registration certificate from SAFE (or any other document evidencing the completion of registration issued by SAFE) on or before the Registration Deadline and shall comply with all applicable PRC laws and regulations in relation to the Guarantee.

(d) Notification to NDRC

The Guarantor undertakes that it will within 10 PRC Business Days after the Issue Date file or cause to be filed with the National Development and Reform Commission of the PRC or its local counterparts (the “NDRC”) the requisite information and documents in accordance with the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知 (發改外資[2015]2044號)) issued by the NDRC and effective as of 14 September 2015 and any implementation rules as issued by the NDRC from time to time (the “NDRC Post-issue Filing”).

(e) Notification of Completion of the Cross-Border Security Registration and the NDRC Post-issue Filing

The Guarantor shall, within five PRC Business Days after the later of submission of the NDRC Post-issue Filing and receipt of the registration certificate from SAFE (or any other document evidencing the completion of registration issued by SAFE), provide the Trustee with: (i) a certificate in English substantially in the form set out in the Trust Deed signed by an Authorised Signatory (as defined in the Trust Deed) of the Guarantor confirming the completion of the NDRC Post-issue Filing and the Cross-Border Security Registration; and (ii) copies of the relevant documents evidencing the NDRC Post-issue Filing (if any) and the Cross-Border Security Registration, each certified in English by an Authorised Signatory of the Guarantor, as being a true and complete copy of the original (the items specified in (i) and (ii) together, the “Registration Documents”).

In addition, the Guarantor shall procure that within five PRC Business Days after the Registration Documents are delivered to the Trustee, the Issuer gives notice to the Bondholders (in accordance with Condition 16) confirming the completion of the NDRC Post-issue Filing and the Cross-Border Security Registration.

The Trustee may rely conclusively on the Registration Documents and shall have no obligation or duty to monitor or ensure or to assist with the making of the NDRC Post-issue Filing as required by Condition 4(c), the filing or registration of the Bonds or the Deed of Guarantee with SAFE on or before the Registration Deadline or to verify the accuracy, completeness, content, validity and/or genuineness of any documents in relation to or in connection with the NDRC Post-issue Filing, the Cross-Border Security Registration and/or the Registration Documents or to translate or procure that any Registration Document is translated into English or to verify the accuracy of any English translation of any Registration Document or any other certificate, confirmation or other document, or to give

notice to the Bondholders confirming the completion of the NDRC Post-issue Filing and/or the Cross-Border Security Registration, and shall not be liable to Bondholders or any other person for not doing so.

(f) Financial Information

So long as any Bond remains outstanding (as defined in the Trust Deed):

- (i) the Guarantor will furnish the Trustee with (A) a copy of the relevant Audited Guarantor Financial Reports within 150 days of the end of each Relevant Period prepared in accordance with PRC GAAP (audited by a nationally or internationally recognised firm of independent accountants (which may be the auditor of the Guarantor as at the Issue Date)) and if such reports shall be in the Chinese language, together with an English translation of the same translated by (aa) a nationally or internationally recognised firm of independent accountants (which may be the auditor of the Guarantor as at the Issue Date) or (bb) a professional translation service provider and checked by a nationally or internationally recognised firm of independent accountants (which may be the auditor of the Guarantor as at the Issue Date), together with a certificate in English signed by an Authorised Signatory of the Guarantor certifying that such translation is complete and accurate; and (B) a copy of the Unaudited Guarantor Financial Reports within 90 days of the end of each Relevant Period prepared on a basis consistent with the Audited Guarantor Financial Reports and if such reports shall be in the Chinese language, together with an English translation of the same translated by (aa) a nationally or internationally recognised firm of independent accountants (which may be the auditor of the Guarantor as at the Issue Date) or (bb) a professional translation service provider and checked by a nationally or internationally recognised firm of independent accountants (which may be the auditor of the Guarantor as at the Issue Date), together with a certificate in English signed by an Authorised Signatory of the Guarantor certifying that such translation is complete and accurate; and
- (ii) each of the Issuer and the Guarantor shall send a Compliance Certificate (on which the Trustee may rely conclusively as to such compliance) to the Trustee (A) at the same time as the Audited Guarantor Financial Reports are provided pursuant to Condition 4(f)(i) and (B) within 14 days of any written request therefor from the Trustee.

(g) Rating

So long as any Bond remains outstanding (as defined in the Trust Deed), save with the approval of an Extraordinary Resolution, the Issuer and the Guarantor will maintain a rating on the Bonds by at least one Rating Agency.

(h) Definitions

In these Conditions:

“Audited Guarantor Financial Reports” means, for a Relevant Period, the annual audited consolidated financial statements of the Guarantor together with any statements, reports (including any directors’ and auditors’ reports) and notes attached to or intended to be read with any of them, prepared in accordance with the applicable PRC GAAP;

“Compliance Certificate” means a certificate in English of the Issuer or the Guarantor (as the case may be) signed by any one of its Authorised Signatories that, having made all reasonable enquiries, to the best knowledge, information and belief of the Issuer or the Guarantor (as the case may be) as at a date (the **“Certification Date”**) not more than five days before the date of the certificate that:

- (i) no Relevant Event, Event of Default or Potential Event of Default had occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event had occurred, giving details of it; and

- (ii) the Issuer or the Guarantor (as the case may be) has complied with all its covenants and obligations under the Trust Deed, the Agency Agreement, the Deed of Guarantee and the Bonds.

“**Hong Kong**” means the Hong Kong Special Administrative Region of the PRC;

“**Listed Subsidiary**” means any Subsidiary of the Issuer or the Guarantor the shares of which are at the relevant time listed on The Stock Exchange of Hong Kong Limited, or any other stock exchange;

“**person**” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organisation or government or any agency or political subdivision thereof;

“**Potential Event of Default**” means an event or circumstance which could with the giving of notice, lapse of time, issue of a certificate and/or fulfilment of any other requirement provided for in Condition 9 become an Event of Default;

“**PRC**” means the People’s Republic of China, which shall for the purpose of these Conditions only, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;

“**PRC Business Day**” means a day, other than a Saturday, Sunday or public holiday, on which commercial banks are generally open for business in Beijing;

“**PRC GAAP**” means the Accounting Standards for Business Enterprises in China issued by the Ministry of Finance of the PRC from time to time;

“**Rating Agency**” means (i) Fitch Ratings Inc. and its successors and credit rating agency affiliates (“**Fitch**”), (ii) Moody’s Investors Service, Inc, a subsidiary of Moody’s Corporation, and its successors and credit rating agency affiliates (“**Moody’s**”), (iii) S&P Global Ratings and its successors and credit rating agency affiliates (“**S&P**”) or (iv) if none of Fitch, Moody’s or S&P shall make a rating of the Bonds publicly available, any internationally recognised securities rating agency selected by the Issuer or the Guarantor, which shall be substituted for Fitch, Moody’s or S&P;

“**Registration Deadline**” means the day falling 90 PRC Business Days after the Issue Date;

“**Relevant Indebtedness**” means any indebtedness incurred outside the PRC which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market (which, for the avoidance of doubt, does not include bilateral loans, syndicated loans or club deal loans);

“**Relevant Period**” means (i) in relation to the Audited Guarantor Financial Reports, each period of 12 months ending on the last day of the Guarantor’s financial year (being 31 December of that financial year); (ii) in relation to the Unaudited Guarantor Financial Reports, each period of six months ending on the last day of the Guarantor’s first half financial year (being 30 June of that financial year);

a “**Subsidiary**” of any person means (i) any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity, or (ii) any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the laws, regulations or generally accepted accounting principles of the jurisdiction of incorporation of such person from time to time, should have its accounts consolidated with those of that person; and

“**Unaudited Guarantor Financial Reports**” means, for a Relevant Period, semi-annual unaudited consolidated balance sheet, income statement and statement of cash flows of the Guarantor together with any statements, reports (including any directors’ and auditors’ review reports, if any) and notes attached to or intended to be read with any of them, if any.

5 INTEREST

The Bonds bear interest on their outstanding principal amount from and including 27 October 2021 at the rate of 2.2 per cent. per annum, payable semi-annually in arrear in equal instalments of U.S.\$11.0 per Calculation Amount (as defined below) on 27 April and 27 October in each year (each an “**Interest Payment Date**”) commencing on 27 April 2022.

Each Bond will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate representing such Bond, payment of principal or premium (if any) is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the date on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder, and (b) the date falling seven days after the Trustee or the Principal Paying Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant Bondholder under these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day count fraction will be determined on the basis of a 360 day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including 27 October 2021 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an “**Interest Period**”.

Interest in respect of any Bond shall be calculated per U.S.\$1,000 in principal amount of the Bonds (the “**Calculation Amount**”). The amount of interest payable per Calculation Amount for any period shall (save as provided above in relation to equal instalments) be equal to the product of the rate of interest specified above, the Calculation Amount and the day count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

6 REDEMPTION AND PURCHASE

(a) Final Redemption

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 27 October 2026 (the “**Maturity Date**”). The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

(b) Redemption for Taxation Reasons

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice to the Bondholders in accordance with Condition 16 and in writing to the Trustee and the Principal Paying Agent (which notice shall be irrevocable), at their principal amount together with any unpaid interest accrued to, but excluding, the date fixed for redemption, if the Issuer and/or the Guarantor (as the case may be) satisfies the Trustee immediately prior to the giving of such notice that (i) the Issuer (or, if the Guarantee were called, the Guarantor) has or will become obliged to pay Additional Tax Amounts (as defined in Condition 8) as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or the PRC, or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of, such laws or regulations (including but not limited to any decision by a court of competent jurisdiction), which change and/or amendment becomes effective on or after 20 October 2021, and (ii) such obligation cannot be avoided by the Issuer (or the

Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds (or the Guarantee, as the case may be) then due. Prior to the giving of any notice of redemption pursuant to this Condition 6(b), the Issuer (or the Guarantor, as the case may be) shall deliver to the Trustee (A) a certificate in English signed by any Authorised Signatory of the Issuer (or a certificate in English of the Guarantor signed by any Authorised Signatory of the Guarantor, as the case may be) stating that the obligation referred to in (i) above of this Condition 6(b) cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it and (B) an opinion, addressed to and in form and substance satisfactory to the Trustee, of independent tax or legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such Additional Tax Amounts as a result of such change and/or amendment and the Trustee shall be entitled (but shall not be obliged) to accept and conclusively rely upon such certificate and opinion, without further investigation or query and without liability to the Bondholders or any other person, as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above of this Condition 6(b), in which event the same shall be conclusive and binding on the Bondholders.

(c) Redemption for Relevant Event

At any time following the occurrence of a Relevant Event, a Holder will have the right, at such Holder's option, to require the Issuer to redeem all but not some only of that Holder's Bonds on the Put Settlement Date (as defined below) at 101 per cent. (in the case of a redemption for a Change of Control) or 100 per cent. (in the case of a redemption for a No Registration Event) of their principal amount, together with, in each case, accrued and unpaid interest up to but excluding such Put Settlement Date. In order to exercise such right, the Holder of the relevant Bond must deposit at the specified office of the Principal Paying Agent or any other Paying Agent a duly completed and signed notice of redemption, in the form obtainable from the specified office of the Principal Paying Agent or any other Paying Agent (a "**Put Exercise Notice**"), together with the Certificate evidencing the Bonds to be redeemed by not later than 30 days following a Relevant Event, or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 16.

Subject to Condition 7(e), the "**Put Settlement Date**" shall be the fourteenth day (in the case of a redemption for a Change of Control) or the tenth day (in the case of a redemption for a No Registration Event) after the expiry of such period of 30 days as referred to above. A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds, the subject of the Put Exercise Notices delivered as aforesaid, on the Put Settlement Date.

The Issuer and the Guarantor shall give notice to Bondholders in accordance with Condition 16 and to the Trustee and the Principal Paying Agent in writing by not later than 14 days (in the case of a redemption for a Change of Control) or 10 days (in the case of a redemption for a No Registration Event) following the first day on which it becomes aware of the occurrence of a Relevant Event, which notice shall specify the procedure for exercise by Holders of their rights to require redemption of the Bonds pursuant to this Condition 6(c).

In this Condition 6(c):

a "**Change of Control**" occurs when:

- (i) the PRC Government Entities collectively cease to directly or indirectly hold or own 100 per cent. of the issued share capital of the Guarantor; or
- (ii) the Guarantor ceases to directly or indirectly hold or own 100 per cent. of the issued share capital of the Issuer; or

- (iii) the Guarantor consolidates with or merges into or sells or transfers all or substantially all of the Guarantor's assets to any other person(s), except where such person(s) (in the case of asset sale or transfer) or the surviving entity (in the case of consolidation or merger) is/are, directly or indirectly, wholly-owned by the PRC Government Entities;

“**Control**” means (i) the ownership, acquisition or control of at least 80 per cent. of the voting rights of the issued share capital or issued shares of a person or (ii) the right to appoint and/or remove all or the majority of the members of a person's board of directors or other governing body, in each case whether obtained directly or indirectly, and whether obtained by ownership of share capital, shares, the possession of voting rights, contract or otherwise; the term “**Controlled**” has meanings correlative to the foregoing;

a “**No Registration Event**” occurs when the Registration Conditions have not been satisfied in full on or before the Registration Deadline;

a “**person**” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the Issuer's or the Guarantor's board of directors or any other governing board and does not include the Issuer's or the Guarantor's wholly-owned direct or indirect subsidiaries;

“**PRC Government Entities**” means the Shandong Provincial State-owned Assets Supervision and Administration Commission (山東省人民政府國有資產監督管理委員會), the Shandong Provincial Social Security Fund Council (山東省社會保障基金理事會), the Shandong Provincial Ministry of Finance (山東省財政廳) and/or any person Controlled by the People's Government of Shandong Province (山東省人民政府);

“**Registration Conditions**” means the receipt by the Trustee of the Registration Documents relating to the Cross-Border Security Registration as set forth in Condition 4(e); and

a “**Relevant Event**” means a Change of Control or a No Registration Event.

So long as the Bonds are represented by the Global Certificate, a right of a Bondholder to redemption of the Bonds following the occurrence of a Relevant Event will be effected in accordance with the rules of the relevant clearing systems.

(d) Purchase

The Issuer, the Guarantor and their respective Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Issuer, the Guarantor or any such Subsidiary, shall not entitle the Holder thereof to vote at any meetings of the Holders and shall not be deemed to be outstanding for certain purposes, including without limitation for the purpose of calculating quorums at meetings of the Holders or for the purposes of Condition 9, Condition 12(a) and Condition 13.

(e) Notice of redemption

All Bonds in respect of which any notice of redemption is given under this Condition 6 shall be redeemed on the date, in such place and in such manner as specified in such notice in accordance with this Condition 6(e). If there is more than one notice of redemption given in respect of any Bond (which shall include any notice given by the Issuer pursuant to Condition 6(b) and any Put Exercise Notice given by a Bondholder pursuant to Condition 6(c)), the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given shall prevail. Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying any calculations of any amounts payable under any notice of redemption or Put Exercise Notices and shall not be liable to the Holders, the Issuer, the Guarantor or any other person for not doing so.

(f) **Cancellation**

All Certificates representing Bonds redeemed or purchased by or on behalf of the Issuer, the Guarantor and their respective Subsidiaries shall be surrendered for cancellation to the Registrar and, upon surrender thereof, all such Bonds shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Bonds shall be discharged.

7 **PAYMENTS**

(a) **Method of Payment:**

- (i) Payments of principal and premium (if any) shall be made (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Bonds represented by such Certificates) in the manner provided in Condition 7(a)(ii).
- (ii) Interest on each Bond shall be paid, on the due date for payment, to the person shown on the Register at the close of business on the fifth Payment Business Day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Bond shall be made in U.S. dollars by wire transfer to the registered account of the Bondholder. For the purposes of this Condition 7(a)(ii), a Bondholder’s “**registered account**” means the U.S. dollar denominated account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the Record Date.
- (iii) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested in writing by the Issuer or a Bondholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of premium (if any) or interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of premium (if any) or interest so paid.

*So long as the Global Certificate is held on behalf of Euroclear and Clearstream or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the Holder of the relevant Global Certificate in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where “**Clearing System Business Day**” means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

- (b) **Payments subject to Fiscal Laws:** All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Bondholders in respect of such payments.
- (c) **Payment Initiation:** Payment instructions (for value on the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated on the due date for payment (or, if that date is not a Payment Business Day, on the first following day which is a Payment Business Day), or, in the case of payments of principal and premium (if any) where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on the first Payment Business Day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.

- (d) **Appointment of Agents:** The Principal Paying Agent, the Registrar and the Transfer Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Principal Paying Agent, the Registrar and the Transfer Agent act solely as agents of the Issuer and the Guarantor (and as provided in the Trust Deed, the Trustee) and do not assume any obligation or relationship of agency or trust for or with any Bondholder. The Issuer and the Guarantor reserve the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent, the Registrar, the Transfer Agent or any of the other Agents and to appoint additional or other Paying Agents and/or Transfer Agents, provided that the Issuer and the Guarantor shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, and (iii) a Transfer Agent.

Notice of any such termination or appointment or any change of any specified office shall promptly be given by the Issuer (failing whom, the Guarantor) to the Bondholders in accordance with Condition 16.

- (e) **Delay in Payment:** Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a Payment Business Day or if the Bondholder is late in surrendering or cannot surrender its Certificate (if required to do so).
- (f) **Non-Payment Business Day:** If any date for payment in respect of any Bond is not a Payment Business Day, the holder shall not be entitled to payment until the next following Payment Business Day nor to any interest or other sum in respect of such postponed payment.

In this Condition 7,

“**Payment Business Day**” means a day other than a Saturday, a Sunday or a public holiday on which commercial banks and foreign exchange markets are generally open for business and settlement of U.S. dollars payments in Hong Kong and New York City and (if surrender of the relevant Certificate is required) the relevant place of presentation.

8 TAXATION

All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee shall be made free and clear of, and without set-off or counterclaim and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands, the PRC or, in each case, any political subdivision or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

Where withholding or deduction is made by the Issuer or, as the case may be, the Guarantor for or on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected withheld or assessed by or within the PRC at a rate up to and including the aggregate rate applicable on 20 October 2021 (the “**Applicable Rate**”), the Issuer or, as the case may be, the Guarantor will increase the amounts paid by it to the extent required, so that the net amount received by Bondholders equals the amounts which would otherwise have been received by them had no such withholding or deduction been required.

If (a) the Issuer or, as the case may be, the Guarantor is required to make any deduction or withholding for or on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected withheld or assessed by or within the British Virgin Islands or (b) the Issuer, or as the case may be, the Guarantor is required to make a deduction or withholding for or on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected withheld or assessed by or within the PRC in excess of the Applicable Rate, then the Issuer (or the Guarantor, as the case may be) shall pay such additional amounts (“**Additional Tax Amounts**”) as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Tax Amounts shall be payable in respect of any Bond (or the Guarantee, as the case may be):

- (i) **Other connection:** to a Holder (or to a third party on behalf of a Holder) who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the British Virgin Islands or the PRC other than the mere holding of the Bond; or
- (ii) **Surrender more than 30 days after the Relevant Date:** in respect of which the Certificate representing it is surrendered (where surrender is required) for payment more than 30 days after the Relevant Date except to the extent that the Holder of it would have been entitled to such Additional Tax Amounts on surrendering the Certificate representing such Bond for payment on the last day of such period of 30 days.

References in these Conditions to principal, premium (if any) and interest shall be deemed also to refer to any Additional Tax Amounts which may be payable under this Condition 8 or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed, the Deed of Guarantee and the Bonds.

In these Conditions, “**Relevant Date**” in respect of any Bond means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date falling seven days after that on which notice is duly given to the Bondholders that, upon further surrender of the Certificate representing such Bond being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, assessment, governmental charge, withholding or other payment referred to in this Condition 8 or otherwise in connection with the Bonds or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, the Guarantor, any Bondholder or any third party to pay such taxes, duties, assessments, governmental charges, withholding or other payment in any jurisdiction or to provide any notice or information in relation to the Bonds in connection with payment of such taxes, duties, charges, assessments, government charges, withholding or other payment imposed by or in any jurisdiction, including without limitation any notice or information that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Bonds without deduction or withholding for or on account of any such taxes, duties, assessments, governmental charges, withholding or other payment imposed by or in any jurisdiction.

9 EVENTS OF DEFAULT

If an Event of Default (as defined below) occurs the Trustee at its discretion may, and if so requested in writing by Holders of at least 25 per cent. of the aggregate principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (provided in any such case that the Trustee shall have first been indemnified and/or secured and/or pre-funded to its satisfaction), give written notice to the Issuer and the Guarantor that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with any accrued and unpaid interest.

An “**Event of Default**” occurs if:

- (a) **Non-Payment:** there has been a failure to pay (i) the principal of or any premium (if any) on any of the Bonds when due or (ii) any interest on any of the Bonds when due and such failure to pay interest continues for a period of seven days; or
- (b) **Breach of Other Obligations:** the Issuer or the Guarantor does not perform or comply with any one or more of their respective other obligations under the Bonds (other than those referred to in Condition 9(a) and where it gives rise to a redemption by the Holders pursuant to Condition 6(c)), the Trust Deed, the Agency Agreement or the Deed of Guarantee, which default is, in the opinion of the Trustee, incapable of remedy or, if such default is, in the opinion of the Trustee, capable of remedy, such default is not remedied within 30 days after notice of such default shall have been given to the Issuer or the Guarantor (as the case may be) by the Trustee; or
- (c) **Cross-Default:** (i) any other present or future indebtedness of the Issuer or the Guarantor or any of their respective Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period; or (iii) the Issuer or the Guarantor or any of their respective Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 9(c) have occurred equals or exceeds U.S.\$30,000,000 or its equivalent in any other currency (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this Condition 9(c) operates); or
- (d) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against the whole or any material part of the property, assets or revenues of the Issuer or the Guarantor or any Principal Subsidiary and is not discharged or stayed within 60 days; or
- (e) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer, the Guarantor or any Principal Subsidiary over all or a material part of the assets of the Issuer, the Guarantor or the relevant Principal Subsidiary, as the case may be, becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person) and is not discharged or stayed within 60 days; or
- (f) **Insolvency:** the Issuer, the Guarantor or any Principal Subsidiary is (or is, or could be, deemed by law or a court of competent jurisdiction to be) insolvent or bankrupt or unable to pay its debts as and when such debts fall due, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Issuer, the Guarantor or any Principal Subsidiary, as the case may be; or
- (g) **Winding-up:** an order of any court of competent jurisdiction is made or an effective resolution is passed for the winding-up or dissolution of the Issuer, the Guarantor or any Principal Subsidiary (except for the voluntary solvent winding-up of any such Principal Subsidiary), or the Issuer, the Guarantor or any Principal Subsidiary ceases or threatens to cease to carry on all or a material part of its business or operations, except (A) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation whilst solvent: (i) on terms approved by the Bondholders by Extraordinary Resolution: or (ii) in the case of a Principal Subsidiary, whereby the undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Guarantor or any of its Subsidiaries; or (B) there is a disposal of a Principal Subsidiary on an arm's length basis

and the proceeds resulting from such disposal are fully vested in the Issuer, the Guarantor and/or any of the Guarantor's Subsidiaries; or

- (h) **Nationalisation:** (i) any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the undertaking, assets or revenues of the Issuer, the Guarantor or any of the Principal Subsidiaries; or (ii) the Issuer, the Guarantor or any of the Principal Subsidiaries is prevented by any such person from exercising normal control over all or a material part of its undertaking, assets or revenues; or
- (i) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Bonds, the Trust Deed, the Agency Agreement and the Deed of Guarantee, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Bonds, the Trust Deed, the Agency Agreement and the Deed of Guarantee admissible in evidence in the courts of Hong Kong is not taken, fulfilled or done; or
- (j) **Illegality:** it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of their respective obligations under any of the Bonds, the Trust Deed, the Agency Agreement and/or the Deed of Guarantee; or
- (k) **Unenforceability of Guarantee:** the Guarantee becomes unenforceable or invalid or shall for any reason cease to be in full force and effect or is claimed to be unenforceable, invalid or not in full force and effect by the Guarantor; or
- (l) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to Conditions 9(d) to (g) (both inclusive).

In this Condition 9, “**Principal Subsidiary**” means any Subsidiary of the Guarantor:

- (i) whose gross revenue (consolidated in the case of a Subsidiary which itself has Subsidiaries), as shown by its latest audited income statement, is at least five per cent. of the total gross revenue as shown by the latest published audited consolidated income statement of the Guarantor and its Subsidiaries; or
- (ii) whose profits before taxation and exceptional items (“**pre-tax profit**”) (consolidated in the case of a Subsidiary which itself has Subsidiaries), as shown by its latest audited income statement, are at least five per cent. of the sum of (x) total consolidated pre-tax profit as shown by the latest published audited consolidated income statement of the Guarantor and its Subsidiaries and (y) the Guarantor and its consolidated Subsidiaries’ share of profits of each Subsidiary of the Guarantor not consolidated with the audited consolidated accounts of the Guarantor and its Subsidiaries and of jointly controlled entities and after adjustments for minority interests; or
- (iii) whose gross assets (consolidated in the case of a Subsidiary which itself has Subsidiaries), as shown by its latest audited balance sheet, are at least five per cent. of the sum of (x) the total gross assets of the Guarantor and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Guarantor and its Subsidiaries, and (y) the Guarantor and its consolidated Subsidiaries’ share of the gross assets of each Subsidiary of the Guarantor whose accounts are not consolidated with the audited consolidated accounts of the Guarantor and its Subsidiaries and of jointly controlled entities and after adjustment for minority interests; or

- (iv) to which is transferred the whole or substantially the whole of the assets of a Subsidiary of the Guarantor which immediately prior to such transfer was a Principal Subsidiary, provided that (xx) the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall forthwith become a Principal Subsidiary and (yy) on or after the date on which the first published audited accounts (consolidated, if appropriate) of the Guarantor prepared as of a date later than such transfer are issued, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Principal Subsidiary shall be determined on the basis of such accounts by virtue of the provisions of paragraphs (i), (ii) or (iii) above of this definition,

provided that, in relation to paragraphs (i), (ii) and (iii) above of this definition:

- (a) in the case of a corporation or other business entity becoming a Subsidiary of the Guarantor after the end of the financial period to which the latest consolidated audited accounts of the Guarantor relate, the reference to the then latest consolidated audited accounts of the Guarantor for the purposes of the calculation above shall, until consolidated audited accounts of the Guarantor for the financial period in which the relevant corporation or other business entity becomes a Subsidiary of the Guarantor are published, be deemed to be a reference to the then latest consolidated audited accounts of the Guarantor adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary of the Guarantor which itself has Subsidiaries) of such Subsidiary in such accounts;
- (b) if the accounts of any Subsidiary of the Guarantor (not being a Subsidiary of the Guarantor referred to in proviso (a) above of this definition) are not consolidated with those of the Guarantor, then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if available) with the consolidated accounts (determined on the basis of the foregoing) of the Guarantor; and
- (c) in relation to any Subsidiary of the Guarantor, each reference in proviso (a) or (b) above to all or any of the accounts (consolidated or otherwise) of such Subsidiary shall be deemed to be a reference to the relevant audited accounts of such Subsidiary if it customarily prepares accounts which are audited and, if not, to the relevant unaudited accounts of such Subsidiary which shall be certified by any two directors of such Subsidiary as having been properly prepared in accordance with generally accepted accounting principles applicable to such Subsidiary.

10 PRESCRIPTION

Claims against the Issuer and/or the Guarantor for payment in respect of the Bonds and/or the Guarantee (as applicable) shall be prescribed and become void unless made within 10 years (in the case of principal or premium (if any)) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

11 REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or any Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Bondholders in accordance with Condition 16, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity, pre-funding and otherwise as the Issuer, the Registrar or the relevant Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12 MEETINGS OF BONDHOLDERS, MODIFICATION, WAIVER, AUTHORISATION, DETERMINATION AND ENTITLEMENT OF TRUSTEE

(a) Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of the Bondholders (including meetings held by video or audio conference call) to consider matters affecting their interests, including without limitation the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed, the Agency Agreement and/or the Deed of Guarantee. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee if requested in writing to do so by Bondholders holding not less than 10 per cent. in aggregate principal amount of the Bonds for the time being outstanding and subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than 50 per cent. in aggregate principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the Maturity Date or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, any premium payable on redemption of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution or (v) to modify or cancel the Deed of Guarantee (other than as provided in Condition 12(b)), in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in aggregate principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution (A) in writing signed by or on behalf of the Bondholders of not less than 90 per cent. in aggregate principal amount of the Bonds for the time being outstanding or (B) passed by Electronic Consent (as defined in the Trust Deed) shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders. A resolution passed in writing will be binding on all Bondholders whether or not they participated in such written resolution.

(b) Modification, Waiver, Authorisation and Determination

The Trustee may (but shall not be obliged to) agree, without the consent of the Bondholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed, the Agency Agreement and/or the Deed of Guarantee that in its opinion is of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provision of law, and (ii) any other modification (except as mentioned in the Trust Deed) and any waiver or authorisation of any breach or proposed breach by the Issuer or the Guarantor, of any of these Conditions or any of the provisions of the Trust Deed, the Agency Agreement and/or the Deed of Guarantee that is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and, unless the Trustee otherwise agrees, such modification, authorisation or waiver shall be notified by the Issuer, failing whom the Guarantor, to the Bondholders as soon as practicable thereafter in accordance with Condition 16.

(c) Entitlement of the Trustee

In connection with the exercise of its functions, rights, powers and/or discretions (including but not limited to those referred to in this Condition 12), the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the interests of, or be responsible for, the consequences of such exercise for individual Bondholders and the

Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer, the Guarantor or, in the case of a claim by any Bondholder, the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

13 ENFORCEMENT

At any time after the Bonds become due and payable, the Trustee may, at its discretion and without further notice, take such steps and/or actions and/or institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed, the Deed of Guarantee, the Agency Agreement and/or the Bonds, but it need not take any such steps and/or actions and/or institute any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in aggregate principal amount of the Bonds then outstanding and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Holder may proceed directly against the Issuer and/or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14 INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility including without limitation, provisions relieving it from taking any steps and/or actions and/or instituting proceedings to enforce its rights under the Trust Deed, the Agency Agreement, the Deed of Guarantee and/or these Conditions and in respect of the Bonds and to enforce payment or taking other actions, steps and/or instituting proceedings unless first indemnified and/or secured and/or pre funded to its satisfaction and to be paid or reimbursed for its fees, costs, expenses and indemnity payments and any liabilities and other amounts incurred by it in priority to the claims of Bondholders. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and/or any entity related (directly or indirectly) to the Issuer or the Guarantor without accounting for any profit.

The Trustee may rely conclusively, and may act or refrain from acting, in each case without liability to Bondholders, the Issuer, the Guarantor or any other person on any report, confirmation, certificate or information from or any advice or opinion of any accountants, auditors, lawyers, valuers, auctioneers, surveyors, brokers, financial advisers, financial institution or any other expert, whether or not obtained by or addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee shall not be responsible or liable to the Issuer, the Guarantor, the Bondholders or any other person for any loss occasioned by acting on or refraining from acting on any such report, confirmation, certificate, information, advice or opinion, in which event such report, confirmation, certificate, information, advice or opinion shall be binding on the Trustee, the Issuer, the Guarantor and the Bondholders.

Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Deed of Guarantee, the Agency Agreement or these Conditions or by law to exercise any discretion or power, take or refrain from taking any action, make any decision or give any direction, the Trustee is entitled, prior to exercising any such discretion or power, taking or refraining from taking any such action, making any such decision or giving any such direction, to seek directions or clarification of any directions from the Bondholders by way of Extraordinary Resolution or given as otherwise contemplated or permitted by the Trust Deed and/or the Bonds, and the Trustee shall be entitled to rely on any such direction or clarification and shall not be responsible or liable for any loss or liability incurred by the Issuer, the Guarantor, the Bondholders or any other person as a result of any delay in it exercising such discretion or power, taking or refraining from taking such action, making such decision or giving such direction where the Trustee is seeking such approval, direction, clarification of any direction or instructions from the Bondholders or in the event that the approval, direction, clarification of any direction or instruction sought are not provided by the Bondholders. The Trustee shall not be liable to any Bondholder, the Issuer, the Guarantor or any other person for any action taken by it in accordance with the approval, direction, request or instruction of the Bondholders. The Trustee shall be entitled to rely on any approval, directions, request or instruction of Bondholders (whether given by Extraordinary Resolution or otherwise as contemplated or permitted by the Trust Deed and/or the Bonds).

None of the Trustee or any of the Agents shall be responsible for the performance by the Issuer, the Guarantor, and any other person appointed by the Issuer or the Guarantor in relation to the Bonds, of the duties and obligations on their part expressed in respect of the same and, unless it has received written notice in writing to the contrary, the Trustee and each Agent shall be entitled to assume that the same are being duly performed.

None of the Trustee or any of the Agents shall have any obligation to monitor or take any steps to ascertain whether an Event of Default, a Potential Event of Default or a Relevant Event has occurred and shall not be liable to the Bondholders or any other person for not doing so.

Each Bondholder shall be solely responsible for making and continuing to make its own independent appraisal of and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer or the Guarantor, and the Trustee shall not at any time have any responsibility for the same and no Bondholder shall rely on the Trustee in respect thereof.

15 FURTHER ISSUES

The Issuer may from time to time without the consent of the Bondholders create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the issue date, the first payment of interest on them, and the timing for complying with the Registration Conditions and the making and completion of the Cross-Border Security Registration and the NDRC Post-issue Filing) and so that such further issue shall be consolidated and form a single series with the outstanding Bonds. References in these Conditions to the Bonds include (unless the context requires otherwise) any other bonds issued pursuant to this Condition 15 and forming a single series with the Bonds. Any further bonds forming a single series with the outstanding Bonds shall be constituted by a deed supplemental to the Trust Deed and be guaranteed by the Guarantor pursuant to a deed supplemental to the Deed of Guarantee or an additional deed of guarantee.

16 NOTICES

Notices to the Holders shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday, a Sunday or a public holiday) after the date of mailing. The Issuer shall also ensure that notices are duly published in a manner that complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

So long as the Global Certificate is held by or on behalf of Euroclear and Clearstream or any Alternative Clearing System (as defined in the Trust Deed), any notice to the Holders of the Bonds shall be validly given by the delivery of the relevant notice to Euroclear, Clearstream or such Alternative Clearing System, for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by these Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

17 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

Without prejudice to Condition 13, no person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999, but this shall not affect any right or remedy which exists or is available apart from this Act.

18 GOVERNING LAW AND JURISDICTION

(a) Governing Law

The Trust Deed, the Deed of Guarantee, the Agency Agreement and the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) Jurisdiction

The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Bonds, the Trust Deed, the Deed of Guarantee and the Agency Agreement and accordingly any legal action or proceedings arising out of or in connection with any Bonds, the Trust Deed, the Deed of Guarantee and the Agency Agreement (“**Proceedings**”) may be brought in such courts. Each of the Issuer and the Guarantor has in the Trust Deed and the Agency Agreement and the Guarantor has in the Deed of Guarantee, irrevocably submitted to the exclusive jurisdiction of such courts and waived any objection to Proceedings in any such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

(c) Agent for Service of Process

Each of the Issuer and the Guarantor irrevocably appoints China Shandong Group Limited at 42/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong as its authorised agent in Hong Kong to receive service of process in any Proceedings in Hong Kong based on any of the Bonds, the Guarantee, the Trust Deed or the Agency Agreement. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Issuer or the Guarantor, respectively). If for any reason the Issuer or the Guarantor, as the case may be, ceases to have such an agent in Hong Kong, it will promptly appoint a substitute process agent and notify the Trustee, the Agents and the Bondholders of such appointment within 30 days of such cessation. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(d) Waiver of Immunity

Each of the Issuer and the Guarantor has waived any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and has irrevocably consented to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) or any order or judgment made or given in connection with any Proceedings.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Global Certificates contain provisions which apply to the Bonds in respect of which a Global Certificate is issued, some of which modify the effect of the Terms and Conditions of the Bonds set out in this Offering Circular. Terms defined in the Terms and Conditions of the Bonds have the same meaning in the paragraphs below. The following is a summary of those provisions:

The Bonds will be represented by a Global Certificate which will be registered in the name of a nominee of, and deposited with, a common depository on behalf of Euroclear and Clearstream.

Under the Global Certificate, the Issuer, for value received, promises to pay such principal and interest on the Bonds to the holder of the Bonds on such date or dates as the same may become payable in accordance with the Terms and Conditions of the Bonds.

Owners of interests in the Bonds in respect of which the Global Certificate is issued will be entitled to have title to the Bonds registered in their names and to receive individual definitive certificates if either Euroclear or Clearstream or any other clearing system selected by the Issuer and approved in writing by the Trustee, the Principal Paying Agent and the Registrar through which the Bonds are held (an “**Alternative Clearing System**”) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

In such circumstances, the Issuer will cause sufficient individual definitive certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant holders of the Bonds. A person with an interest in the Bonds in respect of which the Global Certificate is issued must provide the Registrar not less than 30 days’ notice at its specified office of such holder’s intention to effect such exchange and a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual definitive certificates.

In addition, the Global Certificate will contain provisions which modify the Terms and Conditions of the Bonds as they apply to the Bonds evidenced by the Global Certificate. The following is a summary of certain of those provisions:

PAYMENT

So long as the Bonds are represented by a Global Certificate, each payment in respect of the Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be the Clearing System Business Day immediately prior to the date for payment, where “**Clearing System Business Day**” means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

TRUSTEE’S POWERS

In considering the interests of the Bondholders whilst the Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, but without being obliged to do so, (a) have regard to any information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Bonds and (b) consider such interests on the basis that such accountholders were the holders of the Bonds in respect of which such Global Certificate is issued.

NOTICES

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or any Alternative Clearing System, notices to Bondholders shall be given by delivery of the relevant notice to Euroclear or Clearstream or such Alternative Clearing System, for communication by it to accountholders entitled to an interest in the Bonds in substitution for notification as required by the Terms and Conditions of the Bonds.

BONDHOLDER'S REDEMPTION

The Bondholder's redemption option in Condition 6(c) of the Terms and Conditions of the Bonds may be exercised by the holder of the Global Certificate giving notice to the Principal Paying Agent of the principal amount of the Bonds in respect of which the option is exercised within the time limits specified in the Terms and Conditions of the Bonds.

ISSUER'S REDEMPTION

The option of the Issuer provided for in Condition 6(b) of the Terms and Conditions of the Bonds shall be exercised by the Issuer giving notice to the Bondholders within the time limits set out in and containing the information required by the Terms and Conditions of the Bonds.

TRANSFERS

Transfers of beneficial interests in the Bonds represented by the Global Certificate will be effected through the records of Euroclear and Clearstream (or any Alternative Clearing System) and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream (or any Alternative Clearing System) and their respective direct and indirect participants.

CANCELLATION

Cancellation of any Bond represented by the Global Certificate will be effected by a reduction in the principal amount of the Bonds in the register of the Bondholders and the Global Certificate on its presentation to or to the order of the Registrar for annotation.

MEETINGS

For the purposes of any meeting of Bondholders, the holder of the Bonds represented by the Global Certificate shall (unless such Global Certificate represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and as being entitled to one vote in respect of each U.S.\$1,000 in principal amount of the Bonds for which the Global Certificate is issued.

The Global Certificate shall not become valid for any purpose until authenticated by or on behalf of the Registrar.

USE OF PROCEEDS

The net proceeds from the offering of the Bonds, being the gross proceeds less the fees, commissions and expenses payable in connection with this offering of the Bonds, will be approximately U.S.\$298,438,500. The Company intends to use the net proceeds for the Group's onshore project construction, development of the Group's offshore business, refinancing of the Group's offshore indebtedness and replenishing of working capital.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the consolidated total indebtedness (both current and non-current portions), total equity and total capitalisation of the Guarantor as at 30 June 2021 (i) on an actual basis and (ii) on an adjusted basis to give effect to the Bonds to be issued. The summary consolidated financial information below should be read in conjunction with “*Use of Proceeds*”, “*Summary Consolidated Financial Information of the Guarantor*” and the Guarantor’s reviewed consolidated interim financial statements as at and for the six months ended 30 June 2021 and the notes to those statements included elsewhere in this Offering Circular.

	As at 30 June 2021			
	Actual		As adjusted	
	(RMB'000)	(U.S.\$'000) ⁽⁵⁾	(RMB'000)	(U.S.\$'000)
	(audited)	(unaudited)	(audited)	(unaudited)
Short-term indebtedness				
Short-term loans	1,465,910	227,041	1,465,910	227,041
Non-current indebtedness due within one year ⁽¹⁾	1,277,198	197,813	1,277,198	197,813
Other current liabilities ⁽¹⁾	500,000	77,440	500,000	77,440
Total short-term indebtedness	3,243,108	502,293	3,243,108	502,293
Long-term indebtedness	–	–	–	–
Long-term loans	3,228,176	499,981	3,228,176	499,981
Bonds payable	2,000,000	309,761	2,000,000	309,761
Long term payables	140,376	21,741	140,376	21,741
Bonds to be issued ⁽²⁾	–	–	1,936,980	300,000
Total long-term indebtedness	5,368,552	831,483	7,305,532	1,131,483
Total Indebtedness⁽³⁾	8,611,660	1,333,776	10,548,640	1,633,776
Total Owners’ Equity	28,323,113	4,386,692	28,323,113	4,386,692
Total Capitalisation⁽⁴⁾	36,934,773	5,720,468	38,871,753	6,020,468

Notes:

1. This amount excludes non-interest-bearing portion.
2. This amount represents the aggregate principal amount of the Bonds to be issued, before deducting the fees and commissions, offering discounts and other expenses payable by the Issuer in connection with the issuance of the Bonds.
3. Total indebtedness equals the sum of short-term indebtedness and long-term indebtedness.
4. Total capitalisation equals the sum of total indebtedness and total owners’ equity.
5. For convenience only, at the rate of CNY6.4566 to U.S.\$1.00 (the noon buying rate in New York City on 30 June 2021 as set forth in the weekly H.10 statistical release of the Federal Reserve Board of the Federal Reserve Bank of New York).

In August 2021, the Guarantor issued an aggregate principal amount of RMB500 million ultra-short-term financing bills due January 2022 in the PRC with a term of 150 days and an initial coupon of 2.60 per cent.

Save as otherwise disclosed in this Offering Circular, there has been no material adverse change in the consolidated capitalisation and indebtedness of the Group since 30 June 2021.

DESCRIPTION OF THE ISSUER

Overview

The Issuer was incorporated in the British Virgin Islands as a company limited by shares on 19 March 2021 under the BVI Business Companies Act (as amended) of the British Virgin Islands (company number: 2057677). The registered office of the Issuer is at Ritter House, Wickhams Cay II, PO Box 3170, Road Town, Tortola VG1110, British Virgin Islands.

Business Activity

As at 30 June 2021, the Issuer was a wholly-owned subsidiary of China Shandong Group Limited (華魯集團有限公司) (“**Hong Kong Hualu**”), which, in turn, was wholly-owned by the Guarantor. The Issuer was established for the purpose of issuing bonds and on-lending the proceeds to the Guarantor or its subsidiaries or affiliates.

Directors

As at the date of this Offering Circular, the directors of the Issuer were Mr. Cheng Xuezhao, Mr. Bai Xianzhong, Mr. Zhao Jiequan and Mr. Sun Peidong.

Authorised Shares

As at 30 June 2021, the Issuer was authorised to issue a maximum of 50,000 shares with no par value and the Issuer had issued 10,000 shares.

Financial Information

Under the laws of the British Virgin Islands, the Issuer is not required to publish interim or annual financial statements. The Issuer is, however, required to keep such records that are sufficient to show and explain the Issuer’s transactions and will, at any time, enable the financial position of the Issuer to be determined with reasonable accuracy.

DESCRIPTION OF THE GROUP

OVERVIEW

The Group is a majority owned subsidiary of Shandong SASAC, and is engaged in coal chemicals, pharmaceuticals and other critical industries primarily operating in Shandong province. Since its establishment in 2005, the Group has played an important role in implementing the Shandong Provincial Government's blueprint for the promotion and construction of comprehensive new growth energy resources to replace older energy resources (新舊動能轉換), and contribute to the industrial upgrade of Shandong. The Group acts as an important bridge to connect Shandong province with cities and territories in other parts of China as well as globally. In particular, Hong Kong Hualu, the Guarantor's wholly owned subsidiary, is a Hong Kong-based company serving as a bridge that fosters, among other things, economic and political ties between Shandong Province and Hong Kong.

Benefitting from its strategic importance in Shandong Province and its strong support from the Shandong Provincial People's Government and Shandong SASAC toward its strategic development, the Group has experienced rapid growth and achieved major milestones. The Group focuses on high-end coal chemicals, high-end pharmaceuticals and other businesses including the ecological and environmental businesses. The Group has gained extensive experience and expertise in the industries in which it operates and has become the leading player in its core businesses. As at 30 June 2021, Hualu-Hengsheng, the Group's major operating entity in the coal chemical business, was the largest producer of dimethylformamide (二甲基甲酰胺) ("DMF") worldwide, with an annual production capacity of 330,000 tons per year, while Xinhua Pharmaceutical, one of the Group's two subsidiaries engaged in the high-end pharmaceutical business, is a major producer and exporter of antipyretic and analgesic APIs in Asia, and the other subsidiary, Lukang Pharmaceutical, has one of the most important antibiotics production bases in China. The "Lukang" brand has been recognised as a well-known trademark in China.

Set forth below is an overview of the principal business segments of the Group:

Coal Chemical: The Group conducts its coal chemical business primarily through Hualu-Hengsheng, a subsidiary of the Hualu-Hengsheng Group. The coal chemical business primarily involves the production, distribution and sale of fertilizer, organic amine (有機胺), adipic acid and intermediates (己二酸及中間品), acetic acid and derivatives (醋酸及衍生品) and polyol (多元醇). For the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021, operating income generated from the Group's coal chemical business was approximately RMB14,411 million, RMB14,159 million, RMB12,805 million, RMB5,952 million and RMB11,425 million, respectively, representing approximately 60.1 per cent., 57.3 per cent., 52.6 per cent., 51.3 per cent. and 62.8 per cent. of the Group's total operating income, respectively. For the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021, gross profit generated from the Groups coal chemical business was approximately RMB4,534 million, RMB3,923 million, RMB2,781 million, RMB1,339 million and RMB4,813 million, respectively, representing approximately 62.6 per cent., 55.3 per cent., 48.0 per cent., 49.3 per cent. and 73.5 per cent. of the Group's gross profit, respectively.

Pharmaceuticals: The Group conducts its pharmaceuticals business through Xinhua Pharmaceutical and Lukang Pharmaceutical and their respective subsidiaries, joint ventures and affiliates. Xinhua Pharmaceutical, listed on both the Hong Kong Stock Exchange (stock code: 0719) and Shenzhen Stock Exchange (stock code: 000756), was the first chemosynthetic pharmaceutical company founded in China. It engages in the development, production and distribution of API, preparations and medical intermediates and distributes its products in the domestic and overseas markets, including the United States, Europe and other regions. The businesses of Lukang Pharmaceutical, listed on the Shanghai Stock Exchange (stock code: 600789), include the production of API and preparations for human use and veterinary and botanic drugs and the development of ecotechnology. The "Lukang" brand has been recognised as a well-known trademark in China. The high-end pharmaceutical business of the Group is one of the driving forces for utilizing comprehensive new growth energy resources to replace older energy resources in Shandong Province. For the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021, operating income generated from the Group's pharmaceutical business was approximately RMB4,960 million, RMB9,209 million, RMB9,769, million, RMB5,223 million and RMB5,788 million, respectively, representing approximately 20.7 per cent., 37.3 per cent., 40.1 per cent., 45.0 per cent. and 31.8 per cent. of the Group's total operating income, respectively. For the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021, gross profit generated from the Group's pharmaceutical business was approximately RMB1,406 million,

RMB2,895 million, RMB2,755 million, RMB1,351 million and RMB1,634 million, respectively, representing approximately 19.4 per cent., 40.8 per cent., 47.6 per cent., 49.8 per cent. and 25.0 per cent. of the Group's gross profit, respectively.

Others: The Group engages in certain other businesses, including the ecological and environmental business. The Group conducts its ecological and environmental business primarily through its wholly owned subsidiary, Environmental Sciences Research and Design Company. It is the largest scientific research institute of environmental protection in Shandong and a leading provider of comprehensive ecological and environmental services in the province.

COMPETITIVE STRENGTHS

The Group believes that its competitive strengths as outlined below distinguish it from its competitors and are important to its success and future development:

Unique and strategic importance in Shandong Province

The Guarantor is owned by and under the direct supervision and administration of Shandong SASAC. The Group is an important bridge for the province to connect with and open to other cities and territories. For example, Hong Kong Hualu, the Guarantor's wholly owned subsidiary, is the province's only Hong Kong-based company serving as a bridge that fosters, among other things, economic and political ties between Shandong Province and Hong Kong, and exercising both commercial functions and political functions of the province. Hong Kong Hualu also integrates and consolidates various resources of Shandong enterprises that are based in Hong Kong to promote communication with Hong Kong politicians and enterprises and cooperation in different fields. The Group assisted local and municipal governments and departments in organising Shandong Week in Hong Kong (香港山東周), one of the major economic and trade activities aiming to encourage investment by Hong Kong investors in Shandong. In order to benefit from Hong Kong's advantages in technology, talent, capital, and markets, the Group seeks to facilitate the cooperation and exchange between Hong Kong and Shandong. In addition, in 2019, the Group established the Shandong Province Overseas Talent Introduction Workstation (山東省海外引才工作站) which aims to broaden the channel of attracting foreign talents and intellectual resources and to establish strategic cooperative relationship with Administration of Foreign Experts Affairs of Shandong Province.

In addition, one of the most important strategies of the 14th Five-Year Plan of Shandong Province is to further promote the construction of a comprehensive experimental zone for the transformation of old and new sources of growth and the industrial upgrade in Shandong. Given its status as a state-owned entity and its significant market presence in its business, the Group is critical to the realisation of such strategy by facilitating the industrial upgrade of its core chemical materials into high-end new energy materials and by further developing its pharmaceutical business. Hualu-Hengsheng, Xinhua Pharmaceutical and Lukang Pharmaceutical were ranked as Top Ten Modern Advantageous Industrial Clusters in the province. In 2018, Complementarity in the Industrial Chain – Steam and Synthetic Ammonia Cooperation Project (產業鏈互補(蒸汽、合成氨)合作項目) between the Group and Huaneng Dezhou Power Plant was officially put into operation with the aim of reducing the amount of standard coal used by increasing the use of steam energy. As at 30 June 2021, nine of the Group's projects for the comprehensive new growth energy resources to replace older energy resources had been classified as major important projects. As at 30 June 2021, these nine projects had a total planned investment amount of approximately RMB21.3 billion and the total actual investment was approximately RMB11.2 billion. These nine projects include:

- Green Core Chemical New Material Project with an annual production capacity of 1.5 million tons;
- Modern Medicine International Cooperation Centre;
- High-tech Biotechnology Industrial Park;
- Biomedicine Circular Economy Industrial Park;
- High-end Animal And Plant Biopharmaceutical Production Base Construction Project;
- High-end New Pharmaceutical Preparation Industrialization Project;

- Hengsheng's Refined Adipic Acid Quality Improvement and Upgrade Project and New Amide And Nylon Material Project;
- Featured Apis and Supporting Projects of Xinhua Shouguang Co., Ltd.; and
- 7-ADCA Pharmaceutical Intermediates And Supporting Power Workshop Construction Project with an annual production capacity of 1,200 tons.

The Group is one of the models of high-quality development for state-owned enterprises in Shandong. For example, during the 13th Five-Year Plan (2016–2020), the return on total assets of the Group ranked first among the same category of the state-owned enterprises in Shandong Province for four consecutive years and the return on state-owned net assets of Group ranked second among the same category of the state-owned enterprises in Shandong Province for three consecutive years.

Close relationship with and strong support from the Shandong Provincial Government and Shandong SASAC

The Guarantor is owned by and under the direct supervision and administration of Shandong SASAC. As at 30 June 2021, Shandong SASAC held 79.05 per cent. of the equity interest in the Guarantor. The Guarantor believes that Shandong SASAC will continue to be its largest direct or indirect shareholder. With the Group's state-owned background, the Group derives strong support (but not credit support) from the PRC government to consolidate and maintain its position as a leading industry player in its principal businesses, including the coal chemical business and pharmaceutical business.

The Group has received financial support from the PRC government in the form of subsidies and grants. For the years ended 31 December 2018, 2019 and 2020 and six months ended 30 June 2020 and 2021, the Group received government subsidies in the amount of approximately RMB81.96 million, RMB90.58 million, RMB93.78 million, RMB44.01 million and RMB29.47 million, respectively. In addition, the Group has benefited from various capital injections and equity transfers by the PRC government. Among such capital injections and equity transfers by the PRC government, the Shandong Provincial Government transferred 100 per cent. equity interest in Dezhou Hengsheng Industrial Chemical (Group) Co., Ltd. (德州恒升化工(集團)有限公司) (the predecessor of Hualu-Hengsheng Group) to Shandong Hualu Group Co., Ltd. (山東華魯集團有限公司) for nil consideration in December 1998, Shandong SASAC transferred 100 per cent. equity interest in Shandong Xinhua Medicine Group Co., Ltd. (山東新華醫藥集團有限責任公司) (the predecessor of Xinhua Pharmaceutical) and Shandong Lukang Medicine Group Co., Ltd. (山東魯抗醫藥集團有限公司) (the predecessor of Lukang Pharmaceutical) to the Guarantor in July 2006 and the Shandong Provincial Government injected RMB200 million in the Guarantor in 2006.

The Group has also benefited from favourable policies issued by the PRC government in respect of the industrial upgrade in Shandong Province as well as a favourable business environment in Shandong Province, and worked closely and maintains a long-term and stable relationship with the Shandong Provincial Government. The PRC government has promulgated several supporting policies which cover pharmaceutical approval, pricing, manufacturing, delivery and distribution, such as lifting of price controls for pharmaceuticals and implementation of the new Provisions for Drug Registration (藥品註冊管理辦法). These policies are geared towards a more market-oriented industry and a more consolidated market as well as healthy competition in, and sustainable development of, the pharmaceutical industry. In addition, the Catalogue for Guiding Industrial Restructuring (Version 2019) (產業結構調整指導目錄(2019年本)) issued by NDRC encourages industrial upgrade and reform and restructuring of the pharmaceutical industry and accordingly, the Group will continue to adapt and adjust its business to be in line with favourable government policies, from which it benefits. Also see *“Risk Factors – Risks Relating to the Bonds and the Guarantee – The PRC government (including the Shandong SASAC and the Shandong Provincial Government) has no obligation to pay any amount under the Bond or the Guarantee”*.

Optimised and diversified business portfolio and product offering

The Group has regularly adjusted and optimised its business portfolios in various industries, including the coal chemical industry, pharmaceutical industry and ecological environmental industry. In addition, each of the operating entities of the Group's businesses offers a comprehensive product portfolio to meet the diversified needs of its customers in different industries. To enhance its profitability and

competitiveness, the Group leverages its research and development capabilities to calibrate its product mix by increasing the percentage of sales represented by higher value-added products and developing new product lines. Hualu-Hengsheng offers various types of coal chemical products including fertilizer, organic amine, adipic acid and intermediate products, acetic acid and derivatives and polyol. Lukang Pharmaceutical historically focused on the development and sales of its comprehensive antibiotics product chain, but has gradually diversified its product offerings to include cardiovascular and cerebrovascular, diabetes, veterinary and other medicines. The businesses of Lukang Pharmaceutical and Xinhua Pharmaceutical has covered the entire industrial production chain, from pharmaceutical intermediates to AIPs and high-end preparations. The Group's strategy is to monitor changes in downstream market conditions and modify its product portfolio composition accordingly. It also seeks to manage the negative impact of fluctuations in demand in certain downstream markets.

A leading industry player with significant market presence and effective cost management

The Group is one of the market leaders in the coal chemicals industry and pharmaceutical industry in the PRC. In 2020, Hualu-Hengsheng, the entity primarily engaged in the Group's coal chemical business, was the largest producer of carbamide (尿素), a type of fertilizer used in agriculture in Shandong Province, according to the China Chemical Industry Daily (中國化工報). In addition, as at 30 June 2021, Hualu-Hengsheng was the world's largest DMF producer in terms of annual production capacity, at 330,000 tons per year. Hualu-Hengsheng was the only company in Shandong Province that was named as a "National Energy Efficiency Leader in Key Energy Consumption Industries 2020" in the synthesis ammonia industry and methanol industry by the Ministry of Industry and Information Technology of the PRC. With respect to the pharmaceutical business, Xinhua Pharmaceutical is a key large-scale pharmaceutical company in the PRC and a major producer and exporter of analgesics in Asia. In addition, Lukang Pharmaceutical is a renowned pharmaceutical company in the PRC and has been awarded as a "National Customer Satisfaction Enterprise" (全國客戶滿意企業). The brand "Lukang" (魯抗) is a famous trademark in the PRC. Environmental Sciences Research and Design Company is a leading player in the ecological environmental industry and is widely recognized for its technological advance and achievement. Its products have been widely used in various fields including but not limited to protection of clean water.

The Guarantor believes that the Group is able to benefit from its effective cost management, particularly in the following areas:

- Hualu-Hengsheng has established a precise production management system which facilitates the reduction of production costs and the sound management of inventories; and
- Lukang Pharmaceutical gives priority to efficiency, resource optimization, clear delineation of responsibilities and adoption of precise control over business development and production, thereby enhancing operating efficiency.

Accordingly, the Guarantor believes that the Group will continue to benefit from its significant market presence and effective cost and efficiency management systems and maintain its position as a leading player in its core industries.

Strong research and development capability and experienced management and execution team

The Guarantor believes that the Group has a competitive advantage in its research and development capabilities and such capabilities enable the Group to drive the transformation of old and new growth energies (新舊動能轉換) of its business. As such, the Group has implemented measures encouraging the research and development of its subsidiaries and its investing entities. For example, it has added various new appraisal criteria for assessing the performance of its subsidiaries and its investing entities including (i) obtaining drug registration and approval for production, (ii) passing the consistency evaluation on quality and efficacy of generic drug, (iii) investment in generic science and technology innovation, (iv) research and development of new technology, (v) obtaining international registration and certification, and (vi) obtaining high-quality patents. In addition, the performance of research and development and innovation is an important criterion for the annual appraisal of core management of its subsidiaries and the investing entities.

As at 30 June 2021, the Group employed 1,807 research and development and technical personnel, representing 10.0 per cent. of its total workforce. The Group has invested a substantial amount in research

and development of new products. For the years ended 31 December 2018, 2019 and 2020 and six months ended 30 June 2020 and 2021, research and development expenses amounted to approximately RMB814 million, RMB1,100 million, RMB1,100 million, RMB425 million and RMB381 million, respectively. As at 30 June 2021, the Group established various pharmaceutical research and development centres and workstations including three academician workstations, three postdoctoral workstations, two national technical masters workshops and eight provincial level accredited enterprise technology centres. The Group also collaborated with various research institutions and universities such as Chinese Academy of Sciences (中國科學院), Chinese Academy of Medical Sciences (中國醫學科學院), Shandong University (山東大學) and Qingdao University of Science and Technology (青島科技大學), to develop its various products. For instance, Xinhua Pharmaceutical collaborated with Shenyang Pharmaceutical University (瀋陽藥科大學) to develop an important innovative drug against Alzheimer's OAB-14. This drug is currently undergoing pilot scale-up and pre-clinical pathology research. The Group's research and development of drugs treating Alzheimer's and other important drugs has been major breakthroughs in medicines. During the 13th Five-Year Plan (2016–2020), the Group obtained 379 registered patents, 128 drug registrations and approvals for production (among which 23 drugs were for human use) and 13 provincial science and technology progression awards (省部級科技進步獎). In addition, from 2016 to 2020, 15 pharmaceutical products of the Group with 21 specifications passed consistency evaluation on quality and efficacy and the Group participated in the formulation of 29 national and industrial standards.

As at 30 June 2021, the Group had 379 registered patents in the PRC. In addition, the Group has a professional and experienced execution team. Among 18,013 employees of the Group, 868 held postgraduate degrees.

Extensive marketing network and sales channels

The Group has an extensive sales network of distributors across the PRC. As at 30 June 2021, the Group had 1,926 sales and marketing employees, representing 10.7 per cent. of its total workforce. As at 30 June 2021, the Group's coal chemical products were sold in more than 25 provinces to a diverse base of established customers and distributors in a wide range of industries.

With respect to the Group's pharmaceutical business, Lukang Pharmaceutical also conducts promotional activities (學術推廣) targeted at doctors across the country in respect of its major products including demonstrating the efficacy of its products. The Group regularly trains its sales and marketing staff to ensure that they are familiar with its latest portfolio of products. The Group also maintains records of its sales, marketing and promotional activities, in order to evaluate and improve upon its business development activities. In addition, the Group also promotes its pharmaceutical business by strengthening the cooperation with various e-commerce platforms including Alibaba, JD.com, Vishop and Amazon. The Group has also established a one-stop solution model combining the B2C, B2B, B2B2C and O2O businesses. The Group's pharmaceutical products have been sold to foreign markets including the United States, the European Union and Japan. For example, Xinhua Pharmaceutical's ANDA ibuprofen tablets have been exported to the United States. Combined with its successful track record of educational promotion activities, the Group believes its dynamic marketing approach for its pharmaceutical business enables it to further market, sell and distribute its current and future products.

Comprehensive capital investment model and prudent financial policies

The Group puts great emphasis on maintaining a prudent capital investment and financial structure, which the Company believes is the key to sustainable business development and maximising returns on the Group's investments.

The Group has established a set of comprehensive capital investment models and prudent financial policies to achieve greater financial efficiency and has implemented strict internal control measures to monitor its funds, investment, financing and working capital. Those comprehensive capital investment measures include but not limited to strategy and planning policy, financial management policy, investment management policy, financing policy and guarantee management policy. With respect to its capital investment management, the Group has implemented effective control measures to regulate, among other things, the overall planning, the decision-making process, the implementation and the monitoring of the investment projects of the Group, and the accountability for the investment losses of the Group. Such measures help improve its results of operations and lower investment risks. Investment projects must be in line with the Group's strategic development and business portfolio. With respect to its financial management, the Group has implemented various measures to achieve standardised financial

and accounting activities of the Group, including but not limited to, financial budget and final accounts management, capital management, guarantee and mortgage management, state-owned assets management, profit distribution, and accounting information management. The Group has been rated as an “Advanced Unit of Preparation of Financial Statements” and an “Advanced Unit of Enterprise Financial Information” by Shandong SASAC and Shandong Finance Bureau.

In addition, the Group has also implemented prudent financial policies, which mainly cover capital management, to maintain a strong credit profile and balance sheet position, as well as comply with the requirements of Shandong SASAC. For example, the Group has maintained an adequate level of cash balance and current assets to fulfil its liquidity needs. As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Group held monetary capital of approximately RMB5.0 billion, RMB3.7 billion, RMB4.8 billion and RMB3.7 billion, respectively, while the Group’s total current assets were approximately RMB13.8 billion, RMB11.6 billion, RMB11.3 billion and RMB13.7 billion, respectively. As at 31 December 2018, 2019 and 2020 and 30 June 2021, the liability to asset ratio of the Group was approximately 46 per cent., 38 per cent., 39 per cent. and 36 per cent., respectively. The Group will continue to closely manage the level of its liability to asset ratio to avoid any potential liquidity risk.

Access to multiple financing channels

The Group has a proven track record of raising finance through multiple financing channels, including equity capital markets, bank and other borrowings, issuance of debt securities, to support its business operations and working capital requirements. The Group has established strong and long-term relationships with a large number of commercial banks, policy banks and financial institutions, including The Export-Import Bank of China, Bank of China, China Construction Bank, Industrial and Commercial Bank of China, China Merchants Bank, Bank of Communications, Shanghai Pudong Development Bank, China CITIC Bank, Nanyang Commercial Bank, China Development Bank, Postal Savings Bank of China and Ping An International Financial Leasing Co., Ltd. As at 30 June 2021, the Group had a credit line of approximately RMB46.6 billion in aggregate, of which approximately RMB39.2 billion remained unutilised, representing approximately 84.1 per cent. of the total amount of its credit line. These relationships have allowed the Group to secure sustainable sources of financing to support its business growth and working capital requirements. In addition, three subsidiaries of the Guarantor, namely, Hualu-Hengsheng, Xinhua Pharmaceutical and Lukang Pharmaceutical, are listed companies which provide the Group with access to funding from the equity markets.

In addition, the Group issues medium-term notes, corporate bonds, short-term financing bills, ultra-short term financing bills and other debt securities in the PRC from time to time. In March 2020, the Group issued its award-winning pandemic prevention and control corporate bonds with an aggregate principal amount of RMB1,000 million with a term of three years and an initial coupon of 2.97 per cent. which was 37.47 per cent. lower than the loan prime rate for the same period, which was among the lowest coupon rates among the pandemic prevention and control bonds issued by PRC state-owned enterprises, and the lowest coupon rate among debt securities issued by non-financial enterprises in Shandong Province. As at 30 June 2021, the Group had an outstanding balance of medium-term notes, corporate bonds, short-term financing bills, ultra-short term financing bills and other debt securities in the PRC of approximately RMB2 billion. As at 30 June 2021, the Group’s registered amount of debt issuance was approximately RMB13 billion, of which RMB10.5 billion of registered amount remained unutilised.

As at 30 June 2021, total indebtedness (comprising short-term loans, non-current liabilities maturing within one year (interest-bearing portion), other current liabilities (interest-bearing portion), long-term loans, bonds payable and long-term accounts payables (interest-bearing portion)) of the Group amounted to approximately RMB8.6 billion. The Guarantor believes the Group’s access to diversified funding sources enables it to secure adequate and cost-efficient funds to support the growth and expansion of its business and operations.

Experienced management team and well-established corporate governance structure

The Group has implemented corporate governance policies that are reliable, effective and consistent with modern corporate governance practices. Its corporate governance policies cover all aspects of daily operations such as production safety, risk management and capital management. The Group has established nine departments, including the general office, CPC working group, discipline inspection and supervision office, finance department, human resources department, investment and development department, capital operation department, enterprise operation department and audit department, to oversee different aspects of the Group’s daily operations.

The Guarantor's board of directors and senior management have extensive experience in the management of large state-owned enterprises and in related industries. See "*Directors, Supervisor and Senior Management*". Under the sound leadership of its management team and by leveraging management's past experience, the Group has achieved and maintained its success over the years and distinguished itself from its competitors.

BUSINESS STRATEGIES

Further enhance the Group's cost management and operational efficiency

To further enhance its cost management and operational efficiency, the Group intends to manage its production capacity and product offerings prudently and invest in cost efficient production systems. The Guarantor believes that a more stringent internal control and cost management system will enhance the Group's production and operating efficiency and further strengthen its leading position in the industries in which it operates. In addition, it will continue its efforts to reduce its raw material costs through bulk purchases, development of alternative raw materials with lower costs and by leveraging its economies of scale to increase its bargaining power with suppliers.

Continue to upgrade an automated and intelligent production and operation system

The Group plans to continue to establish an automated and intelligent production and operation system so as to reduce cost and enhance efficiency. Examples of recent initiatives include the following.

The Group received the best practice award among the National Smart Enterprise Construction issued by China Enterprise Confederation (中國企業聯合會) and China Entrepreneurs Association (中國企業家協會) in 2020. In addition, Lukang Pharmaceutical and Inspur Group (浪潮集團) jointly applied for the "Blockchain Public Service Platform Project" of the Industrial Internet Innovation Development Project to the Ministry of Industry and Information Technology, and carried out the construction of a fully integrated automation platform for the purpose of developing financial management softwares.

The Group, through the construction of material network warehouse, has built an intelligent centralised control platform, thereby reducing the number of employees needed in raw material storages and procurement by 20 per cent..

Continue to invest in research and development and rapidly advance the development of its pharmaceutical product candidates

The Group intends to continue to invest in the research and development of its pharmaceutical products focusing on areas such as cardiovascular and cerebrovascular, neurodegenerative diseases, digestion and metabolism, anti-tumor and high-end anti-infectives and others. The Group will focus on areas where it has already established a leading product portfolio and has extensive research and development experience and where great demand has been shown in the recent industry trends. In the next two or three years, the Guarantor expects to submit one innovative product candidate to the National Drug Authority in China and more than 25 biosimilar candidates for Import Drug License (IDL) application in China.

RECENT DEVELOPMENTS

Issue of ultra-short-term financing bills in the PRC

In August 2021, the Guarantor issued an aggregate principal amount of RMB500 million ultra-short-term financing bills due January 2022 in the PRC with a term of 150 days and an initial coupon of 2.60 per cent.

HISTORY AND DEVELOPMENT

Set forth below are certain key corporate historical events and milestones:

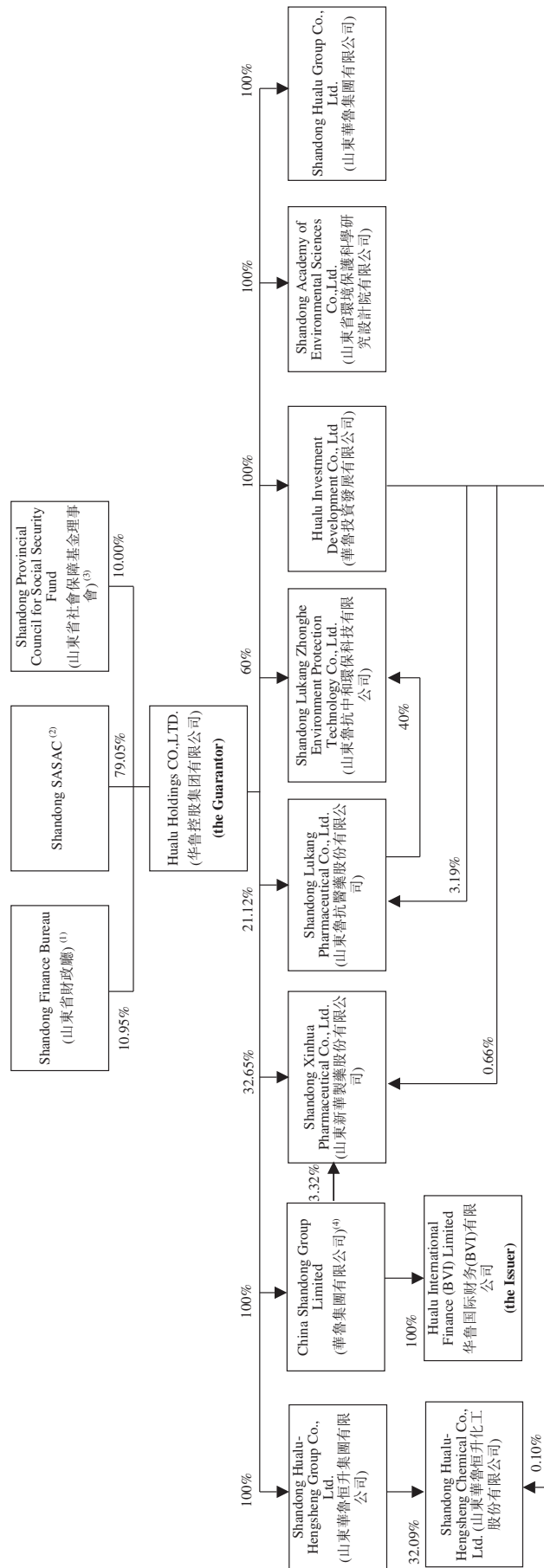
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| 1985 | In October 1985, Hualu Co., Ltd. (華魯有限公司) was established under the laws of Hong Kong, with a registered capital of HK\$80.0 million. |
| 1995 | In August 1995, approved by the Ministry of Foreign Economic Relations and Trade, Hualu Co., Ltd. changed its name to "China Shandong Group Limited" and its Chinese name to "華魯集團有限公司". |

1997	In June 1997, Shandong Hualu Group Co., Ltd. (山東華魯集團有限公司) was established under the laws of the PRC with a registered capital of RMB483.6 million.
1998	In December 1998, the Shandong Provincial Government transferred 100.0 per cent. equity interest in Dezhou Hengsheng Industrial Chemical (Group) Co., Ltd. (德州恒升化工(集團)有限公司) (the predecessor of Hualu-Hengsheng Group) and in Shandong Dongming Petrochemical Group (山東東明石化集團有限公司) to Shandong Hualu Group Co., Ltd. for nil consideration.
2000	In April 2000, Hualu-Hengsheng was established by Hualu-Hengsheng Group.
2002	In June 2002, Hualu-Hengsheng was listed in the Shanghai Stock Exchange (stock code: 600426.SH), raising capital in an amount of RMB480.0 million.
2005	<p>In January 2005, the Guarantor was established under the laws of the PRC with a registered capital of RMB800.0 million.</p> <p>In January 2005, Hualu-Hengsheng Group, Shandong Hualu Group Co., Ltd. China Shandong Group Limited and Shandong Dongming Petrochemical Group Co., Ltd. (山東東明石化集團有限公司) became wholly-owned subsidiaries of the Guarantor.</p>
2006	In July 2006, Shandong SASAC transferred the 100 per cent. equity interest in Shandong Xinhua Medicine Group Co., Ltd. (山東新華醫藥集團有限責任公司) (the predecessor of Xinhua Pharmaceutical) and Shandong Lukang Medicine Group Co., Ltd. (山東魯抗醫藥集團有限公司) (the predecessor of Lukang Pharmaceutical) to the Guarantor.
2010	In August 2010, Shandong SASAC transferred the ownership of Shandong Lukang Medicine Group Taian Pharmaceutical Plant (山東魯抗醫藥集團泰安製藥廠) to the Guarantor.
2012	In April 2012, Shandong Lukang Dongyue Medicine Co., Ltd. (山東魯抗東嶽製藥有限公司) was established, and the Guarantor owned 49 per cent. of its equity interest.
2013	In April 2013, the Guarantor transferred all of its equity interest in Shandong Lukang Medicine Group Co., Ltd. (山東魯抗醫藥集團有限公司) to the Dongming County Government.
2014	<p>In October 2014, Shandong Xinhua Medicine Group Co., Ltd. purchased 40.0 per cent. of the equity interest in Shandong Zibo Xinda Medicine Co., Ltd. (山東淄博新達製藥有限公司).</p> <p>In 2014, the Guarantor increased its registered capital to RMB850.0 million.</p>
2015	The Guarantor was restructured as a state-owned capital investment company of Shandong Province.
2016	Environmental Sciences Research and Design Company, among others, was transferred to the Guarantor.
2017	In June 2017, Shandong Provincial Caijin Investment Group Co., Ltd. (山東省財金投資集團有限公司) injected U.S.\$200.0 million in the Guarantor. Immediately after the injection, Shandong SASAC, Shandong Provincial Social Security Fund Council and Shandong Provincial Caijin Investment Group Co., Ltd. owned 61.2 per cent., 26.2 per cent. and 12.6 per cent. of the Guarantor's equity interest, respectively. The Guarantor's registered capital increased to RMB3.0 billion.

- 2019 In April 2019, after a series of capital injection and equity transfer, the Guarantor’s registered capital increased to RMB3,103.0 million. As at 31 December 2019, Shandong SASAC, Shandong Provincial Social Security Fund Council, Shandong Provincial Caijin Investment Group Co., Ltd. and Shandong Development Investment Holding Group Co., Ltd. (山東發展投資控股集團有限公司) owned 59.2 per cent., 8.5 per cent., 12.2 per cent. and 3.3 per cent. of the Guarantor’s equity interest, respectively.
- 2020 In March 2020, Lukang Pharmaceutical together with, among others, Tianjin Institute of Industrial Biotechnology of Chinese Academy of Sciences (中國科學院天津工業生物技術研究所) established Tiangong Biotechnology (Tianjin) Co., Ltd. (天工生物科技(天津)有限公司), a joint venture primarily engaging in the research and development of biotechnology, with a registered capital of RMB100 million. Lukang Pharmaceutical owned 10 per cent. of its equity interest.
- In June 2020, Lukang Pharmaceutical, together with various joint venture partners established Northern Health Medical Big Data Technology Co., Ltd. (北方健康醫療大數據科技有限公司), a joint venture operating the National Health and Medical Big Data Center (North) (國家健康醫療大數據中心(北方)), with a registered capital of RMB2,500 million.
- In August 2020, Lukang Pharmaceutical ranked 76th in China’s Top 100 Pharmaceutical Companies 2019, published by the Ministry of Industry and Information Technology of the PRC. In October 2020, after the increase in the registered capital of Shandong Lukang Haoliyou Biotechnology Development Co., Ltd. (山東魯抗好麗友生物技術開發有限公司) (“**Lukang Haoliyou Biotechnology Development**”) and the related capital contribution by Orion Holdings Corp. (株式會社好麗友控股) and Friends Food Co., Ltd. (好麗友食品有限公司), Lukang Haoliyou Biotechnology Development was owned as to 35 per cent. by Lukang Pharmaceutical and ceased to be a consolidated subsidiary of Lukang Pharmaceutical.
- 2021 In July, the Guarantor was first assigned a corporate rating of “A3” with “stable” outlook by Moody’s Investors Services, Inc. and “A-” with stable outlook by Fitch Ratings, Inc.. In August 2021, Lukang Pharmaceutical ranked 61st in China’s Top 100 Pharmaceutical Companies 2020, published by the Ministry of Industry and Information Technology of the PRC.

CORPORATE STRUCTURE

The following chart presents a simplified structure of the Group as at the date of this Offering Circular:



Notes:

1. Approximately 10.95 per cent. of the equity interest in the Guarantor was effectively owned by Shandong Finance Bureau through its 90 per cent. owned subsidiary, Shandong Caijin Investment Co., Ltd. (山東省財金投資集團有限公司) which is directly interested in approximately 12.17 per cent. of the equity interest in the Guarantor.
2. Approximately 79.05 per cent. of the equity interest in the Guarantor was effectively owned by Shandong SASAC through (i) its direct interest in approximately 59.16 per cent. of the equity interest of the Guarantor, (ii) its wholly owned subsidiary, Shandong Guohui Investment Co., Ltd. (山東國惠投資有限公司) which is directly interested in approximately 16.9 per cent. of the equity interest in the Guarantor, and (iii) its 90 per cent. owned subsidiary, Shandong Development Investment Holding Group Co., Ltd. (山東發展投資控股集團有限公司) which is directly interested in approximately 3.32 per cent. of the equity interest in the Guarantor.
3. Approximately 10.00 per cent. of the equity interest in the Guarantor was effectively owned by Shandong Provincial Council for Social Security Fund (山東省社會保障基金理事會) through (i) its direct interest in approximately 8.45 per cent. of the equity interest of the Guarantor, (ii) its 10 per cent. owned subsidiary, Shandong Caijin Investment Co., Ltd. (山東省財金投資集團有限公司) which is directly interested in approximately 12.17 per cent. of the equity interest in the Guarantor, and (iii) its 10 per cent. owned subsidiary, Shandong Development Investment Holding Group Co., Ltd. (山東發展投資控股集團有限公司) which is directly interested in approximately 3.32 per cent. of the equity interest in the Guarantor.
4. The Guarantor directly held 99.75 per cent. of share capital of China Shandong Group Limited (華魯集團有限公司) and indirectly held 0.25 per cent. of the share capital of China Shandong Group Limited (華魯集團有限公司) through its indirect wholly owned subsidiary Shandong Hualu International Commerce Centre Co., Ltd. (山東華魯國際商務中心有限公司).

DESCRIPTION OF THE GROUP'S BUSINESS

The Group's business consists of three segments, namely (i) coal chemicals; (ii) pharmaceuticals; and (iii) miscellaneous such as the ecological and environmental businesses.

The table below sets forth a breakdown of the Group's operating income from each business segment and as a percentage of its total operating income for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2018		2019		2020		2020		2021	
	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total
	(audited)		(audited)		(audited)		(unaudited but reviewed)		(unaudited but reviewed)	
(RMB in millions, except for percentages)										
Coal chemicals ⁽¹⁾	14,411	60.1	14,159	57.3	12,805	52.6	5,952	51.3	11,425	62.8
Pharmaceuticals ⁽²⁾	4,960	20.7	9,209	37.3	9,769	40.1	5,223	45.0	5,788	31.8
Others ⁽³⁾	4,610	19.2	1,343	5.4	1,773	7.3	432	3.7	966	5.3
Total	23,982	100.0	24,710	100.0	24,346	100.0	11,607	100.0	18,179	100.0

Notes:

1. This amount represents the aggregate of the Group's operating income from operations of chemical industry, fertilizer and thermoelectric as reported in the Group's financial statements of the respective period.
2. This amount represents the aggregate of the Group's operating income from operations of preparation, raw materials, pharmaceutical intermediates and others as reported in the Group's financial statements of the respective period.
3. This amount represents the aggregate of the Group's operating income from operations of technical services, finance lease income, trade income, others and other operating business as reported in the Group's financial statements of the respective period.

The table below sets forth a breakdown of the Group's gross profit from each business segment and as a percentage of its total gross profit for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2018		2019		2020		2020		2021	
	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total
	(audited)		(audited)		(audited)		(unaudited but reviewed)		(unaudited but reviewed)	
(RMB in millions, except for percentages)										
Coal chemicals ⁽¹⁾	4,534	62.6	3,923	55.3	2,781	48.0	1,339	49.3	4,813	73.5
Pharmaceuticals ⁽²⁾	1,406	19.4	2,895	40.8	2,755	47.6	1,351	49.8	1,634	25.0
Others ⁽³⁾	1,307	18.0	272	3.8	258	4.5	24	0.9	97	1.5
Total	7,247	100.0	7,090	100.0	5,794	100.0	2,713	100.0	6,544	100.0

Notes:

1. This amount represents the aggregate of the Group's operating income from operations of chemical industry, fertilizer and thermoelectric as reported in the Group's financial statements of the respective period.
2. This amount represents the aggregate of the Group's operating income from operations of preparation, raw materials, pharmaceutical intermediates and others as reported in the Group's financial statements of the respective period.
3. This amount represents the aggregate of the Group's operating income from operations of technical services, finance lease income, trade income, others and other operating business as reported in the Group's financial statements of the respective period.

Coal Chemicals

Overview

The Group's coal chemical business is primarily conducted through Hualu-Hengsheng Group, which was established in 1996. The members of Hualu-Hengsheng Group that primarily engaged in coal chemical business include, among others, (i) Hualu-Hengsheng (Stock Code: 600426), which is the entity primarily engaged in the Group's coal chemical business, and (ii) Huhua-Hengsheng (Jingzhou) Co., Ltd. (華魯恒升(荊州)有限公司) (“**Hengsheng Jingzhou**”), established in November 2020, and which include production facilities current under construction, built for manufacturing and sales of its coal chemical products. See “– *Production facilities – Production facilities under construction*” for further information. The coal chemical business primarily involves the production, distribution and sale of fertilizer, organic amine (有機胺), adipic acid and intermediates (己二酸及中間品), acetic acid and derivatives (醋酸及衍生品) and polyol (多元醇).

The table below sets forth a breakdown of the Group's operating income from its major coal chemical products:

	For the year ended 31 December			For the six months ended 30 June	
	2018	2019	2020	2020	2021
	<i>(RMB in millions)</i>				
Fertilizer	2,926.3	3,671.7	3,348.9	1,778.5	2,055.4
Organic Amine	2,090.9	1,924.3	2,441.5	878.6	2,393.0
Adipic acid and intermediate products	1,832.2	1,640.9	1,183.4	575.0	1,544.5
Acetic acid and derivatives	2,495.8	1,652.8	1,424.5	682.2	1,659.9
Polyol	1,940.6	3,140.1	2,543.6	1,179.4	2,231.0
Others	2,859.9	1,816.4	1,893.8	899.5	1,728.7

The table below sets forth a breakdown of the Group's output in terms of its coal chemical products:

	For the year ended 31 December			For the six months ended 30 June	
	2018	2019	2020	2020	2021
	<i>(tons)</i>				
Fertilizer	2,140,000	2,812,000	2,817,000	1,482,000	1,391,000
Organic Amine	372,000	379,500	423,400	189,000	293,000
Adipic acid and intermediate products	316,000	335,400	316,300	165,000	288,000
Acetic acid and derivatives	630,000	632,600	602,800	317,000	293,000
Polyol	306,000	662,100	651,900	325,000	336,000

Products

Set forth below is a summary of Hualu-Hengsheng's primary products:

- **Fertilizer** primarily includes carbamide, which is an important fertilizer for agricultural production and industrial processing. As at 31 December 2020, utilisation rate of the Group's carbamide amounted to approximately 114 per cent..
- **Organic amine** includes DMF, monomethylamine, dimethylamine and trimethylamine, with DMF being the major product. DMF is mainly used for the production of polyurethane and acrylic, production of pharmaceuticals, pesticides, dyes, and electronics. As at 31 December 2020, utilisation rate of the Group's DMF amounted to approximately 75 per cent..
- **Adipic acid and intermediates** include adipic acid and cyclohexanone, with adipic acid being the major product. Adipic acid is mainly used as a raw material for producing Nylon 66 and engineering plastics. As at 31 December 2020, utilisation rate of the Group's adipic acid amounted to approximately 90 per cent..
- **Acetic acid and derivatives** include acetic acid and acetic anhydride, with acetic acid being the major product. Acetic acid is a basic industrial chemical substance. As at 31 December 2020, utilisation rate of the Group's acetic acid amounted to approximately 111 per cent..
- **Polyol** includes isooctyl alcohol, ethylene glycol, and n-butanol. Isooctyl alcohol is mainly used as raw materials and solvents of plasticizer. n-butanol is mainly used as raw materials and solvents of butyl acrylate, butyl acetate, and Plasticizer. Ethylene glycol is mainly used for production of polyester, antifreeze, unsaturated resin, and polyurethane. As at 31 December 2020, utilisation rate of the Group's polyol amounted to approximately 87 per cent..

Sales and customers

Hualu-Hengsheng's sales network consists of internal sales and marketing personnel partnering with distributors, wholesalers, and retailers in all major markets throughout the PRC. Through this extensive network, Hualu-Hengsheng's coal chemical products are sold in approximately 29 provinces to a diverse base of established customers and distributors in a wide range of industries. Due to the variety of products that Hualu-Hengsheng manufactures and the markets in which such products are sold, its customer base is highly fragmented. The Group's marketing strategies vary by geographic region. In general, the Group generates business of its coal chemical products through the efforts of its sales force, customer service personnel and regional distributors.

Procurement

Hualu-Hengsheng mainly uses three kinds of raw materials purchased from a broad supplier base for its coal chemical business, namely coal, benzene and propene. There are multiple suppliers for each of these raw materials. Hualu-Hengsheng's five largest suppliers accounted for approximately 45.0 per cent, 54.6 per cent., 40.7 per cent., 57.4 per cent. and 45.1 per cent., of the Group's total purchases for the years ended 31 December 2018, 2019 and 2020 and six months ended 30 June 2020 and 2021, respectively.

Hualu-Hengsheng purchases three different kinds of raw materials from different suppliers. Hualu-Hengsheng's suppliers of coal are mainly state-owned enterprises, including but not limited to China Shenhua Energy Company Limited (神華集團能源股份有限公司), Shanxi Guoyang New Energy Co., Ltd. (山西國陽新能股份有限公司) and Shanxi Coking Coal Group Co., Ltd. (山西焦煤能源集團股份有限公司). For benzene, Hualu-Hengsheng entered into strategic procurement agreements with its main suppliers, SINOPEC Chemical Commercial Holding Company Limited and China National Petroleum Corporation to secure a stable supply. For propene, Hualu-Hengsheng used both domestic and overseas propene suppliers, with Shandong Hengyuan Petrochemical Co., Ltd. (山東恒源石油化工股份有限公司), Weifang Hongrun Petrochemical Co., Ltd. (濰坊弘潤石化公司) and Shandong Haike Group Co., Ltd. (海科集團) as the main domestic suppliers.

Production facilities

Existing production facilities

Hualu-Hengsheng's production facilities in operation are strategically located at Dezhou City, Shandong Province. As at 30 June 2021, it had a total annual producing capacity of 1.8 million tons in carbamide, 330,000 tons in DMF, 326,600 tons in adipic acid and intermediates, 500,000 tons in acetic acid and 750,000 tons in derivatives and polyol. As at 30 June 2021, Hualu-Hengsheng was the largest DMF producer worldwide in terms of annual production capacity of 330,000 tons per year.

In February 2021, Hualu-Hengsheng completed the construction of its refined adipic acid quality improvement and upgrade project and commenced trial production with adipic acid to meet production specifications and quality. Hualu-Hengsheng aims to increase its production capacity of adipic acid to 160,000 tons per year and to equip its production process with cyclohexanol equipment and ancillary public works. The total investment amount of such project amounted to RMB1,572 million.

Production facilities under construction

In 2019, Hualu-Hengsheng invested in its new amide and nylon material project which aimed to achieve annual production of 300,000 tons of caprolactam (200,000 tons of which are earmarked for internal use), 200,000 tons of formic acid, 200,000 tons of nylon 6 chips, and 480,000 tons of ammonium. The planned total investment amount for the phase of such project amounted to approximately RMB4,980 million. The new amide and nylon material project (except the development of 200,000 tons nylon 6 chips which was still under construction) commenced its trial operation in October 2021 and is expected to commenced operation in the first half of 2022.

In addition, in November 2020, Hualu-Hengsheng entered into an investment agreement with the People's Government of Jiangling County of Hubei Province (湖北省江陵县人民政府) and the People's Government of Jingzhou City (荆州市人民政府) to establish a modern coal chemical industrial base in Jingzhou City (the "**Jingzhou Coal Chemical Base**"). The planned total investment amount for the establishment of the first phase of the Jingzhou Coal Chemical Base amounted to no less than RMB10 billion, with the planned annual production capacity of carbamide, acetic acid, organic amine and DMF of 1 million tons, 1 million tons, 0.15 million tons and 0.15 million tons, respectively. The construction of Jingzhou Coal Chemical Base started in 2020 and is expected to be completed and commence operation in 2024.

Research and Development

Hualu-Hengsheng considers scientific innovation as a driving force for its core competitiveness. Currently, a wide range of proprietary technologies, such as those utilised in its products and practices, are used in both domestic and overseas markets. For the six months ended 30 June 2021, Hualu-Hengsheng participated in seven technology innovation projects including the research on (i) utilisation of hydrogen sulphide in industrial emission, (ii) application of high efficiency additive in the gasification process of coal-water-slurries, (iii) application of RU series hydrogenation catalyst, (iv) application of producing melamine by gas-phase quenching method, (v) simulation and improvement of SCR Denitrification reactor, (vi) application of high-grade adipic acid technology and (vii) co-production technology of melamine and urea plant. In addition, it has one enterprise technical centre.

In 2020, Hualu-Hengsheng made four applications for national patents, 11 applications for utility models and was granted 11 patents of utility models. Its research and development expense for the year ended 31 December 2020 was approximately RMB568.6 million.

Pharmaceuticals

Overview

The Group conducts its pharmaceuticals business through Xinhua Pharmaceutical and Lukang Pharmaceutical and their respective subsidiaries, joint ventures and affiliates.

Xinhua Pharmaceutical

Xinhua Pharmaceutical, established in November 1943 in Shandong, was the first chemosynthetic pharmaceutical company in China. It is an important manufacturer of cardio-cerebrovascular, anti-infective, and central nervous system drugs as well as an important base for the production and export of antipyretic and analgesics drugs in China. Xinhua Pharmaceutical is listed on both the Hong Kong Stock Exchange (stock code: 0719) and Shenzhen Stock Exchange (stock code: 000756). It engages in the development, production and distribution of API, preparations and medical intermediates and distributes its products in the domestic and overseas markets, including the United States, Europe and others.

Products

Xinhua Pharmaceutical's main products are classified into three categories: API, preparations and medical intermediates. API is the component of a drug product that is intended to furnish pharmacological activity or other direct effect in the diagnosis, cure, mitigation, treatment, or prevention of disease, or to affect the structure or any function of the body. Xinhua Pharmaceutical is a major production base of antipyretic and analgesic APIs in Asia. Preparations can be further classified into tablets, capsules, granules and injections. Xinhua Pharmaceutical has maintained its dominance of the domestic market for preparations, which include metamizole, amino phenazone, aspirin ibuprofen, phenazone, and levodopa. It is the exclusive producer of several products, including pipemidic acid, propyphenazone, metamizole magnesium, barbital, amyral, elofesalamide, sodium stibogluconate, and tribendimidine. Xinhua Pharmaceutical's medical intermediates include zinc acetylacetonate, calcium acetylacetonate, acetylacetone, N-methyl acetamid, among others.

As at 30 June 2021, Xinhua Pharmaceutical's annual production capacity for API, injections, tablets and capsules is approximately 35,000 tons, 0.8 billion pieces, 26 billion tablets and 1.5 billion granules, respectively.

The table below sets forth the production capacity and production volume of Xinhua Pharmaceutical's main products for the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021:

	For the year ended 31 December						For the six months ended 30 June	
	2018		2019		2020		2021	
	Production capacity	Production volume	Production capacity	Production volume	Production capacity	Production volume	Production capacity	Production volume
	<i>(tons / pieces in billions / tablets in billions / granules in billions)</i>							
API	35,000.0	33,826.0	35,000.0	32,300.0	35,000.0	32,881.0	35,000.0	19,141.0
Injections	0.8	0.6	0.8	0.3	0.8	0.3	0.8	0.14
Tablets	7.0	6.2	7.0	7.3	26.0	6.9	26.0	4.12
Capsules	1.5	0.7	1.5	0.7	1.5	0.7	1.5	0.37

Sales and Customers

Xinhua Pharmaceutical distributes its API both in the domestic and overseas markets, including the United States, Europe and other regions. For the six months ended 30 June 2021, export sales accounted for more than 70 per cent. of Xinhua Pharmaceutical's total sales of API. Xinhua Pharmaceutical's domestic customers are primarily domestic manufacturers of preparations. Domestic sales accounted for approximately 30 per cent. of the total sales of API for the six months ended 30 June 2021. As the dominant producer of preparations in China, Xinhua Pharmaceutical is largely able to determine the sales price for its products. Delivery cost is mainly borne by Xinhua Pharmaceutical.

Xinhua Pharmaceutical exports its API products through a marketing network spanning Europe, the United States and Japan as well as emerging markets in Africa, South America and Southeast Asia. Xinhua Pharmaceutical has established long-term strategic cooperative relationships with a number of globally renowned pharmaceutical companies such as Roche, Pepsi, Coca-Cola, Dastech International, Galpharm International Limited, Marks Pharma, and EcoTag Comercial Ltda. In the domestic market, Xinhua Pharmaceutical has formed a network with pharmaceutical manufacturing companies, covering all regions in the PRC except Tibet. It has established stable relationships with approximately 300 domestic customers including Jointown Pharmaceutical Group (九州通醫藥集團), Jinzhou Jiutai (錦州九泰), Fujian Pacific Pharmaceutical (福建太平洋製藥), and Jilin Lisheng (吉林力勝).

Xinhua Pharmaceutical's preparations are primarily sold to major domestic hospitals, pharmacies and pharmaceutical agents. The sales of preparations accounted for approximately 41.9 per cent. of its total sales of pharmaceutical products for the six months ended 30 June 2021. The sales price for preparations is determined primarily in reference to the domestic pharmaceutical bidding price as instructed by the Pharmaceutical Price and Bidding and Procurement Guidance Centre of National Healthcare Security Administration (國家醫保局醫藥價格和招標採購指導中心). Xinhua Pharmaceutical bears the transportation cost for its products. Xinhua Pharmaceutical sells its products on its own or through agents to both wholesalers and retailers.

The table below sets forth a breakdown of Xinhua Pharmaceutical's operating income from each sub-category of its sales of API, preparations and medical intermediates for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2018		2019		2020		2020		2021	
	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total
	(RMB in millions, except for percentages)									
API	2,319.4	44.5	2,387.7	42.6	2,565.6	42.7	1,539.0	46.8	1,532.9	43.2
Preparations	2,213.1	42.5	2,592.9	46.2	2,605.6	43.4	1,344.8	40.9	1,487.9	41.9
Medical intermediates . . .	675.4	13.0	625.5	11.1	834.4	13.9	402.1	12.2	530.2	14.9
Total	5,207.9	100.0	5,606.0	100.0	6,005.6	100.0	3,285.7	100.0	3,551.0	100.0

The table below sets forth Xinhua Pharmaceutical's top five customers for its sales of API, preparations and medical intermediates by transactional amount and the percentage of the total transactional amount for each for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June	
	2018		2019		2020		2021	
	Amount	Percentage of total sales	Amount	Percentage of total sales	Amount	Percentage of total sales	Amount	Percentage of total sales
	(RMB in millions, except for percentages)							
Customer A	211.4	4.1	243.9	4.4	222.4	3.7	124.9	3.5
Customer B	138.4	2.7	183.0	3.3	112.1	1.9	95.2	2.7
Customer C	133.2	2.6	139.8	2.5	104.0	1.7	62.4	1.8
Customer D	118.6	2.3	124.8	2.2	96.6	1.6	54.3	1.5
Customer E	105.4	2.0	113.4	2.0	83.9	1.4	49.5	1.4
Total	707.0	13.6	804.9	14.4	619.0	10.3	386.3	10.9

Procurement

The major raw materials procured by Xinhua Pharmaceutical include acetic acid, liquid sodium hydroxide, phenol, DMS, and veratraldehyde. Xinhua Pharmaceutical strictly manages the procurement process for its raw materials to ensure the stability and high quality of its raw material supply. The procurement process is divided into planning, decision-making, execution and supervision. At the planning stage, the marketing department and production technology department jointly determine the

procurement plan based on anticipated market demand and the company's production capacity. During the decision-making stage, the bidding team makes its decisions after comparing and reviewing different suppliers' bids, purchase allocations and purchase prices. The procurement department carries out the decisions made. At the supervision stage, the bidding team is responsible for external supervision to prevent suppliers' bribery, while the procurement department is responsible for internal supervision to prevent employees' embezzlement and taking kickbacks.

	Year ended 31 December						Six months ended 30 June	
	2018		2019		2020		2021	
	Amount	Per cent. of total procurement	Amount	Per cent. of total procurement	Amount	Per cent. of total procurement	Amount	Per cent. of total procurement
<i>(RMB in millions, except for percentages)</i>								
Supplier A	187.9	12.5	139.1	12.3	127.3	9.0	96.4	13.5
Supplier B	99.9	6.7	101.6	8.9	61.4	4.3	34.5	4.8
Supplier C	64.9	4.3	48.8	4.3	38.2	2.7	26.7	3.7
Supplier D	58.7	3.9	36.2	3.2	28.6	2.0	24.8	3.5
Supplier E	38.5	2.6	34.7	3.1	24.0	1.7	20.4	2.9
Total	449.9	30.0	360.4	31.7	279.6	19.7	202.8	28.4

Production facilities

Xinhua Pharmaceutical has established five major industrial parks for its pharmaceutical production, which cover the entire industrial chain, from the manufacturing of API, medical intermediates and preparations, to commercial logistics.

The commencement of the GMP transformation of the injections research and development platform project, for which Xinhua Pharmaceutical is the main investment entity, is an important part of Xinhua Pharmaceutical's effort to replace old growth drivers with new ones in Shandong Province. The GMP transformation project was started in June 2019 and is expected to be completed by March 2022. The estimated total investment for this project is approximately RMB212.3 million, all of which will be funded by the Group and external borrowings. As at 30 June 2021, a total amount of approximately RMB132.3 million had been invested in this project, and the estimated investment for the second half of 2021 is approximately RMB10 million.

Research and Development

For the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021, Xinhua Pharmaceutical's research and development expense was approximately RMB187.0 million, RMB235.4 million, RMB298.3 million, RMB157.2 million and RMB170.3 million, respectively.

As at 30 June 2021, Xinhua Pharmaceutical had 244 authorized patents and applied for 455 patents. Its 11 products and 16 specifications have passed the national generic consistency evaluation. An article in relation to OAB-14, a new drug jointly developed by Xinhua Pharmaceutical and Shenyang Pharmaceutical University, was published in *Biochimica et Biophysica Acta – Molecular Basis of Disease* in 2020, while the U.S. Patent and Trademark Office has granted a patent for this new drug. Xinhua Pharmaceutical has also undertaken the construction of a project in relation to developing crucial technologies and continuous systems for green caffeine, which was recognised as a development and construction project of the Shandong Peninsula National Independent Innovation Demonstration Zone by the Shandong Science and Technology Department in 2019. In addition, in 2021, Xinhua Pharmaceutical entered into a cooperation agreement with China Pharmaceutical University (中國藥科大學) for the purpose of developing important pharmaceutical products and high-end preparations.

Lukang Pharmaceutical

Lukang Pharmaceutical has one of the most important antibiotics production bases in China. Its main businesses include the production of API and preparations for human use and veterinary and botanic drugs and the development of ecotechnology. Different from Xinhua Pharmaceutical's API and preparations which are primarily antipyretic and analgesic types, Lukang Pharmaceutical's API and

preparations are primarily antibiotics, amino acids, cardiovascular and cerebrovascular drugs, semisynthetic antibiotics, biological drugs and related preparations, infusions, Chinese patent medicines, pharmaceutical intermediates, antibiotics for animal health, starch, glucose and other products. Lukang Pharmaceutical was established in 1966 and is listed on the Shanghai Stock Exchange (stock code: 600789). The “Lukang” brand has been recognised as a well-known trademark in China.

Products

Lukang Pharmaceutical’s main products include antibiotics API, semisynthetic antibiotics API, preparations, veterinary antibiotics and other ancillary products such as pesticides, starch and glucose. Lukang Pharmaceutical has gained significant advantages in the field of antibiotics production and has been a leading enterprise in terms of production scale, technical sophistication, and product quality of antibiotics in the domestic market. Lukang Pharmaceutical produces a complete variety of penicillin, semisynthetic antibiotics and veterinary antibiotics, which covers most varieties of antibiotics API and preparations, forming a complete product chain from API fermentation to semi-synthetic API and manufactured preparations.

The table below sets forth the production capacity and production volume of Lukang Pharmaceutical’s main products for the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021:

	For the year ended 31 December						For the six months ended 30 June	
	2018		2019		2020		2021	
	Production capacity	Production volume	Production capacity	Production volume	Production capacity	Production volume	Production capacity	Production volume
	<i>(tons, except pieces in billions for veterinary antibiotics)</i>							
Antibiotics API	900	814.6	1100	995.8	1,100	947.4	1,200	548.6
Semisynthetic antibiotics API	1,300	1,211.1	2100	1,940.9	2,100	1,735.2	2,500	1,151.1
Preparations	9	7.0	9	8.0	9	7.4	9	4.2
Veterinary antibiotics . .	6,000	5,802.5	7200	7,239.3	9,500	9,462.4	12,000	5,476.1

Sales and Customers

Lukang Pharmaceutical’s primary export market for API is Europe, while it is also actively developing the U.S. market. It has also established an extensive and stable sales network with countries and regions in emerging markets, including those covered under China’s Belt and Road Initiative, such as Southeast Asia, South Asia, the Middle East, and South America. Lukang Pharmaceutical exports its human API primarily to Russia, Central Asia and other Belt and Road markets. Its veterinary API is mainly sold to Zoetis, CEVA, Virbac, PAHC, Huvepharma and other global animal healthcare companies. Export sales accounted for approximately 12.8 per cent. of Lukang Pharmaceutical’s total sales of API for the six months ended 30 June 2021.

In the domestic market for its API products, Lukang Pharmaceutical has established an industrial and commercial network led by production companies, which covers all regions in China except Tibet, Xinjiang, Gansu, and Ningxia. It has established long term relationships with approximately 100 domestic pharmaceutical companies including Sinopharm (國藥集團), Tianjin Pharmaceutical Group Co., Ltd. (天藥集團), New Asiatic Pharmaceutical (上藥新亞), Jointown Pharmaceutical Group (九州通醫藥集團) and so forth.

Lukang Pharmaceutical sells its preparations through cooperation with strategic customers, channel distribution, terminal delivery, agency sales, academic promotion and entrusted processing and centralized drug procurement and distribution. Through its sales channels of distributors or agents and the company’s sales team, Lukang Pharmaceutical covers most of the end users of its products including hospitals, clinics and pharmacies across China.

For its veterinary drugs, Lukang Pharmaceutical focuses on sales to the domestic market while actively developing international markets. Lukang Pharmaceutical adopts various sales models, such as (i) developing and securing more transactions with corporate customers and major clients including

medium and large farms, (ii) flattening marketing channels and (iii) e-commerce. Its product lines for veterinary drugs are divided into drugs for swine, poultry, ruminants, aquatic use and pets. Regarding flattening marketing channels, Lukang Pharmaceutical has designated a group of personnel specifically focused on developing large-scale farms and has optimised the structure of its distributors from time to time by training and building a group of high-quality agents or distributors with strong financial capability, broad customer base and strong promoting ability. Lukang Pharmaceutical has also lowered the cost of distribution and marketing by reducing the services of the distributors that have not been sufficiently effective.

The table below sets forth a breakdown of Lukang Pharmaceutical's operating income from each sub-category of its sales of APIs, preparations and other commodities for the periods indicated:

	Year ended 31 December						Six months ended 30 June	
	2018		2019		2020		2021	
	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total
	<i>(RMB in millions, except for percentages)</i>							
APIs	1,310.5	40.0	1,369.1	37.1	1,762.4	42.5	1,065.4	44.9
Preparations	1,897.9	57.9	2,243.1	60.8	2,216.5	53.5	1,223.6	51.6
Others	71.2	2.2	74.5	2.0	164.3	4.0	83.3	3.5
Total	3,279.6	100.0	3,686.7	100.0	4,143.2	100.0	2,372.3	100.0

The table below sets forth Lukang Pharmaceutical's top five customers for its sales of antibiotics API, semisynthetic antibiotics API, preparations, veterinary antibiotics and other ancillary products by transactional amount and the percentage of the total transactional amount of each for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June	
	2018		2019		2020		2021	
	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total	Amount	Per cent. of total
	<i>(RMB in millions, except for percentages)</i>							
Customer A	132.1	26.4	89.6	12.6	232.4	42.7	74.0	39.3
Customer B	49.3	9.8	32.0	4.5	19.5	3.6	18.7	3.3
Customer C	16.4	3.3	30.5	4.3	18.4	3.4	17.0	3.1
Customer D	14.9	3.0	23.5	3.3	10.2	1.9	14.0	1.7
Customer E	9.9	2.0	19.9	2.8	5.2	1.0	13.6	0.9
Total	222.6	44.5	195.3	27.6	285.7	52.5	137.4	48.4

Procurement

Lukang Pharmaceutical's raw materials primarily include 7-ACA, cefradine, APA, phenoxymethyl penicillin potassium, Tazobactam sodium and other API. Lukang Pharmaceutical procures raw materials primarily through its material supply department and procures machinery equipment through its mechanical power department. In order to secure high added value materials, Lukang Pharmaceutical has entered into annual supply agreements with different manufacturers, under which Lukang Pharmaceutical usually purchases a large amount of raw material in exchange for a lower price. It has also maintained a sufficient inventory of low-value consumables to avoid its working capital being tied up in the inventory.

Lukang Pharmaceutical has established strategic cooperative relationships with a number of well-known domestic companies, including Zhuhai United Laboratories Trading Co., Ltd. (珠海聯邦製藥銷售有限公司), Yili Chuanning Biotechnology Co., Ltd. (伊犁川寧生物技術有限公司), North China Pharmaceutical Company Ltd. (華北製藥股份有限公司), Shandong Pharmaceutical Glass Co., Ltd. (山東省藥用玻璃股份有限公司) and Fujian Tongchun Pharmaceutical Co., Ltd. (福建省莆田同春醫藥有限公司).

Production facilities

Lukang Pharmaceutical has established two major industrial parks, high-biotech industrial park and biomedicine circular economy industrial park, through which it has achieved efficient environmental protection, intensive growth, concentrated production, intelligent manufacturing and technology integration.

The Biomedical Recycling Industrial Park Project (生物醫藥循環產業園項目) of Lukang Pharmaceutical commenced construction in 2018 and is expected to be completed by December 2025. The estimated total investment for such project is approximately RMB1,897 million, and as at 30 June 2021, a total amount of approximately RMB288 million had been invested in such project.

The High-end Pharmaceutical Preparation Project (高端醫藥製劑項目) of Lukang Pharmaceutical commenced construction in 2019 and is expected to be completed by December 2023. The estimated total investment for such project is approximately RMB503 million, and as at 30 June 2021, a total amount of approximately RMB1 million had been invested in such project.

The 2200-Ton Nitrogen Production Base Expansion Project (2020噸氮基酸擴產項目) of Lukang Pharmaceutical commenced construction in 2021 and is expected to be completed by December 2022. The estimated total investment for such project is approximately RMB107 million, and as at 30 June 2021, a total amount of approximately RMB30 million had been invested in such project.

Research and Development

For the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021, Xinhua Pharmaceutical's research and development expense was approximately RMB125.6 million, RMB140.8 million, RMB192.6 million, RMB82.1 million and RMB108.9 million, respectively.

In recent years, Lukang Pharmaceutical launched the construction of the Shandong Industrial Biotechnology Industry Transformation Platform with the Tianjin Institute of Industrial Biotechnology of the Chinese Academy of Sciences, established the Institute of Microbiology Technology with Shandong University; built the Shandong Brand International Technological Cooperation Base as approved by the Shandong Science and Technology Department and established the Lukang Pharmaceutical Research Institute. As at 30 June 2021, Lukang Pharmaceutical had 21 generic drug products under development covering cardiovascular drugs, neurodegenerative disorder drugs, digestion and metabolism drugs, anti-tumor drugs and high-end anti-infection drugs, seven of which have been registered with the National Medical Products Administration. There are currently three types of class I innovative drugs under pre-clinical research and the application for clinical trials is expected to be submitted in one to two years. Lukang Pharmaceutical has also been promoting the process of pharmaceutical research and BE trials for its generic drugs.

Other Business of the Group

Ecological and environmental business

The Guarantor conduct its ecological and environmental business primarily through its wholly owned subsidiary, Environmental Sciences Research and Design Company. Shandong Lukang Zhonghe Environment Protection Technology Co., Ltd. (山東魯抗中和環保科技有限公司) also engages in ecological and environmental business.

Environmental Sciences Research and Design Company was established in 1978 and became a member of the Group in 2016. It is the largest scientific research institute of environmental protection and a leading professional comprehensive ecological and environmental service provider in Shandong Province. The footprint of Environmental Sciences Research and Design Company has spread to each city in Shandong Province and expanded into over 20 provinces and autonomous region in the PRC, including Hebei Province, Inner Mongolia, Heilongjiang Province, Tibet, Gansu Province, Ningxia Autonomous Region, Sichuan Province, Xinjiang, Jiangsu Province, Shaanxi Province, Fujian Province. Environmental Sciences Research and Design Company also developed the Southeast Asian market and successfully expand into countries including Malaysia.

Environmental Sciences Research and Design Company specialises in a number of environmental production related services including (i) environmental engineering, which includes water ecological

restoration, water treatment, hazardous waste treatment design and pollution treatment, (ii) environmental consulting, which includes environmental impact assessment for construction projects, environmental supervision, consultation and review of pollutant discharge permits and others, (iii) environmental testing and environmental impact assessment, which includes environmental testing, solid waste and hazardous waste identification, forensic identification and others, and (iv) comprehensive environmental remediation, which includes ecological environment restoration (emergency treatment of sediment, soil, groundwater, mines, seepage pits, oil fields, and water pollution) engineering consulting, design and construction. In addition, Environmental Sciences Research and Design Company obtained the management certifications based on ISO9001, ISO14001 and ISO45001.

Project construction

Environmental Sciences Research and Design Company obtains most of its ecological and environmental projects through the bidding and tender by the government authorities and negotiation with enterprises.

Environmental Sciences Research and Design Company's projects involve steps and procedures which may vary depending on the nature and scope of the project. The primary steps include preliminary communication with clients, on-site survey, internal audit, contract signing, design and review of project plan, sampling and testing, subcontracting, construction and delivery and acceptance of the projects. As at 30 June 2021, the Group possessed 23 qualification certificates (including business development license documents) and 30 business qualifications (including business development licenses), among which seven were qualifications for level A (including level 1), seven were qualifications for level B (including level 2), and five were qualifications of level C (including level 3). During the three years ended 31 December 2020 and the six months ended 30 June 2021, Environmental Sciences Research and Design Company completed over 50 environmental pollution control general contractor projects with a total contract value of approximately RMB1 billion.

Research and development

The Group values the research and development in the ecological and environmental industry. The Guarantor, together with the Nanjing Institute of Soil Science of the Chinese Academy of Sciences (中國科學院南京土壤研究所), the People's Government of Dezhou City (德州市人民政府), Zhongke Hualu Soil Remediation Engineering Co., Ltd. (中科華魯土壤修復工程有限公司) established the Professional Committee of Sediment Pollution Prevention and Control of the Shandong Environmental Sciences Society (山東省環境科學學會底泥污染防治專業委員會). As at 30 June 2021, Environmental Sciences Research and Design Company had 523 employees, 298 of whom held masters' degrees or higher education qualifications, and two of whom possess professional qualifications entitling them to government subsidies from the State Council. In addition, as at 30 June 2021, Environmental Sciences Research and Design Company had over 140 employees with professional qualifications including environmental impact assessment engineers, consulting engineers, environmental protection engineers, and survey and design engineers.

SAFETY AND ENVIRONMENTAL MATTERS

The Group strives to reduce its environmental footprint and combat climate change by formulating environmental protection management policies and systems, drafting environmental protection manuals, and supervising the Group's environmental management. The Group also identifies and assesses key environmental factors pertaining to its scope of businesses.

The Group has adopted various policies and taken measures to prevent health and safety risks and hazards. As at the date of this Offering Circular, the Group has complied in all material respects with the PRC laws and regulations on workplace safety that are applicable to its operations and projects. The Group has not been subject to any fines or administrative action by any PRC governmental authorities due to non-compliance with any relevant regulations.

INSURANCE

The Group maintains property, casualty and other insurance on its production and other facilities consistent with market norms and practices in China. See *"Risk Factors – Risks Relating to the Group's Businesses in General – The Group's insurance coverage may not adequately protect it against all operational risks"*.

EMPLOYEES

As at 30 June 2021, the Group had approximately 17,852 employees.

Employees of the Group and its subsidiaries participate in various basic pension fund plans and social insurance plans whereby the Group and its subsidiaries are required to make monthly contributions at defined rates as stipulated by relevant regulations. The Group and its subsidiaries have not experienced any strikes, work stoppages, labour disputes or actions which would have a material adverse effect on its overall business, financial condition or results of operations.

As at the date of this Offering Circular, the Group has entered into an employment contract with each of its employees in accordance with applicable PRC and foreign laws. Such contracts include provisions on wages, vacation, employee benefits, training programmes, health and safety, confidentiality obligations and grounds for termination.

INTELLECTUAL PROPERTY

As at 30 June 2021, the Group had 379 registered patents in the PRC.

The Group's general policy is to seek intellectual property protection for those inventions and improvements likely to be utilized in its business activities or which obtain for it a competitive advantage. The Group relies on a variety of patents, copyrights, trade secrets, trademarks and proprietary information to maintain and enhance its competitive position.

As at the date of this Offering Circular, the Issuer is not aware of any material infringements (i) by the Group of any intellectual property rights owned by third parties; or (ii) by any third parties of any intellectual property rights owned by the Group and the Issuer is also not aware of any pending or threatened claims against the Group in relation to the material infringement of any intellectual property rights of third parties.

LEGAL PROCEEDINGS

Certain subsidiaries of the Group are parties to various legal proceedings in the ordinary course of business. Although the Group cannot predict the outcome of these proceedings, as at the date of this Offering Circular, the Group does not expect any such proceedings, if determined adversely against these subsidiaries, to have a material adverse effect on the Group's overall business, financial condition or results of operations.

DIRECTORS, SUPERVISOR AND SENIOR MANAGEMENT OF THE GUARANTOR

DIRECTORS

As at the date of this Offering Circular, the Guarantor's board of directors is comprised of eight members, including the chairman, one director and six independent directors. The term of each director lasts three years, which is renewable upon re-election and re-appointment. The board of directors determines major matters of the Guarantor and is primarily responsible for implementing the decisions of and reporting to its shareholders. The board of directors determines the Guarantor's business plan and investment plan, and determines the Guarantor's annual operating budget, financial budget plan, profit distribution, major financing plan and restructuring plan. The board of directors is responsible for the appointment and dismissal of the general manager, the appointment and removal of other senior management personnel of the Guarantor in accordance with the general manager's nomination, and the determination of the remuneration package of the general manager and other senior management personnel. Please also see *"Risk Factors – Risk Factor Relating to the Group's Business in General – The Guarantor's composition of boards of directors is not in compliance with the requirements in its articles of association"*.

The following table sets forth the Guarantor's directors as at the date of this Offering Circular:

Name	Year of Birth	Position
Mr. Fan Jun (樊軍)	1956	Chairman of the board of directors
Mr. Ding Zhenbo (丁振波)	1970	Director
Mr. Sun Youmin (孫佑民)	1971	Independent director
Mr. Zhang Yuming (張玉明)	1962	Independent director
Mr. Lou Hongxiang (婁紅祥)	1965	Independent director
Mr. Cao Kai (曹凱)	1972	Independent director
Mr. Li Zhanchen (李占辰)	1963	Independent director
Ms. Su Xin (蘇昕)	1968	Independent director

Mr. Fan Jun (樊軍) has been the chairman of the board of directors of the Guarantor since February 2019. He is also the secretary of the Party Committee of the Guarantor. He currently serves as the chairman of the board of directors Hong Kong Hualu, a member of the 12th Shandong Provincial Committee of the Chinese People's Political Consultative Conference ("CPPCC"), the deputy director of the Hong Kong, Macao and Taiwan Overseas Chinese and Foreign Affairs Committee (港澳台僑和外事委員會), the honorary chairman of the Association of CPPCC Members of Shandong in Hong Kong (香港山東各級政協委員聯誼總會), the chairman of Hong Kong Association of Chinese Enterprises (Shandong Branch), the honorary chairman of Hong Kong Shandong Societies Association (香港山東社團總會). Prior to joining the Group, he served as Deputy Director and Director of Enterprise Division of Shandong Economic and Trade Commission (山東省經貿委企業處), Director of Enterprise Reform Division of Shandong Provincial State-owned Assets Supervision and Administration Commission (山東省國資委企業改革處) and Deputy Director of Provincial State-owned Enterprise Merger and Bankruptcy Office (省國有企業兼併破產辦公室); Deputy Director and Party Committee Member of Shandong Provincial State-owned Assets Supervision and Administration Commission (山東省國資委), Director of Shandong Provincial State-owned Enterprise Reform Leading Group Office (山東省國有企業改革領導小組辦公室). Mr. Fan holds a postgraduate degree from Shandong Provincial Party School (山東省委黨校) and a master's degree in engineering from Wuhan University (武漢大學).

Mr. Ding Zhenbo (丁振波) has been the director of the Guarantor since August 2015. He currently serves as the deputy secretary of the Guarantor and the chairman of the board of directors of Environmental Sciences Research and Design Company. He previously worked in Weihai City Planning Commission (威海市計劃委員會), Weihai Municipal Party Committee Organization Department (威海市委組織部), Weihai City Wendeng Municipal Party Committee (威海市文登市委), Shandong Provincial Party Member and Cadre Modern Distance Education Centre (山東省黨員幹部現代遠端教育中心), Shandong Provincial Party Committee Organization Department Reporting and Letters and Visits Office (山東省委組織部舉報和信訪工作辦公室). He also served in the Cadre Supervision Office and the Cadre Information Management Office of the Organization Department of the Shandong Provincial Party Committee (山東省委組織部幹部信息管理處). Mr. Ding holds a master's degree in public administration from Renmin University of China (中國人民大學).

Mr. Sun Youmin (孫佑民) has been an independent director of the Guarantor appointed by Shandong SASAC since March 2019. Since March 2019, he has served as the chief financial officer of the Guarantor. Prior to joining the Group, he served as the Assistant Manager of Finance Department of Tiantong Securities (天同證券計劃財務部), Chief Financial Officer of Shandong Gold Real Estate Tourism Group (山東黃金地產旅遊集團), Chief Financial Officer of Shandong Gold Nonferrous Mining Group (山東黃金有色礦業集團), Chief Financial Officer and member of Party Committee of Shandong Gold Mining Co., Ltd. (山東黃金礦業股份公司), General Manager of the Second Finance Department of Shandong Gold Group (山東黃金集團財務二部), Chief Financial Officer and Director of Shandong Geo-mineral Group (山東地礦集團). Mr. Sun holds a bachelor's degree in economics from Shandong Economics University (山東經濟學院) (which later merged to form the current Shandong University of Finance and Economics (山東財經大學)).

Mr. Zhang Yuming (張玉明) has been an independent director of the Guarantor since September 2015. He previously worked in Jinan Dairy Factory (濟南乳品廠), Shandong Sirui Dairy Co., Ltd. (山東省斯瑞乳品有限公司), Tiantong Securities Company (天同證券公司), Shandong University School of Management (山東大學管理學院), and the Institute of Financial Management (財務管理研究所). He is currently the director of the Institute of Small and Medium-sized Enterprises of Shandong University (山東大學中小企業研究所), a professor of the Accounting Department of the School of Management of Shandong University (山東大學管理學院會計系), doctoral supervisor of management science and engineering major, and accounting major. Mr. Zhang holds a Ph.D. in economics from Fudan University (復旦大學).

Mr. Lou Hongxiang (婁紅祥) has been an independent director of the Guarantor since May 2016. He previously worked in Shandong Medical University (山東醫科大學), Japan Institute of Life Sciences (日本國立生命研究所), and Shandong University School of Pharmacy (山東大學藥學院). He is currently a professor of Shandong University School of Pharmacy (山東大學藥學院). Mr. Lou holds a doctoral degree in science from Shenyang Pharmaceutical University (瀋陽藥科大學).

Mr. Cao Kai (曹凱) has been an independent director of the Guarantor since July 2021. He previously served as Deputy Director of the Office of the Board of Directors and Director of the Office of Restructuring of Yankuang Group (兗礦集團), General Counsel of Zikuang Group (淄礦集團), Director of Risk Management Department and General Manager of Risk Audit Department of Shandong Energy Group (山東能源集團風險管理部), Deputy General Manager of Cathay Pacific Leasing (國泰租賃公司), Deputy Secretary and General Manager of the Party Committee of Luhua Energy Group (魯華能源集團), Secretary of the Party Committee and Chairman of Shanghai Qilu Industrial Group (上海齊魯實業集團). He currently serves as the independent director of Shandong Gold Group Co., Ltd. (山東黃金集團有限公司), Shandong Property Rights Exchange Group (山東產權交易集團有限公司), and the Guarantor. Mr. Cao graduated from Zhongnan University of Economics and Law (中南財經政法大學) with an EMBA degree.

Mr. Li Zhanchen (李占辰) has been an independent director of the Guarantor since July 2021. He previously served as a member of the trade union section of the Shandong Provincial Department of Commerce (山東省商業廳工會), a member of Human Resources department, deputy director of personnel training department of the Shandong Economic Development Centre (山東省經濟開發中心), Director and Vice President of Luye Group (綠野集團), Deputy Manager of Shandong High Speed Co., Ltd. Ludong Branch (山東高速魯東分公司), Vice Chairman, General Manager and Deputy Secretary of the Party Committee of Shandong High Speed Real Estate Development Co., Ltd. (山東高速置業發展有限公司), general manager of Shandong High Speed Qilu Construction Group (山東高速齊魯建設集團公司), Deputy Secretary of the Party Committee, Executive Deputy General Manager of Shandong High Speed Real Estate Group Co., Ltd. (山東高速地產集團有限公司), Secretary of the Party Branch, Secretary of the Party Committee and Executive Director of Qilu Jiaotong Service Development Co., Ltd. (齊魯交通服務開發有限公司), Chairman of Dongying United Petrochemical Co., Ltd (東營聯合石化有限公司), Party Committee Member and Deputy General Manager of Qilu Transportation Development Group Co., Ltd. (齊魯交通發展集團有限公司), Chairman of Qilu Huatong Airlines (齊魯華通航空公司), Secretary of the Party Branch and Chairman of Minsheng Development Group Co., Ltd. (齊魯民生發展集團有限公司), Chairman and Secretary of the Party Branch of Shandong High Speed Energy Development Co., Ltd. (山東高速能源發展有限公司), Executive Director of Shandong High Speed Group Co., Ltd. (山東高速集團有限公司), Chairman of Qilu Minsheng Development Group Co., Ltd. (齊魯民生發展集團有限公司). He currently serves as the independent director of Shuifa Group Co., Ltd (水發集團有限公司) and the Guarantor.

Ms. Su Xin (蘇昕) has been an independent director of the Guarantor since July 2021. She previously served as the deputy head of the audio-visual department of the Academic Affairs Office of Shandong University of Economics (山東經濟學院教務處電教科), Deputy Chief of the Academic Affairs Office, Chief and Deputy Chief of the Faculty Section of the Shandong University of Economics (山東經濟學院教務處師資科), and deputy Director of the Teaching Management Office of Yanshan College (燕山學院教學管理辦公室), Deputy Dean of the MBA School and Deputy Director of the Academic Affairs Office of Shandong Finance and Economics of the University (山東財經大學). He currently serves as the director of Government Performance Evaluation Research Centre of Shandong University of Finance and Economics (山東財經大學政府績效評價研究中心). Ms. Su holds a Ph.D. in agriculture from Ocean University of China (中國海洋大學).

SUPERVISOR

As at the date of this Offering Circular, the Guarantor had one supervisor. The supervisor is responsible for (1) supervising the actions of the board of directors and the senior management of the Guarantor and making proposals for the dismissal of the directors and senior management personnel who violate laws, administrative regulations and the articles of association; and (2) requiring directors and senior management personnel to rectify decisions that are harmful to the Guarantor's interest.

As at the date of this Offering Circular, the details of the supervisors of the Guarantor are listed below:

Name	Year of Birth	Position
Mr. Zhao Jingguo (趙敬國)	1974	Employee supervisor

Mr. Zhao Jingguo (趙敬國) has been the employee supervisor of the Guarantor since July 2012. Prior to joining the Group, he worked at the personnel office of Jinan Sijian (Group) Co., Ltd. (濟南四建(集團)有限公司) and Shandong Hualu Group Co., Ltd. (山東華魯集團有限公司). He currently serves as an employee supervisor, general manager of the Human Resources Department and Party Affairs Department of the Guarantor. He is also a leader of the Supervisory Committee of Lukang Co., Ltd (魯抗股份監事會). Mr. Zhao holds a master's degree in business administration from Shandong University of Finance (山東財政學院) (which later merged to form the current Shandong University of Finance and Economics (山東財經大學)).

SENIOR MANAGEMENT

The Guarantor currently has two deputy general managers, one chief financial officer and one secretary to the board of directors. The senior management board is responsible for overseeing the day-to-day management of the Guarantor's business and operations. The general manager is appointed by the board of directors, is accountable to the board of directors, and performs his duties pursuant to the Guarantor's articles of association and the board of directors' authorisation.

The following table sets forth the Guarantor's senior management as at the date of this Offering Circular:

Name	Year of Birth	Position
Mr. Liu Congde (劉從德)	1964	Deputy general manager
Mr. Yu Li (于力)	1968	Deputy general manager
Mr. Sun Youmin (孫佑民)	1971	Chief Financial Officer
Mr. Cong Kechun (叢克春)	1964	Secretary to the board of directors

Mr. Liu Congde (劉從德) has been a deputy general manager of the Guarantor since 2006. He currently serves as the general counsel of the Guarantor. Prior to joining the Group, he worked in Shandong Xinhua Pharmaceutical Factory (山東新華製藥廠), Xinhua Pharmaceutical Co., Ltd. (新華醫藥股份公司), and Xinhua Group (新華集團). He also served at Lukang Group (魯抗集團) previously. Mr. Liu graduated from Zhongnan University of Economics and Law (中南財經政法大學) with an EMBA degree.

Mr. Yu Li (于力) has been a deputy general manager since March 2019. He previously worked in Tsingtao Brewery (青島啤酒廠) and Shandong Provincial Auditing Department (山東省審計廳). He is currently a Member of the Party Committee and Deputy General Manager of the Guarantor.

Mr. Sun Youmin (孫佑民) has been the Chief Financial Officer of the Guarantor since March 2019. For Mr. Sun's biography, see “– *Directors*” above.

Mr. Cong Kechun (叢克春) has been the secretary to the board of directors since November 2020. Prior to joining the Group, he worked in Shandong Provincial Labour Department (山東省勞動廳) and Shandong Hualu Group Co., Ltd. (山東華魯集團有限公司). He is currently the Secretary of the Board of Directors of the Guarantor, Director of Shandong Xinhua Pharmaceutical Co., Ltd. (山東魯抗醫藥股份有限公司), and director of Shandong Xinhua Pharmaceutical Co., Ltd (山東新華製藥股份有限公司). He graduated from Zhongnan University of Economics and Law (中南財經政法大學) with an EMBA degree.

PRC REGULATIONS

This section summarises the principal PRC laws and regulations which are relevant to the Group's business and operations. As this is a summary, it does not contain a detailed analysis of the PRC laws and regulations which are relevant to the Group's business and operations.

THE PRC LEGAL SYSTEM

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, directives and local laws, laws of Special Administrative Regions and laws resulting from international treaties entered into by the PRC Government. In general, court judgments do not constitute binding precedents. However, they are used for the purposes of judicial reference and guidance.

The National People's Congress of the PRC (the "NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing State agencies and civil, criminal and other matters. The Standing Committee of the NPC is empowered to enact and amend all laws except for the laws that are required to be enacted and amended by the NPC.

The State Council is the highest organ of the State administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the NPC. In the event that a conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules, regulations, directives and orders.

At the regional level, the provincial and municipal congresses and their respective standing committees may enact local rules and regulations and the people's governments may promulgate administrative rules and directives applicable to their own administrative areas. These local rules and regulations must be consistent with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council.

The State Council, provincial and municipal governments may also enact or issue rules, regulations or directives in new areas of the law for experimental purposes or in order to enforce the law. After gaining sufficient experience with experimental measures, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The PRC Constitution vests the power to interpret laws in the Standing Committee of the NPC. The Supreme People's Court, in addition to its power to give general interpretation on the application of laws in judicial proceedings, also has the power to interpret specific cases. The State Council and its ministries and commissions are also vested with the power to interpret rules and regulations that they have promulgated. At the regional level, the power to interpret regional rules and regulations is vested in the regional legislative and administrative bodies which promulgated such laws.

THE PRC JUDICIAL SYSTEM

Under the PRC Constitution and the Law of Organisation of the People's Courts, the judicial system is made up of the Supreme People's Court, the local courts, military courts and other special courts.

The local courts are comprised of the primary people's courts, the intermediate people's courts and the higher people's courts. The primary people's courts are organised into civil, criminal, economic, administrative and other divisions. The intermediate courts are organised into divisions similar to those of the primary people's courts, and are further organised into other special divisions, such as the intellectual property division. The higher level courts supervise the primary and intermediate people's courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all other courts.

The courts employ a two-tier appellate system. A party may appeal against a judgment or order of a local court to the court at the next higher level. Second judgments or orders given at the next higher level and

the first judgments or orders given by the Supreme People's Court are final. First judgments or orders of the Supreme People's Court are also final. If, however, the Supreme People's Court or a court at a higher level finds an error in a judgment which has been given by any court at a lower level, or the president of a court finds an error in a judgment which has been given in the court over which he presides, the case may then be retried in accordance with the judicial supervision procedures.

The Civil Procedure Law of the PRC, which was adopted on 9 April 1991 and amended on 28 October 2007, 31 August 2012 and 27 June 2017, sets forth the criteria for instituting a civil action, the jurisdiction of the courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the place of the object of the contract. However, such selection cannot violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the court to request for enforcement of the judgment, order or award. The time limit imposed on the right to apply for such enforcement is two years calculated from the last day of the enforcement period stipulated in the judgment by the court. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a court against a party who is not located within the PRC and does not own any property in the PRC may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. A foreign judgment or ruling may also be recognised and enforced by a court in accordance with the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination in accordance with the principle of reciprocity, unless the court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons of social and public interests.

FOREIGN EXCHANGE CONTROLS

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely exchangeable into foreign exchange at this time. SAFE, under the authority of PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Prior to 31 December 1993, a quota system was used for the management of foreign currency. Any enterprise requiring foreign currency was required to obtain a quota from the local SAFE office before it could exchange Renminbi into foreign currency through PBOC or other designated banks. Such conversion had to be effected at the official rate prescribed by SAFE on a daily basis. Renminbi could also be exchanged into foreign currency at swap centres. The exchange rates used by swap centres were largely determined by the demand for, and supply of, the foreign currency and the Renminbi requirements of enterprises in the PRC. Any enterprise that wished to buy or sell foreign currency at a swap centre had to obtain the prior approval of the SAFE.

On 28 December 1993, PBOC, under the authority of the State Council, promulgated the Notice of PBOC Concerning Further Reform of the Foreign Currency Control System, effective from on the same day. The notice announced the abolition of the foreign exchange quota system, the implementation of conditional exchangeability of Renminbi in current account items, the establishment of the system of settlement and payment of foreign exchange by banks, the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centres.

On 1 January 1994, the former dual exchange rate system for Renminbi was abolished and replaced by a controlled floating exchange rate system, which was determined by demand and supply of Renminbi. Pursuant to such system, PBOC set and published the daily Renminbi-U.S. dollar exchange rate. Such exchange rate was determined with reference to the transaction price for Renminbi-U.S. dollar in the inter-bank foreign exchange market on the previous day. Also, PBOC, with reference to exchange rates in the international foreign exchange market, announced the exchange rates of Renminbi against other major foreign currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the rate announced by PBOC.

On 29 January 1996, the State Council promulgated Regulations of the PRC on Foreign Exchange Administration (the “**Foreign Exchange Administration Regulations**”) which became effective from 1 April 1996. The Foreign Exchange Administration Regulations classifies all international payments and transfers into current account items and capital account items. Most current account items are subject to the approval by relevant banks that are duly authorised by SAFE to do so, while capital account items are still subject to SAFE approval directly. The Foreign Exchange Administration Regulations was subsequently amended on 14 January 1997 and 5 August 2008. Such amendment affirms that the State shall not restrict international current account payments and transfers.

On 20 June 1996, PBOC promulgated the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (the “**Settlement Regulations**”) which became effective on 1 July 1996. The Settlement Regulations superseded the Provisional Regulations and abolished the remaining restrictions on exchangeability of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. On the basis of the Settlement Regulations, PBOC published the Announcement on the Implementation of Foreign Exchange Settlement and Sale through Banks by Foreign-invested Enterprises. The announcement permits foreign-invested enterprises to open, on the basis of their needs, foreign exchange settlement accounts for current account receipts and payments of foreign exchange, and specialised accounts for capital account receipts and payments at designated foreign exchange banks.

On 25 October 1998, PBOC and SAFE promulgated the Notice Concerning the Discontinuance of Foreign Exchange Swapping Business pursuant to which and with effect from 1 December 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprises shall be regulated under the system for the settlement and sale of foreign exchange applicable to banks.

On 8 January 2003, Interim Provision on Foreign Debts Management was promulgated by the NDRC, SAFE, and the PRC Ministry of Finance, according to which, the summation of the accumulated medium-term and long-term loans borrowed by a foreign invested entity and the balance of short-term shall not exceed the surplus between the total investment and the registered capital of the foreign-invested entity. Within the range of the surplus, the foreign invested entity may borrow foreign loans at its own will. If the loans exceed the surplus, the total investment of the foreign invested entity shall be re-examined by its original examination and approval authorities.

On 21 July 2005, PBOC announced that, beginning from 21 July 2005, the PRC will implement a regulated and managed floating exchange rate system based on market supply and demand and by reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the U.S. dollar. PBOC will announce the closing price of a foreign currency such as the U.S. dollar traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each business day, setting the central parity for trading of the Renminbi on the following business day.

Save for foreign-invested enterprises or other enterprises which are specially exempted by relevant regulations, all entities in the PRC (except for foreign trading companies and production enterprises having import and export rights, which are entitled to retain part of foreign exchange income generated from their current account transactions and to make payments using such retained foreign exchanges in their current account transactions or approved capital account transactions) must sell their foreign exchange income to designated foreign exchange banks. Foreign exchange income from loans issued by organisations outside the territory or from the issuance of Securities and shares is not required to be sold to designated banks, but may be deposited in foreign exchange accounts with designated banks.

Enterprises in the PRC (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or exchange and pay at the designated foreign exchange banks, upon presentation of valid receipts and proof. Foreign-invested enterprises which need foreign currencies for the distribution of profits to their shareholders, and Chinese enterprises which, in accordance with regulations, are required to pay dividends to shareholders in foreign currencies, may with the approval of board resolutions on the distribution of profits, effect payment from their foreign exchange account or exchange and pay at the designated foreign exchange banks.

Exchangeability of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restriction, and prior approval from SAFE or its competent branch.

In January and April 2005, SAFE issued two regulations that require PRC residents to register with and receive approvals from SAFE in connection with their offshore return/round-trip investment activities. SAFE also announced that the purpose of these regulations is to achieve the proper balance of foreign exchange and the standardisation of all cross-border flows of funds.

On 21 October 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies which became effective as at 1 November 2005. The notice replaced the two regulations issued by SAFE in January and April 2005 mentioned above. On 4 July 2014, SAFE issued the Notice of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in Overseas Investment, Financing and Return on Investment Conducted by Residents in China via Special-Purpose Companies (“**Circular 37**”), which became effective at the same day. This notice replaced the notice issued by SAFE in October 2005 mentioned above. According to the notice, “**special purpose company**” refers to the overseas enterprises that are directly established or indirectly controlled for the purpose of investment and financing by Mainland residents (including Mainland institutions and resident individuals) with their legitimate holdings of the assets or interests in Mainland enterprises, or their legitimate holdings of overseas assets or interests. Under the notice, a mainland resident can make contribution to a special purpose company with legitimate holdings of domestic or overseas assets or interests, and a mainland enterprise directly or indirectly controlled by a Mainland resident may, on the basis of real and reasonable needs, disburse loans to its registered special purpose companies pursuant to prevailing provisions, and, a mainland resident may, on the basis of real and reasonable needs, purchase foreign exchanges to remit funds overseas for the establishment, share repurchase, delisting, etc. of a special purpose company. Prior to the establishment or assumption of control of such special purpose company, each PRC resident, whether a natural or legal person, must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch.

On 5 August 2008, the State Council issued the Regulation of the PRC on Foreign Exchange Administration (the “**New Forex Regulation**”). The New Forex Regulation came into effect with the intention to further limit the inbound of foreign currency while relaxing the requirement of outbound investment, taking into consideration the capital reserve structure of the PRC then. Under the New Forex Regulation, foreign currency received under the current account by domestic entities will not be asked to be settled into Renminbi automatically, while foreign currency under capital account may also be maintained upon approval. Unless otherwise required by laws and regulations, applicants may go to commercial banks directly for capital investment overseas without SAFE approval.

On 30 March 2015, SAFE issued the Notice of the State Administration of Foreign Exchange on Reforming the Administrative Approach Regarding the Settlement of the Foreign Exchange Capitals of Foreign-invested Enterprises (“**Circular 19**”), which became effective from 1 June 2015. Circular 142 and Circular 88 have been replaced by Circular 19. Under Circular 19, Foreign-invested enterprises are allowed to settle their foreign exchange capitals on a discretionary basis, and a foreign-invested enterprise shall be facilitated to make domestic equity investment with the amount of foreign exchanges settled.

On 1 July 2009, PBOC, the MOFCOM, the General Administration of Customs, the State Administration of Taxation and the China Banking Regulatory Commission jointly promulgated the Measures for the Administration of Pilot Renminbi Settlement in Cross-border Trade, under which, eligible enterprises as designated by relevant authorities located in the cities or provinces which have been chosen by the State Council to execute the pilot Renminbi trade settlement scheme, are allowed to settle the cross-border trade transactions in Renminbi. PBOC, the PRC Ministry of Finance.

MOFCOM, the General Administration of Customs, the State Administration of Taxation and the China Banking Regulatory Commission jointly promulgated the Circular on Issues Concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades on 17 June 2010 and the Circular on Expansion of the Region of Renminbi Settlement of Cross-Border Trades on 24 August 2011, which, together, extended the pilot scheme to the whole of the PRC and to make Renminbi trade and other current account item settlement available in all countries worldwide.

On 2 May 2012, the NDRC promulgated the Notice of the National Development and Reform Commission on Issues Concerning the Issuance of RMB-denominated Securities by Mainland Non-financial Institutions in the Hong Kong Special Administration Region, according to which, the foreign debts incurred by a non-financial institution in mainland China for issuing RMB-denominated securities in Hong Kong shall be subject to the registration of foreign debts, the repayment of principal interest, and other relevant procedures pursuant to the prevailing provisions on foreign debt management.

REGULATIONS REGARDING OVERSEAS INVESTMENT AND ACQUISITION ACTIVITIES

NDRC Supervision

According to Measures for the Administration of Approval and Filing of Overseas Investment Projects issued on 8 April 2014 and amended on 27 December 2014 which replaced Interim Measures for the Administration of Verification and Approval of Overseas Investment Projects, the approval administration and filing administration shall be respectively applied to different overseas investment projects. Specifically, if the project is related to the sensitive countries, areas or industries, regardless of the Investment amount, the projects shall be subject to the approval of the NDRC, in which, if the amount of the investment made by the Chinese party is U.S.\$2 billion or more, and the project is related to the sensitive countries, areas or industries, the projects shall be subject to the examination of the NDRC and then shall be reported to the State Council for the approval. Other than the projects specified above, the other projects shall be subject to the filing administration. Specifically, overseas investment projects carried out by enterprises under central management, and those carried out by local enterprises in which the amount of Chinese investment reaches or exceeds U.S.\$300 million shall be subject to the record-filing by the NDRC. Those carried out by local enterprises in which the amount of Chinese investment is below U.S.\$300 million shall be subject to the record-filing by competent investment departments of the provincial government.

According to the Notice on Issues Concerning the Implementation of Measures for the Administration of Approval and Filing of Overseas Investment Projects, the Circular of the NDRC on Properly Handling the Delegation of Approval Authority over Outbound Investment Projects to Lower-level Authorities terminated.

Investment projects to be carried out in the Hong Kong SAR and/or the Macau SAR shall be governed by Measures for the Administration of Approval and Filing of Overseas Investment Projects.

On 4 August 2017, NDRC, MOFCOM, PBOC and the Ministry of Foreign Affairs jointly issued the Guiding Opinions on Further Orienting and Regulating Outbound Investment (the “**Guiding Opinion**”), which classifies outbound investment into three groups: encouraged, restricted, and prohibited. The Guiding Opinion provides that the government will support enterprises to actively engage in outbound investment projects which promote the “One Belt, One Road” strategy; deepen cooperation in international production capacity; promote the transfer of quality domestic production capacity, equipment, and applicable technologies overseas; enhance China’s technology research and development, production, and manufacturing capacity; help resolve the country’s energy shortage problems; and promote industrial upgrade.

Under the Guiding Opinion, the encouraged group includes:

- Projects that promote outbound investment in construction in the areas covered under the “One Belt One Road” initiative, and basic infrastructure construction in the surrounding areas.
- Projects that steadily promote outbound investment that can facilitate the transfer of quality domestic production capacity, equipment, and applicable technology standards overseas.
- Projects that enhance investment cooperation with overseas high-tech and advanced manufacturing enterprises, and encourage domestic companies to set up research and development centres overseas.

- Projects that encourage domestic companies to actively participate in the exploration and development of oil, gas, and mineral projects overseas on the condition that a prudent assessment of economic benefits and interests has been conducted.
- Projects involving cooperation in agriculture.
- The government will promote outbound investment in trade and commerce, and culture and logistics, and support qualified financial institutions to establish branches and service networks overseas to carry out business lawfully.

The groups subject to restrictions include:

- Outbound projects in sensitive countries and regions that have no diplomatic relations with China; are currently at war with it; or have restrictions imposed in bilateral or multilateral agreements or conventions with China.
- Real estate, hotel, cinema, entertainment, and sports clubs.
- A stock investment fund or investment platform that does not invest in any real business overseas.
- Adopting technology standards that fall short of the required standards in the host country to manufacture production equipment.
- Failure to comply with the environmental protect, energy consumption or safety standards of the host country.

Investments falling into the first three areas listed above shall be subject to verification and approval by NDRC and other competent authorities in charge of outbound investment.

The prohibited category includes:

- Projects involving the export of core military technologies and products without the approval of the Chinese government.
- Projects involving the use of technologies, techniques, or products that are prohibited for exports.
- Projects involving gambling or pornography.
- Projects involving breach of international conventions which China is a signatory to.
- Other outbound investment projects that may endanger or potentially endanger national security.

Also, further measures will be taken to improve guidance on different types of outbound investments, including:

- Further raising government service levels to support outbound investment – such as in taxation, foreign exchange, insurance, customs, and information areas.
- Providing guidance and timely alerts to domestic enterprises on their intended investment in the restricted areas overseas.
- Imposing substantial control and regulation to prevent outbound investments in prohibited areas.

MOFCOM supervision

MOFCOM issued the new version of the Administration of Overseas Investment on 6 September 2014, effective from 6 October 2014 (the “**New Overseas Investment Rules**”). Under the New Overseas Investment Rules, a domestic enterprise intending to carry out any overseas investment shall report to the competent department of commerce for verification or filing and shall, with regard to an enterprise so verified or filed, issue thereto an Enterprise Overseas Investment Certificate. If two or more enterprises

make joint investment to establish an overseas enterprise, the larger (or largest) shareholder shall be responsible for the verification or filing procedure after soliciting written consent of other investing parties.

An enterprise that intends to invest in a sensitive country or region or a sensitive industry shall apply for the verification by MOFCOM. “**Sensitive countries and regions**” mean those countries without a diplomatic relationship with the PRC, or subject to the UN sanctions or otherwise under the list of verified countries and regions published by MOFCOM from time to time. “**Sensitive industries**” mean those industries involving the products and technologies which are restricted from being exported, or affecting the interests of more than one country (or region). In accordance with the New Overseas Investment Rules, a central enterprise shall apply to MOFCOM for verification and MOFCOM shall, within 20 working days of accepting such application, decide whether or not the verification is granted.

For a local enterprise, it shall apply through the provincial department of commerce to MOFCOM for such verification. The provincial department of commerce shall give a preliminary opinion within 15 working days of accepting such local enterprise’s application and report all application documents to MOFCOM, while MOFCOM shall decide whether or not the verification is granted within 15 working days of receipt of such preliminary opinion from the provincial department of commerce. Upon verification, the Enterprise Overseas Investment Certificate shall be issued to the investing enterprise by MOFCOM.

Other than those overseas investments subject to MOFCOM verification as described above, all other overseas investments are subject to a filing requirement. The investing enterprise shall fill and complete the filing form through the Overseas Investment Management System, an online system maintained by MOFCOM and print out a copy of such filing form for stamping with the company chop, and then submit such stamped filing form together with a copy of its business license, for filing at MOFCOM (for a central enterprise) or the provincial department of commerce (for a local enterprise) respectively. MOFCOM or the provincial department of commerce shall accept the filing and issue the Enterprise Overseas Investment Certificate within 3 working days of receipt of such filing form. The investing enterprise must carry out the investment within two years of the date of the relevant Enterprise Overseas Investment Certificate, otherwise such Certificate will automatically expire and a new filing or verification application has to be made by the investing enterprise after such expiry. In addition, if any item recorded in such Certificate is changed, the investing enterprise shall handle an updating process at MOFCOM or the provincial department of commerce (as the case may be).

If an overseas invested company carries out a re-investment activity offshore, the investing enterprise shall report such re-investment activity to MOFCOM or the provincial department of commerce (as the case may be) after the investment is completed offshore. The investing enterprise shall fill in and print out a copy of the Overseas Chinese-invested Enterprise Re-investment Report Form from the Overseas Investment Management System and stamp and submit such Report Form to MOFCOM or the provincial department of commerce.

The New Overseas Investment Rules specifically provide that an overseas invested company cannot use the words of “China” (“中國” or “中華”) in its name, unless otherwise approved.

Foreign Exchange Administration

According to Administrative on Foreign Exchange of PRC and Circular of the State Administration of Foreign Exchange on Promulgating the Administrative Provisions on Foreign Exchange of the Outbound Direct Investments of Domestic Institutions, corporations, enterprises or other economic organisations (domestic investors) that have been permitted to make outbound investment shall go through the procedures of registration to the Foreign Exchange Bureau. The Foreign Exchange Bureau shall issue the Foreign Exchange Registration Certificate for overseas direct investment or an IC card to the domestic institution. The domestic institution shall go through the formalities for outward remittance of funds for overseas direct investment at a designated foreign exchange bank by presenting the approval document issued by the department in charge of overseas direct investment and the Foreign Exchange Registration Certificate for overseas direct investment. The scope of foreign exchange funds for overseas direct investment of domestic institutions includes their own foreign exchange funds, domestic loans in foreign currencies in compliance with relevant provisions, foreign exchange purchased with Renminbi, material objects, intangible assets and other foreign exchange funds approved by the Foreign Exchange Bureau for overseas direct investment. The profits gained from overseas direct investment of domestic institutions may be deposited in overseas banks and used for overseas direct investment.

The SAFE promulgated Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (the “**2015 SAFE Circular**”) on 13 February 2015. The 2015 SAFE Circular aims to deepen the reform of foreign exchange administration of capital accounts, promote and facilitate the capital operation of enterprises in making cross-border investments, regulate the direct investment-related foreign exchange administration business, improve the administration efficiency. The 2015 SAFE Circular set forth the following reformation: (i) cancel two administrative examination and approval items: verification and approval of foreign exchange registration under domestic direct investment, and verification and approval of foreign exchange registration under overseas direct investment; After the implementation hereof, a bank that has obtained the financial institution identification code assigned by the relevant Foreign Exchange Bureau and has activated the capital account information system with the Foreign Exchange Bureau at its domicile may handle Foreign Exchange Registration of Direct Investment for foreign-invested enterprises in the Mainland and the domestic investors of enterprises invested overseas directly through the capital account information system of the Foreign Exchange Bureau; (ii) cancel the confirmation and registration of foreign investors’ non-monetary contribution and the confirmation and registration of foreign investors’ contribution to purchasing the equity held by the Chinese party under domestic direct investment; (iii) the confirmation and registration of foreign investors’ monetary contribution is adjusted to book-entry registration of domestic direct investment monetary contribution.

The 2015 SAFE Circular, which is new regulation, has been promulgated to control the remittance of Renminbi for payment of transactions categorised as capital account items and such new regulation will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

State-owned Assets Supervision

Relevant applicable laws and regulations include Interim Measures for Administration of Overseas State-owned Property Rights of Central Enterprises and Interim Measures for the Supervision and Administration of Overseas State-owned Assets of Central Enterprises and Interim Measures for the Supervision and Management of Overseas Investment of Central Enterprises.

If the domestic enterprise is a central enterprise, it shall establish and perform investment decision-making procedures and management control systems, shall establish and improve administration systems to be submitted to the SASAC for record-filing, and shall establish an annual investment plan and submit it to SASAC and make a copy of the project approval documents to SASAC.

Overseas enterprises which have completed overseas registration shall make state-owned assets ownership registration with SASAC.

ENTERPRISE INCOME TAX LAW

Prior to 1 January 2008, under the then applicable PRC law and regulations (the “**Old EIT Law**”), entities established in the PRC were generally subject to a 33 per cent. enterprise income tax, or BIT. However, entities that satisfied certain conditions enjoyed preferential tax treatment. In accordance with the tax laws and regulations effective until 31 December 2007, foreign invested manufacturing enterprises scheduled to operate for a period not less than ten years were exempted from paying state income tax for two years starting from its first profit making year and were allowed a 50 per cent. reduction in its tax rate in the third, fourth and fifth years (“**two-year exemption and three-year reduction by half**”).

On 16 March 2007, the NPC enacted the BIT Law, which, together with its related implementation rules issued by the State Council on 6 December 2007, became effective on 1 January 2008. The BIT Law imposes a single uniform income tax rate of 25 per cent. on all Chinese enterprises, including foreign invested enterprises, and eliminates or modifies most of the tax exemptions, reductions and preferential treatments available under the previous tax laws and regulations. On 26 December 2007, the State Council issued a Notice on the Implementation of the Transitional Preferential Tax Policies (“**Circular 39**”). Further, as at 1 January 2008, the enterprises that previously enjoyed “two-year exemption and three-year reduction by half” of the enterprise income tax and other preferential treatments in the form of tax deductions and exemptions within specified periods may, after the implementation of the BIT Law,

continue to enjoy the relevant preferential treatments until the expiration of the time period. However, if such an enterprise has not enjoyed the preferential treatments yet because of its failure to make profits, its preferential time period shall be calculated from 2008.

Under the BIT Law, the preferential tax treatment for encouraged enterprises located in western China and certain industry-oriented tax incentives are still available. The Chinese and foreign-invested enterprises within the state-encouraged industry located in western China may be taxed at a preferential income tax rate of 15 per cent. for years from 1 January 2011 to 31 December 2020 after being approved by the competent tax authority.

VALUE ADDED TAX

According to the Tentative Regulations on the Value-added Tax of the PRC (which was revised by the State Council on 10 November 2008, and further revised by the Decision of the State Council on Amending Certain Administrative Regulations promulgated by the State Council on 6 February 2016, and further revised by the State Council on 19 November 2017 and came into effect on the same day), and the Detailed Implementation Rules of the Tentative Regulations on the Value-added Tax of the PRC promulgated by the PRC Ministry of Finance which came into effect on 1 January 2009 and was amended on 28 October 2011, organisations or individuals who sell commodities, provide processing, repairing or replacement services, or import commodities within the PRC's territories are subject to value-added tax, and shall pay the value-added tax accordingly. The rate of the value-added tax shall be 17 per cent. or 13 per cent., depending on the commodities being sold. For taxpayers exporting commodities, the tax rate shall be zero per cent..

With the reform of value-added tax since 2012, the Ministry of Finance and the State Administration of Taxation promulgated a series of regulations and commenced pilot from the transport industry and part of the modern service industries which gradually expands to the scope of the pilot reform region and the applicable industry scope, and ultimately under the Notice of the Ministry of Finance and the State Administration of Taxation on Overall Implementation of the Pilot Program of Replacing Business Tax with Value-added Tax which was promulgated on 23 March 2016 and came into effect on 1 May 2016, the pilot program of replacing business tax with value-added tax shall be implemented nationwide effective since 1 May 2016 and all business tax payers in construction industry, real estate industry, finance industry and service industry, etc., shall be included in the scope of the pilot program and pay value-added tax instead of business tax.

ENVIRONMENTAL PROTECTION LAWS

The State Environmental Protection Administration is responsible for the overall supervision and management of environmental protection in the PRC. All manufacturers in the PRC must comply with environmental laws and regulations including the Environmental Protection Law of the PRC, Prevention and Control of Water Pollution Law of the PRC, Prevention and Control of Air Pollution Law of the PRC and Prevention and Control of Environmental Pollution by Solid Waste Law of the PRC, and relevant environmental regulations such as provisions regarding the treatment and disposal of pollutants and sewage, discharge of polluted fumes and the prevention of industrial pollution. Depending on the circumstances and the seriousness of the violation of the environmental regulations, the local authorities are authorised to impose various types of penalties on the persons or entities in violation of the environmental regulations. The penalties which could be imposed include the issue of warnings, suspension of operation or installation and use of preventive facilities which are incomplete and fail to meet the prescribed standards, reinstallation of preventive facilities which have been dismantled or left idle, administrative sanction against office-in-charge, suspension of business operations or shut-down of the enterprise or institution. Fines could also be levied together with these penalties. The relevant local authorities may apply to the court for compulsory enforcement of environmental compliance. The persons or entities in violation of the applicable laws and regulations may also be liable to pay damages to the victims and/or result in criminal liability.

Other major environmental protection laws applicable to the Group include: Regulations of Environmental Management on Project, Regulations of Environmental Protection Acceptance Inspection on Projects Completion and Environmental Impact Evaluation Law of the PRC.

CROSS-BORDER SECURITY LAWS

On 12 May 2014, SAFE promulgated the Notice concerning the Foreign Exchange Administration Rules on Cross-border Security and the relating implementation guidelines (collectively the “**New Regulations**”). The New Regulations, which come into force on 1 June 2014, replace twelve other regulations regarding cross-border security and introduce a number of significant changes, including: (i) abolishing prior SAFE approval and quota requirements for cross-border security; (ii) requiring SAFE registration for two specific types of cross-border security only; (iii) removing eligibility requirements for providers of cross-border security; (iv) providing that the validity of any cross-border security agreement is no longer subject to SAFE approval, registration, filing, or any other SAFE administrative requirements; (v) removing SAFE verification requirement for performance of cross-border security. A cross-border guarantee is a form of security under the New Regulations. The New Regulations classify cross-border security into three types:

- Nei Bao Wai Dai (內保外貸) (“**NBWD**”): security/guarantee provided by an onshore security provider for a debt owing by an offshore debtor to an offshore creditor.
- Wai Bao Nei Dai (外保內貸) (“**WBND**”): security/guarantee provided by an offshore security provider for a debt owing by an onshore debtor to an onshore creditor.
- Other Types of Cross-border Security (其他形式跨境擔保): any cross-border security/guarantee other than NBWD and WBND.

In respect of NBWD, in the case where the onshore security provider is a non-financial institution, it shall conduct a registration of the relevant security/guarantee with SAFE within 15 working days after its execution (or 15 working days after the date of any change to the security). The funds borrowed offshore shall not be directly or indirectly repatriated to or used onshore by means of loans, equity investments or securities investments without SAFE approval. The onshore security provider can pay to the offshore creditor direct (by effecting remittance through an onshore bank) where the NBWD has been registered with SAFE. In addition, if any onshore security provider under a NBWD provides any security or guarantee for an offshore bond issuance, the offshore issuer’s equity shares must be fully or partially held directly or indirectly by an onshore security provider. Moreover, the proceeds from any such offshore bond issuance must be applied towards the offshore project(s), where an onshore entity holds equity interest, and in respect of which the related approval, registration, record, or confirmation have been obtained from or made with the competent authorities subject to PRC Laws.

On 26 January 2017, SAFE issued the Circular on Further Promoting the Reform of Foreign Exchange Administration and Improving the Genuineness and Compliance Review and Verification Process (關於進一步推進外匯管理改革完善真實合規性審核的通知) (the “**SAFE Circular 3**”), which eases certain restrictions on the use of proceeds raised under a NBWD structure and generally allows the proceeds raised under a NBWD structure to be repatriated onshore and used in the PRC by way of loans and equity investments. The second series of the Policy Q&As in relation to the SAFE Circular 3 (國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知 (匯發(2017)3號)政策問答(第二期)) (“**Policy Q&As in relation to the SAFE Circular 3**”) published by SAFE on its official website on 27 April 2017 further clarified that, for offshore bond issuance by offshore entities which is secured by PRC onshore guarantees, the restrictions on the use of proceeds for offshore bond issuance as mentioned in the New Regulations above still apply despite of the SAFE Circular 3. However, in practice, application or exemption of such restrictions on the use of proceeds to a large extent remains subject to SAFE’s discretion on a case by case basis.

The SAFE Circular 3 and Policy Q&As in relation to the SAFE Circular 3 are relatively new and will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the SAFE Circular 3 and Policy Q&As in relation to the SAFE Circular 3.

The Guarantor will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Bonds and the Trust Deed. The Guarantor’s obligations in respect of the Bonds and the Trust Deed are contained in the Deed of Guarantee. The Deed of Guarantee will be executed by the Guarantor on or before the Issue Date. Under the New Regulations, the Deed of Guarantee does not require any pre-approval by SAFE and is binding and effective upon execution.

The Guarantor is required to submit the Deed of Guarantee to the local SAFE for registration within 15 working days after its execution. The SAFE registration is merely a post signing registration requirement, which is not a condition to the effectiveness of the Guarantee.

Under the New Regulations, the local SAFE will review of the Guarantor's application for registration. Upon completion of the review, the local SAFE will issue a registration certificate or record to the Guarantor to confirm the completion of the registration.

Under the New Regulations:

- non-registration does not render the Guarantee ineffective or invalid under PRC law although SAFE may impose penalties on the Guarantor if registration is not carried out within the stipulated time frame of 15 working days; and
- there may be logistical hurdles at the time of remittance (if any cross-border payment is to be made by the Guarantor under the Guarantee) as domestic banks may require evidence of SAFE registration in order to effect such remittance, although this does not affect the validity of the Guarantee itself.

The Terms and Conditions of the Bonds provide that the Guarantor will register, or cause to be registered, the Deed of Guarantee with SAFE in accordance with, and within the time period prescribed by, the New Regulations and use its best endeavours to complete the registration and obtain a registration record from SAFE on or before the Registration Deadline. If the Guarantor fails to complete the SAFE registration and deliver the registration records to the Trustee before the Registration Deadline, the holders will have a put option to require the Issuer to redeem the Bonds held by them at 100 per cent. of their principal amount together with accrued interest (see Condition 6(c) of the Terms and Conditions of the Bonds).

NDRC

On 14 September 2015, NDRC promulgated the NDRC Notice. According to the NDRC Notice, if a PRC enterprise or an offshore enterprise controlled by a PRC enterprise wishes to issue bonds outside of the PRC with a maturity of more than one year, such enterprise must, in advance of issuing such bonds, file certain prescribed documents with NDRC and procure a registration certificate from NDRC in respect of such issuance.

In addition, the enterprise must also report certain details of the bonds to NDRC within 10 working days of the completion of the bond issue.

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Bonds should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of the Bonds.

BRITISH VIRGIN ISLANDS

Under existing British Virgin Islands law, payments of interest and principal on the Bonds will not be subject to taxation in the British Virgin Islands and no withholding will be required on the payment of interest and principal to any holder of the Bonds nor will gains derived from the disposal of the Bonds be subject to British Virgin Islands income or corporation tax, provided that the payments are made to persons who are not resident in the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not resident in the British Virgin Islands with respect to the Bonds.

There are currently no withholding taxes or exchange control regulations in the British Virgin Islands applicable to payments the Issuer may make under the transaction documents relating to the Bonds or under the guarantee.

If neither the Issuer nor any subsidiary holds an interest in real estate in the British Virgin Islands, no stamp duty is payable in respect of the issue of the Bonds or on an instrument of transfer in respect of the Bonds.

HONG KONG

Withholding tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Bonds or in respect of any capital gains arising from the sale of the Bonds.

Profits tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (a) Interest on the Bonds is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;
- (b) Interest on the Bonds is derived from Hong Kong and is received by or accrues to a person other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of the trade, profession or business;
- (c) Interest on the Bonds is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap.112) of Hong Kong (the “IRO”)) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- (d) Interest on the Bonds is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal or redemption of the Bonds will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of the Bonds will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of the Bonds will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Bonds are acquired and disposed of.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisers to ascertain the applicability of any exemptions to their individual position.

Stamp duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Bond.

PRC

The following summary describes the principal PRC tax consequences of ownership and disposition of the Bonds by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as non-resident Bondholders in this “Taxation – PRC” section. In considering whether to invest in the Bonds, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Income Tax

Pursuant to the Enterprise Income Tax Law effective on 1 January 2008 and amended on 24 February 2017 and 29 December 2018, and the PRC Individual Income Tax Law effective on 1 January 2019, and their respective implementation regulations, an income tax is imposed on payments of interest by way of withholding in respect of the Bonds, made by the Issuer or the Guarantor to non-resident Bondholders, including non-resident enterprises and non-resident individuals. The current rates of such income tax are 20 per cent for non-resident individuals and 10 per cent for non-resident enterprises of the gross amount of the interest. If the relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the “de facto management bodies” of the Issuer or the Guarantor are within the territory of the PRC, the Issuer or the Guarantor may be held to be a PRC tax resident enterprise for the purpose of the Enterprise Income Tax Law and be subject to enterprise income tax at the rate of 25 per cent. in respect of its income sourced from both within and outside PRC. If the Issuer or the Guarantor is regarded as a PRC tax resident enterprise, such enterprise income tax shall be withheld by the Issuer or the Guarantor that is acting as the obligatory withholder and it shall withhold the tax amount from each payment due.

However, the tax so charged on interests paid on the Bonds to non-resident Bondholders who or which are residents of Hong Kong (including enterprise holders and individual holders) as defined under the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) which was promulgated on 21 August 2006 (the “**Tax Arrangement**”) for the purpose of the avoidance of double taxation will be 7 per cent. of the gross amount of the interest pursuant to the Tax Arrangement and relevant interpretation of the Tax Arrangement formulated by the State Administration of Taxation of China.

Under the Enterprise Income Tax Law and its implementation rules, any gains realised on the transfer of the Bonds by holders who are deemed under the Enterprise Income Tax Law as non-resident enterprises may be subject to PRC enterprise income tax if such gains are regarded as income derived from sources within the PRC. Under the Enterprise Income Tax Law, a “non-resident enterprise” means an enterprise established under the laws of a jurisdiction other than the PRC and whose actual administrative organisation is not in the PRC, which has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained income derived from sources within the PRC. In addition, there is uncertainty as to whether gains realised on the transfer of the Bonds by individual holders who are not PRC citizens or residents will be subject to PRC individual income tax. If such gains are subject to PRC income tax, the 10 per cent. enterprise income tax rate and 20 per cent. individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Bonds minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income. According to the Tax Arrangement, Bondholders who are Hong Kong residents, including both enterprise holders and individual holders, may be exempted from PRC income tax on capital gains derived from a sale or exchange of the Bonds.

VAT

In addition, pursuant to Circular 36 which took effect on 1 May 2016, entities and individuals providing services within the PRC are subject to VAT. The services are treated as being sold within the PRC where either the service provider or the service recipient is located in the PRC. The services subject to VAT include the provision of financial services such as the provision of loans. Circular 36 further clarifies that “loans” refer to the activity of lending capital for another’s use and receiving interest income thereon. Based on the definition of “loans” under Circular 36, the issuance of the Bonds is likely to be treated as a “loan” provided by the Bondholders to the Issuer or the Guarantor, which thus shall be regarded as financial services for VAT purposes. In general, the income derived from the provision of loans will not be subject to VAT in the PRC if none of the Issuer, the Guarantor or the Bondholders is within the PRC. However, it is uncertain whether a foreign incorporated company which is deemed to be a PRC resident enterprise would be regarded as being within the PRC. In the event that the Issuer or the Guarantor is deemed to be a PRC resident enterprise and is deemed to be within the PRC by the PRC tax authorities, the Bondholders may be deemed to be providing financial services to the Issuer or the Guarantor within the PRC and consequently, the amount of interest on the Bonds payable by the Issuer or the Guarantor to any non-resident Bondholders may be subject to withholding VAT at the rate of 6 per cent. plus related surcharges.

Where a holder of the Bonds who is an entity or individual located outside of the PRC resells the Bonds to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply and neither the Issuer nor the Guarantor has the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Bonds is located inside the PRC.

The interpretation and enforcement of Circular 36 and other applicable laws and regulations pertaining to PRC VAT involve uncertainties, and the above statements may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of Circular 36.

Pursuant to the Enterprise Income Tax Law, the PRC Individual Income Tax Law and the VAT reform detailed above, if the Issuer or the Guarantor is regarded as a PRC tax resident enterprise, it shall withhold income tax (should such tax apply) from the payments of interest in respect of the Bonds for any non-resident Bondholder and the Issuer or the Guarantor shall withhold VAT (should such tax apply) from the payments of interest in respect of the Bonds for any Bondholder located outside of the PRC. However, in the event that the Issuer or the Guarantor is required to make such a deduction or withholding (whether by way of income tax, VAT or otherwise), the Issuer and the Guarantor have agreed to pay such additional amounts as will result in receipt by the Bondholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, as further set out in the “*Terms and Conditions of the Bonds*”.

Stamp Duty

No PRC stamp duty will be imposed on non-resident Bondholders either upon issuance of the Bonds or upon a subsequent transfer of Bonds to the extent that the register of holders of the Securities is maintained outside the PRC and the issuance and the sale of the Bonds is made outside of the PRC.

THE PROPOSED FINANCIAL TRANSACTIONS TAX (“FTT”)

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Bonds (including secondary market transactions) in certain circumstances.

Under the Commission’s Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Bonds are advised to seek their own professional advice in relation to the FTT.

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the PRC) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register, and Bonds characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Bonds.

DESCRIPTION OF CERTAIN DIFFERENCES BETWEEN PRC GAAP AND IFRS

The Historical Financial Statements included in this Offering Circular have been prepared and presented in accordance with PRC GAAP.

PRC GAAP are substantially in line with IFRS, except for certain modifications which reflect China's unique circumstances and environment. The following is a general summary of certain differences between PRC GAAP and IFRS on recognition and presentation as applicable to the Guarantor. The differences identified below are limited to those significant differences that are appropriate to the Historical Financial Statements included in this Offering Circular. Since the summary is not meant to be exhaustive, there can be no assurance that the summary below is complete. The Guarantor has not prepared a complete reconciliation of the consolidated financial information and related footnote disclosure between PRC GAAP and IFRS and has not quantified such differences. Had any such quantification or reconciliation been undertaken by the Guarantor, other potentially significant accounting and disclosure differences may have been required that are not identified below. Additionally, no attempt has been made to identify possible future differences between PRC GAAP and IFRS as a result of prescribed changes in accounting standards. Regulatory bodies that promulgate PRC GAAP and IFRS have significant projects ongoing that could affect future comparisons such as this one. Finally, no attempt has been made to identify future differences between PRC GAAP and IFRS that may affect the financial information as a result of transactions or events that may occur in the future. Accordingly, no assurance is provided that the following summary of differences between PRC GAAP and IFRS is complete. In making an investment decision, each investor must rely upon its own examination of the Guarantor, the terms of the offering and other disclosure contained herein. Each investor should consult its own professional advisers for an understanding of the differences between PRC GAAP and IFRS and/or between PRC GAAP and other generally accepted accounting principles, and how those differences might affect the financial information contained herein.

REVERSAL OF AN IMPAIRMENT LOSS

Under PRC GAAP, once an impairment loss is recognised for a long-term asset (including investment property valued under cost model, long-term equity investments, fixed assets, intangible assets and goodwill, etc.), it shall not be reversed in any subsequent period.

Under IFRS, an impairment loss recognised in prior periods for an asset other than goodwill could be reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The increased carrying amount due to reversal should not be more than what the depreciated historical cost would have been if the impairment had not been recognised.

FIXED ASSETS AND INTANGIBLE ASSETS

Under PRC GAAP, only the cost model is allowed. Under IFRS, an entity can choose either the cost model or the revaluation model as its accounting policy.

SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with the Managers with effect from 20 October 2021 (the “**Subscription Agreement**”), pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to issue, and the Managers have agreed to severally, but not jointly, subscribe and pay for, or to procure subscribers to subscribe and pay for, the aggregate principal amount of the Bonds set forth opposite its name below:

Managers	Principal amount of the Bonds to be subscribed
	<i>U.S.\$</i>
Guotai Junan Securities (Hong Kong) Limited	40,000,000
China International Capital Corporation Hong Kong Securities Limited	40,000,000
Zhongtai International Securities Limited	40,000,000
Industrial and Commercial Bank of China (Asia) Limited	22,500,000
China Construction Bank (Asia) Corporation Limited	22,500,000
Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch	22,500,000
China Minsheng Banking Corp., Ltd., Hong Kong Branch	22,500,000
ICBC International Securities Limited	7,500,000
Bank of China Limited	7,500,000
CMB Wing Lung Bank Limited	7,500,000
Industrial Bank Co., Ltd. Hong Kong Branch	7,500,000
CCB International Capital Limited	7,500,000
TFI Securities and Futures Limited	7,500,000
CMBC Securities Company Limited	7,500,000
China Everbright Bank Co., Ltd., Hong Kong Branch	7,500,000
Haitong International Securities Company Limited	7,500,000
CSFG International Securities Limited	7,500,000
Shenwan Hongyuan Securities (H.K.) Limited	7,500,000
China Industrial Securities International Brokerage Limited	7,500,000
Total	300,000,000

The Subscription Agreement provides that the Issuer and the Guarantor will jointly and severally indemnify the Managers against certain liabilities in connection with the offer and sale of the Bonds. The Subscription Agreement provides that the obligations of the Managers are subject to certain conditions precedent and entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Managers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities (“**Banking Services or Transactions**”). The Managers and their respective affiliates may have, from time to time, performed, and may in the future perform, various Banking Services or Transactions with the Issuer and the Guarantor for which they have received, or will receive, fees and expenses.

In connection with the Offering of the Bonds, the Managers and/or their respective affiliates, or affiliates of the Issuer or the Guarantor, may place orders, receive allocations and purchase the Bonds for their own account (without a view to distributing such Bonds). Such entities may hold or sell such Bonds or purchase further Bonds for their own account in the secondary market or deal in any other securities of the Issuer or the Guarantor, and therefore, they may offer or sell the Bonds or other securities otherwise than in connection with the offering. Accordingly, references herein to the Bonds being “offered” should be read as including any offering of the Bonds to the Managers and/or their respective affiliates or affiliates of the Issuer or the Guarantor, for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. Furthermore, it is possible that only a limited number of investors may subscribe for a significant proportion of the Bonds. If this is the case, liquidity of trading in the Bonds

may be constrained (see “*Risk Factors – Risks Relating to the Bonds and the Guarantee – The liquidity and price of the Bonds following this offering may be volatile*”). The Issuer, the Guarantor and the Managers are under no obligation to disclose the extent of the distribution of the Bonds amongst individual investors.

In the ordinary course of their various business activities, the Managers and their respective affiliates make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer and/or the Guarantor, including the Bonds and could adversely affect the trading prices of the Bonds. The Managers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Bonds or other financial instruments of the Issuer or the Guarantor and may recommend to their clients that they acquire long and/or short positions in the Bonds or other financial instruments.

In connection with the issue of the Bonds, any of the Managers appointed or acting as Stabilisation Manager or any person acting on behalf of the Stabilisation Manager may, subject to all applicable laws, over-allot the Bonds or effect transactions with a view to supporting the market price(s) of the Bonds at a level above that which might otherwise prevail, but in so doing, the Stabilisation Manager or any person acting on behalf of the Stabilisation Managers shall act as principal and not as agent of the Issuer. However, there can be no assurance that the Stabilisation Manager or any person acting on behalf of the Stabilisation Manager will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of allotment of the Bonds. Such stabilisation shall be in compliance with all applicable laws, regulations and rules. Any loss or profit sustained as a consequence of any such over-allotment or stabilisation shall be for the account of the Managers.

GENERAL

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds are subject to restrictions and may not be made except pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantor or the Managers that would, or is intended to permit a public offering, or any other offering under circumstances not permitted by applicable law, of the Bonds, or possession or distribution of this Offering Circular, any amendment or supplement thereto issued in connection with the proposed resale of the Bonds or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. Accordingly, the Bonds may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Bonds may be distributed or published, by the Issuer, the Guarantor or the Managers, in or from any country or jurisdiction, except in circumstances which will result in compliance with all applicable rules and regulations of any such country or jurisdiction and will not impose any obligations on the Issuer, the Guarantor or the Managers. Persons into whose hands this Offering Circular comes are required by the Issuer, the Guarantor and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver the Bonds or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Bonds, in all cases at their own expense.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Managers or any of their respective affiliates is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Managers or such affiliate on behalf of the Issuer in such jurisdiction.

UNITED STATES

The Bonds and the Guarantee have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Bonds and the

Guarantee are being offered and sold outside of the United States in reliance on Regulation S. In addition, until 40 days after the commencement of the offering of the Bonds and the Guarantee, an offer or sale of the Bonds or the Guarantee within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

UNITED KINGDOM

Each of the Managers has represented, warranted and agreed that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

BRITISH VIRGIN ISLANDS

Each of the Managers has represented, warranted and agreed that no invitation whether directly or indirectly has been or may be made to the public in the British Virgin Islands or any natural person resident or citizen in the British Virgin Islands to subscribe for or purchase any of the Bonds. This Offering Circular does not constitute, and will not be, an offering of the Bonds to any person in the British Virgin Islands to subscribe for or purchase any of the Bonds and the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the British Virgin Islands as otherwise permitted by British Virgin Islands laws.

HONG KONG

Each of the Managers has represented, warranted and agreed that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than:
 - (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”) and any rules made under the SFO; or
 - (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “C(WUMP)O”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (iii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

SINGAPORE

Each of the Managers has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the Managers has represented, warranted and agreed that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as

defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interests (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are “prescribed capital markets products” (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

THE PRC

Each of the Managers has represented, warranted and agreed that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the People's Republic of China.

JAPAN

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “**Financial Instruments and Exchange Act**”). Accordingly, each Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

GENERAL INFORMATION

CLEARING SYSTEM AND SETTLEMENT

The Bonds have been accepted for clearance through Euroclear and Clearstream under Common Code number 239395716 and the International Securities Identification Number for the Bonds is XS2393957167.

LISTING OF BONDS

Application will be made to the Hong Kong Stock Exchange for the listing of the Bonds by way of debt issues to Professional Investors only and such permission is expected to become effective on or about 28 October 2021.

AUTHORISATIONS

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of its obligations under the Bonds, the Trust Deed and the Agency Agreement. The issue of the Bonds was authorised by written resolutions of the board of directors of the Issuer dated 20 September 2021. The Guarantor has obtained all necessary consents, approvals and authorisations in connection with the giving of the Guarantee and performance of its obligations under the Deed of Guarantee, the Trust Deed and the Agency Agreement. The giving of the Guarantee was authorised by resolutions of the board of directors of the Guarantor dated 31 March 2021.

LITIGATION

Except as otherwise disclosed in this Offering Circular, none of the Issuer, the Guarantor or any member of the Group was involved in any litigation or arbitration proceedings as at the date of this Offering Circular which could have a material adverse effect on the Group's business, results of operations and financial condition nor is the Issuer or the Guarantor aware that any such proceedings were pending or threatened as at the date of this Offering Circular. Each of the Issuer and the Guarantor may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of its business.

NO MATERIAL ADVERSE CHANGE

Except as disclosed in this Offering Circular, there has been no material adverse change, or any development or event involving a prospective change, in the condition (financial or otherwise), prospects, results of operations or general affairs of the Issuer, the Guarantor or the Group, which is material and adverse in the context of the issue and offering of the Bonds since 30 June 2021.

DOCUMENTS AVAILABLE

So long as any of the Bonds is outstanding, copies of the following documents will be available for inspection at all reasonable times during usual business hours (being between 9.00 a.m. (Hong Kong time) and 3.00 p.m. (Hong Kong time), from Monday to Friday (excluding public holidays)) at the specified office of the Principal Paying Agent (being as at the date of issue of the Bonds at 20/F, CCB Tower, 3 Connaught Road Central, Central, Hong Kong) following prior written request and proof of holding and identity to the satisfaction of the Principal Paying Agent:

- (i) (if the same have been provided to the Principal Paying Agent) copies of the Historical Financial Statements;
- (ii) the Trust Deed;
- (iii) the Agency Agreement; and
- (iv) the Deed of Guarantee.

FINANCIAL STATEMENTS

The consolidated financial information of the Group as at and for the year ended 31 December 2018 has been extracted from the 2019 Audited Financial Statements, which have been audited by Daxin. The consolidated financial information of the Group as at and for the years ended 31 December 2019 and 2020 has been extracted from the 2020 Audited Financial Statements, which have been audited by Daxin. The Audited Financial Statements which are included elsewhere in this Offering Circular were prepared and presented in accordance with PRC GAAP.

The unaudited but reviewed consolidated interim financial information of the Guarantor as at and for the six months ended 30 June 2020 and 2021 has been derived from the Reviewed Financial Statements, which are included elsewhere in this Offering Circular, and which has been reviewed by Daxin. The Reviewed Financial Statements which are included elsewhere in this Offering Circular were prepared and presented in accordance with PRC GAAP.

LEGAL ENTITY IDENTIFIER

The Issuer's Legal Entity Identifier number is 655600GN5O5WU42UTQ39.

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**HUALU HOLDINGS
CO.,LTD.**

Auditors' Review Report

DAXIN YUE ZI [2021] No. 3-00019

WUYIGE CERTIFIED PUBLIC ACCOUNTANTS LLP.



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Auditors' Review Report

DAXIN YUE ZI [2021] No. 3-00019

To HUALU HOLDINGS CO.,LTD.:

We have reviewed the accompanying HUALU HOLDINGS CO.,LTD. (hereinafter referred to as the 'Company') financial statements, which comprise the consolidated and the Company's balance sheets as at June 30, 2021, the consolidated and the Company's statements of income, the consolidated and the Company's statements of cash flows and the consolidated and the Company's statements of changes in equity for the period from Jan to June, and notes to the financial statements. The preparation of these financial statements is the responsibility of your company's management. It is our responsibility to issue a review report on these financial statements based on the review work carried out.

We conducted our review in accordance with the Review Standard for Chinese Certified Public Accountants No. 2101 Review of Financial Statements. The standard requires us to plan and implement review work to obtain limited assurance on whether there are no material misstatements in the financial statements. The review is mainly limited to inquiring the relevant personnel of the company and the implementation of analysis procedures on the financial data, and the degree of assurance provided is lower than that of the audit. We have not conducted an audit and therefore do not issue an audit opinion.

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According to our review, we have not noticed anything that makes us believe that the financial statements were not prepared in accordance with the Accounting Standards for Business Enterprises and failed to fairly reflect the financial position of the Company as at June 30, 2021, and of its financial performance and cash flows for the period from Jan to June.

WUYIGE CERTIFIED PUBLIC ACCOUNTANTS LLP.

Certified Public Accountant of China

(Engagement partner)

Certified Public Accountant of China

Beijing • China

Date: September 28, 2021



Consolidated Balance Sheet

Prepared by: HUALU HOLDINGS CO.,LTD.

30/06/2021

Unit: RMB Yuan

Item	Note	As at 30/6/2021	As at 31/12/2020
Current assets:			
Cash at bank and on hand		3,700,679,355.29	4,755,545,903.13
Financial assets held for trading		1,842,984,592.90	1,087,556,502.10
Derivative financial assets			
Notes receivable			
Accounts receivable		1,429,923,753.46	997,353,889.09
Receivables for financing		2,995,961,499.77	904,883,563.66
Prepayments		420,531,434.16	334,345,907.46
Other receivables		150,598,382.96	130,577,346.44
Including: Interest receivable		8,302,818.33	3,227,087.50
Dividends receivable			
Inventories		2,711,209,537.75	2,406,597,429.24
Contract assets		211,479,100.28	204,654,645.91
Held-for-sale assets			
Non-current assets due within one year		65,452,223.51	87,605,581.71
Other current assets		198,223,274.01	395,906,289.85
Total current assets		13,727,043,154.09	11,305,027,058.59
Non-current assets:			
Debt investments		440,596,856.65	318,262,459.65
Other debt investments			
Long-term receivables		189,143,011.95	197,507,187.43
Long-term equity investments		90,280,962.54	46,242,862.54
Other equity instrument investments		1,581,477,225.42	1,620,175,161.42
Other non-current financial assets			
Investment property		388,590,035.75	396,061,932.17
Fixed assets		18,977,053,266.01	18,174,635,357.31
Construction in process		4,453,344,937.64	4,160,612,864.48
Productive biological assets			
Oil and gas assets			
Right-of-use assets		4,742,873.23	4,549,357.11
Intangible assets		2,348,187,990.67	2,144,926,869.37
Development expenditures		192,459,534.07	179,052,332.02
Goodwill			
Long-term deferred expenses		88,837,053.43	89,893,866.07
Deferred tax assets		189,036,872.68	207,885,399.81
Other non-current assets		1,826,458,874.08	1,401,165,449.66
Total non-current assets		30,770,209,494.12	28,940,971,099.04
Total of assets		44,497,252,648.21	40,245,998,157.63

Legal representative: Legal: Person in charge of accounting function: Person in charge of accounting department:

Consolidated Balance Sheet (Continued)

Prepared by: HUALU HOLDINGS CO.,LTD.

30/06/2021

Unit: RMB Yuan

Item	Note	As at 30/6/2021	As at 31/12/2020
Current liabilities:			
Short-term loans		1,465,910,488.21	1,946,822,111.67
Financial liabilities held for trading			
Derivative financial liabilities			
Notes payable		720,951,129.82	685,727,255.33
Accounts payable		3,500,531,451.07	3,035,457,148.84
Advances from customers			
Contract liabilities		819,310,244.62	1,112,240,044.50
Employee benefits payable		345,881,408.48	308,290,838.44
Taxes and surcharges payable		497,659,659.57	263,500,317.13
Other payables		985,863,424.32	967,598,307.26
Including: Interest payable		5,845,936.45	25,108,966.47
Dividends payable		101,096,622.07	6,991,505.02
Held-for-sale liabilities			
Non-current liabilities due within one year		1,357,406,547.63	1,323,656,142.83
Other current liabilities		581,650,512.92	2,148,864,349.98
Total current liabilities		10,275,164,866.64	11,792,156,515.98
Non-current liabilities:			
Long-term loans		3,228,176,100.99	2,102,469,075.12
Bonds payable		2,000,000,000.00	1,000,000,000.00
Including: Preference shares			
Perpetual loans			
Lease liabilities		2,486,715.31	1,762,899.65
Other long-term payables		168,128,764.62	189,428,284.50
Long-term employee benefits payable			
Provisions		49,809,931.20	52,608,370.45
Deferred income		331,800,191.94	331,103,649.82
Deferred tax liabilities		115,011,677.49	108,623,994.04
Other non-current liabilities		3,561,500.00	3,561,500.00
Total non-current liabilities		5,898,974,881.55	3,789,557,773.58
Total liabilities		16,174,139,748.19	15,581,714,289.56
Shareholders' equity:			
Share capital		3,103,000,000.00	3,103,000,000.00
Other equity instruments			
Including: Preference shares			
Perpetual loans			
Capital reserve		1,142,572,768.17	1,142,572,768.17
Less: treasury shares			
Other comprehensive income		46,059,056.49	58,309,482.31
Special reserve		3,430,545.80	2,832,008.45
Surplus reserve		34,432,803.61	34,432,803.61
Retained earnings		6,058,211,506.10	4,775,578,291.29
Equity attributable to parent company		10,387,706,680.17	9,116,725,353.83
Minority interests		17,935,406,219.85	15,547,558,514.24
Total equity		28,323,112,900.02	24,664,283,868.07
Total liabilities and equity		44,497,252,648.21	40,245,998,157.63

Legal representative Legal:

Person in charge of accounting function:

Person in charge of accounting department:

Balance Sheet

Prepared by: HUALU HOLDINGS CO.,LTD.

30/06/2021

Unit: RMB Yuan

Item	Note	As at 30/6/2021	As at 31/12/2020
Current assets:			
Cash at bank and on hand		263,303,607.13	698,994,548.44
Financial assets held for trading		250,000,000.00	250,000,000.00
Derivative financial assets			
Notes receivable			
Accounts receivable			
Receivables for financing			
Prepayments			
Other receivables		404,263,109.03	1,304,256,512.13
Including: Interest receivable			
Dividends receivable			
Inventories			
Contract assets			
Held-for-sale assets			
Non-current assets due within one year			
Other current assets		984,603.34	1,118,503.67
Total current assets		918,551,319.50	2,254,369,564.24
Non-current assets:			
Debt investments			
Other debt investments			
Long-term receivables		2,000,000,000.00	1,130,000,000.00
Long-term equity investments		2,167,007,099.93	2,167,007,099.93
Other equity instrument investments		1,312,153,145.42	1,312,153,145.42
Other non-current financial assets			
Investment property			
Fixed assets		23,538,997.73	23,401,000.99
Construction in process			
Productive biological assets			
Oil and gas assets			
Right-of-use assets			
Intangible assets		3,192,114.31	3,335,050.93
Development expenditures			
Goodwill			
Long-term deferred expenses		13,536,585.37	13,536,585.37
Deferred tax assets			
Other non-current assets			
Total non-current assets		5,519,427,942.76	4,649,432,882.64
Total of assets		6,437,979,262.26	6,903,802,446.88

Legal representative: Person in charge of accounting function: Person in charge of accounting department:

Balance Sheet (Continued)

Prepared by: HUALU HOLDINGS CO.,LTD.

30/06/2021

Unit: RMB Yuan

Item	Note	As at 30/6/2021	As at 31/12/2020
Current liabilities:			
Short-term loans			
Financial liabilities held for trading			
Derivative financial liabilities			
Notes payable			
Accounts payable		1,625,770.74	1,625,770.74
Advances from customers			
Contract liabilities			
Employee benefits payable		35,891,120.43	35,640,102.93
Taxes and surcharges payable		328,189.16	887,646.11
Other payables		90,332,628.61	81,491,630.73
Including: Interest payable			
Dividends payable			
Held-for-sale liabilities			
Non-current liabilities due within one year			
Other current liabilities		500,000,000.00	2,100,000,000.00
Total current liabilities		628,177,708.94	2,219,645,150.51
Non-current liabilities:			
Long-term loans		150,000,000.00	130,000,000.00
Bonds payable		2,000,000,000.00	1,000,000,000.00
Including: Preference shares			
Perpetual loans			
Lease liabilities			
Other long-term payables		600,000.00	600,000.00
Long-term employee benefits payable			
Provisions		20,750,786.02	20,750,786.02
Deferred income		33,120.00	33,120.00
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities		2,171,383,906.02	1,151,383,906.02
Total liabilities		2,799,561,614.96	3,371,029,056.53
Shareholders' equity:			
Share capital		3,103,000,000.00	3,103,000,000.00
Other equity instruments			
Including: Preference shares			
Perpetual loans			
Capital reserve		237,000,000.00	237,000,000.00
Less: treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve		46,624,289.04	46,624,289.04
Retained earnings		251,793,358.26	146,149,101.31
Total equity		3,638,417,647.30	3,532,773,390.35
Total liabilities and equity		6,437,979,262.26	6,903,802,446.88

Legal representative: Person in charge of accounting function: Person in charge of accounting department:

Consolidated Statement of Income

Prepared by: HUALU HOLDINGS CO.,LTD.

For the period from 1/1/2021 to 30/6/2021

Unit: RMB Yuan

Item	Note	Period from 1/1/2021 to 30/6/2021	Period from 1/1/2020 to 30/6/2020
1. Operating income		18,178,538,174.82	11,607,060,083.93
Less: Operating costs		11,634,410,147.07	8,893,737,362.67
Taxes and surcharges		102,343,117.01	103,166,434.69
Selling and distribution expenses		628,867,005.34	567,224,415.66
General and administrative expenses		425,225,058.26	346,031,194.16
Research and development expenses		426,254,669.14	380,836,304.05
Finance expenses		111,145,929.39	116,010,231.40
Including: Interest expenses		131,399,473.94	138,194,432.58
Interest income		30,964,799.97	23,848,462.93
Add: Other income		28,751,602.95	44,016,552.39
Investment income ("-" for loss)		27,721,572.78	40,844,843.75
Including: Investment income from associates and joint ventures		2,439,849.66	-2,245,254.87
Income from derecognition of financial assets measured at amortised cost			
Gains from net position hedging ("-" for loss)			
Gain from fair value changes ("-" for loss)		10,026,839.20	-6,542,153.46
Credit impairment losses ("-" for loss)		-12,516,868.88	
Impairment on assets ("-" for loss)		-47,911,257.15	-5,149,684.53
Gains from disposal of assets ("-" for loss)		-11,593.57	207,360,268.91
2. Operating profits ("-" for loss)		4,856,352,543.94	1,480,583,968.36
Add: Non-operating income		3,997,472.54	12,714,847.32
Less: Non-operating expenses		5,087,815.56	9,700,190.64
3. Profit before tax ("-" for loss)		4,855,262,200.92	1,483,598,625.04
Less: income tax expenses		764,793,425.86	204,492,284.84
4. Net profit ("-" for net loss)		4,090,468,775.06	1,279,106,340.20
Categorized by going concern basis		4,090,468,775.06	1,279,106,340.20
1. Profit or loss from continuing operations		4,090,468,775.06	1,279,106,340.20
2. Profit or loss from discontinued operations			
Categorized by ownership		4,090,468,775.06	1,279,106,340.20
1. Net profit attributable to parent company		1,305,533,214.81	396,754,352.79
2. Profit/loss attributable to minority shareholders		2,784,935,560.25	882,351,987.41
5. Other comprehensive income net of tax		-37,628,799.26	141,846,031.69
Total comprehensive income attributable to parent company		-12,250,425.82	-44,487,051.13
(1) Comprehensive income not to be reclassified to profit or loss		-12,127,269.68	-45,025,867.39
1) Changes in remeasurement of defined benefit obligations			
2) Other comprehensive income not to be reclassified to profit or loss in equity method			
3) Fair value changes in other equity instrument investments		-12,127,269.68	-45,025,867.39
4) Fair value changes in the enterprise's own credit risk			
(2) Comprehensive income to be reclassified to profit or loss		-123,156.14	538,816.26
1) Other comprehensive income to be reclassified to profit or loss in equity method			
2) Gain or loss from fair value changes of other debt instruments			
3) The amount of financial assets reclassified to other comprehensive income			
4) Credit impairment provision of other debt investment			
5) Cash flow hedging reserve			
6) Currency translation difference		-123,156.14	538,816.26
7) Others			
Other comprehensive income attributable to minority share-holders, net of tax		-25,378,373.44	186,333,082.82
6. Total comprehensive income		4,052,839,975.80	1,420,952,371.89
(1) Total comprehensive income attributable to parent company		1,293,282,788.99	352,267,301.66
(2) Total comprehensive income attributable to minority shareholders		2,759,557,186.81	1,068,685,070.23
7. Earnings per share			
(1) Basic earnings per share			
(2) Diluted earnings per share			

The net profit of acquiree from January 1, 2019 to the acquisition date and in the whole last year is RMB XX and RMB XX respectively for the business combination under common control occurred in year 2019.

Legal representative:

Person in charge of accounting function:

Person in charge of accounting department:

Statement of Income

Prepared by: HUALU HOLDINGS CO.,LTD.

For the period from 1/1/2021 to 30/6/2022

Unit: RMB Yuan

Item	Note	Period from 1/1/2021 to 30/6/2021	Period from 1/1/2020 to 30/6/2020
1. Operating income		5,575,892.40	9,869,490.31
Less: Operating costs		62,500.00	566,037.74
Taxes and surcharges		406,256.09	380,699.28
Selling and distribution expenses			
General and administrative expenses		27,018,365.72	20,878,123.60
Research and development expenses			
Finance expenses		5,147,647.47	3,094,514.93
Including: Interest expenses		8,362,575.36	4,926,465.77
Interest income		9,294,962.98	1,838,637.67
Add: Other income		22,454.99	214,563.58
Investment income ("-" for loss)		156,000,000.00	15,906,834.00
Including: Investment income from associates and joint ventures			
Income from derecognition of financial assets measured at amortised cost			
Gains from net position hedging ("-" for loss)			
Gain from fair value changes ("-" for loss)			
Credit impairment losses ("-" for loss)			
Impairment on assets			
Gains from disposal of assets ("-" for loss)			37,040.89
2. Operating profits ("-" for loss)		128,963,578.11	1,108,553.23
Add: Non-operating income		876,700.00	280.00
Less: Non-operating expenses		1,296,021.16	-160,550.46
3. Profit before tax ("-" for loss)		128,544,256.95	1,269,383.69
Less: income tax expenses			
4. Net profit ("-" for net loss)		128,544,256.95	1,269,383.69
Profit or loss from continuing operations ("-" for loss)		128,544,256.95	1,269,383.69
Profit or loss from discontinued operations ("-" for loss)			
5. Other comprehensive income net of tax			
(1) Comprehensive income not to be reclassified to profit or loss			
1) Changes in remeasurement of defined benefit obligations			
2) Other comprehensive income not to be reclassified to profit or loss in equity method			
3) Fair value changes in other equity instrument investments			
4) Fair value changes in the enterprise's own credit risk			
(2) Comprehensive income to be reclassified to profit or loss			
1) Other comprehensive income to be reclassified to profit or loss in equity method			
2) Gain or loss from fair value changes of other debt instruments			
3) The amount of financial assets reclassified to other comprehensive income			
4) Credit impairment provision of other debt investment			
5) Cash flow hedging reserve			
6) Currency translation difference			
7) Others			
6. Total comprehensive income		128,544,256.95	1,269,383.69
7. Earnings per share			
(1) Basic earnings per share			
(2) Diluted earnings per share			

Legal representative: Person in charge of accounting function: Person in charge of accounting department:

Consolidated Statement of Cash Flows

Prepared by: HUALU HOLDINGS CO.,LTD.

For the period from 1/1/2021 to 30/6/2

Unit: RMB Yuan

Item	Note	Period from 1/1/2021 to 30/6/2021	Period from 1/1/2020 to 30/6/2020
1. Cash flows from operating activities			
Cash received from sales and services		13,870,449,023.27	11,276,242,655.95
Taxes and surcharges refunds		170,772,238.30	96,226,222.42
Cash received related to other operating activities		1,064,022,907.77	301,158,906.75
Total cash inflows from operating activities		15,105,244,169.34	11,673,627,785.12
Cash paid for goods and services		8,794,532,104.79	7,131,760,373.80
Cash paid to and for employees		1,302,854,477.40	1,074,022,252.16
Taxes and surcharges cash payments		1,073,820,886.18	683,374,011.55
Cash paid related to other operating activities		1,527,520,490.25	1,050,457,860.30
Total cash outflows from operating activities		12,698,727,958.62	9,939,614,497.81
Net cash flows from operating activities		2,406,516,210.72	1,734,013,287.31
2. Cash flows from investing activities:			
Cash received from withdraw of investments		2,775,679,437.67	2,446,522,194.18
Cash received from investment income		29,316,749.23	37,764,069.09
Net cash received from disposal of\property, plant and equipment,intangible assets and other long-term assets		140,859.99	20,694,763.09
Net cash received from disposal of subsidiaries and other business units			
Cash received related to other investing activities		9,221,864.98	141,633,948.25
Total cash inflows from investing activities		2,814,358,911.87	2,646,614,974.61
Cash paid for property, plant and equipment,intangible assets and other long-term assets		2,029,690,079.64	1,277,142,251.08
Cash payments for investments		2,054,491,473.16	2,421,302,042.15
Net cash paid for acquiring subsidiaries and other business units			
Cash paid related to other investing activities		1,626,143,956.19	20,759,780.37
Total cash outflows from investing activities		5,710,325,508.99	3,719,204,073.60
Net cash flows from investing activities		-2,895,966,597.12	-1,072,589,098.99
3. Cash flows from financing activities:			
Cash received from investments by others		30,121,280.00	
Including: cash received by subsidiaries from minority shareholders' investments			
Cash received from borrowings		4,308,036,125.03	2,243,566,300.00
Cash received related to other financing activities		2,694,079,452.05	626,005,000.00
Total cash inflows from financing activities		7,032,236,857.08	2,869,571,300.00
Cash repayments for debts		3,003,375,354.76	2,573,040,149.47
Cash payments for distribution of dividends, profit and interest expenses		511,492,084.42	591,370,839.84
Including: dividends or profit paid by subsidiaries to minority shareholders			400,327,340.87
Cash paid related to other financing activities		4,005,563,676.73	51,474,763.35
Total cash outflows from financing activities		7,520,431,115.91	3,215,885,752.66
Net cash flows from financing activities		-488,194,258.83	-346,314,452.66
4. Effect of foreign exchange rate changes on cash and cash equivalents		-2,449,267.15	2,001,447.78
5. Net increase in cash and cash equivalents		-980,093,912.38	317,111,183.44
Add: beginning balance of cash and cash equivalents		4,399,892,535.05	3,298,408,595.78
6. Ending balance of cash and cash equivalents		3,419,798,622.67	3,615,519,779.22

Legal representative:

Person in charge of accounting function:

Person in charge of accounting department:

Statement of Cash Flows

Prepared by: HUALU HOLDINGS CO.,LTD.

For the period from 1/1/2021 to 30/6/2021

Unit: RMB Yuan

Item	Note	Period from 1/1/2021 to 30/6/2021	Period from 1/1/2020 to 30/6/2020
1. Cash flows from operating activities			
Cash received from sales and services		5,663,804.00	5,238,800.00
Taxes and surcharges refunds			
Cash received related to other operating activities		753,864,547.31	15,621,352.23
Total cash inflows from operating activities		759,528,351.31	20,860,152.23
Cash paid for goods and services		463,386.83	2,495,329.68
Cash paid to and for employees		15,061,675.31	13,898,698.50
Taxes and surcharges cash payments		1,761,389.07	1,198,065.87
Cash paid related to other operating activities		696,428,252.38	25,757,770.26
Total cash outflows from operating activities		713,714,703.59	43,349,864.31
Net cash flows from operating activities		45,813,647.72	-22,489,712.08
2. Cash flows from investing activities:			
Cash received from withdraw of investments			
Cash received from investment income		156,000,000.00	15,906,834.00
Net cash received from disposal of \property, plant and equipment,intangible assets and other long-term assets			81,847.00
Net cash received from disposal of subsidiaries and other business units			
Cash received related to other investing activities			269.60
Total cash inflows from investing activities		156,000,000.00	15,988,950.60
Cash paid for property, plant and equipment,intangible assets and other long-term assets			501,427.00
Cash payments for investments			
Net cash paid for acquiring subsidiaries and other business units			
Cash paid related to other investing activities			
Total cash outflows from investing activities			501,427.00
Net cash flows from investing activities		156,000,000.00	15,487,523.60
3. Cash flows from financing activities:			
Cash received from investments by others			
Cash received from borrowings		1,020,000,000.00	
Cash received related to other financing activities		4,014,079,452.05	
Total cash inflows from financing activities		5,034,079,452.05	
Cash repayments for debts		301,134,446.58	600,000.00
Cash payments for distribution of dividends, profit and interest expenses		52,600,000.00	78,820,000.00
Cash paid related to other financing activities		5,317,849,594.49	
Total cash outflows from financing activities		5,671,584,041.07	79,420,000.00
Net cash flows from financing activities		-637,504,589.02	-79,420,000.00
4. Effect of foreign exchange rate changes on cash and cash equivalents			
5. Net increase in cash and cash equivalents		-435,690,941.30	-86,422,188.48
Add: beginning balance of cash and cash equivalents		948,994,548.44	204,226,193.68
6. Ending balance of cash and cash equivalents		513,303,607.14	117,804,005.20

Legal representative:

Person in charge of accounting function:

Person in charge of accounting department:

HUALU HOLDINGS CO.,LTD.

Notes to the Financial Statements

(All amounts in Chinese Renminbi Yuan unless otherwise stated)

1. Company profile

1.1 The Company's registered place, organization structure and the address of head quarter.

HUALU HOLDINGS CO.,LTD. (hereinafter referred to as "the company" or "company") was established on January 28, 2005, the company's unified social credit code is 913700007710397120; registered capital of RMB is 3,103 million; legal representative: Fan Jun; enterprise Address: 22nd Floor, Block A, Huachuang Guanli Center, No. 219, Shunhai Road, Lixia District, Jinan City, Shandong Province.

1.2 The Company's business nature and main operation activities, like its industry, primary product or service, customers' nature, trading strategy and supervisory environment etc.

The company belongs to the commercial service industry, and its main service is to invest in the chemical, pharmaceutical and environmental protection industries (industry) with its own funds; Management operation and consulting. (Projects that are subject to approval in accordance with the law can be operated only after being approved by relevant departments).

1.3 Name of parent company and group headquarters

The parent company is HUALU HOLDINGS CO.,LTD., the actual controller of the company is the State-owned Assets Supervision and Administration Commission of Shandong Provincial People's Government.

2. Basis of preparation of financial statements

On the basis of going concern and transactions and events actually occurred, the Company prepares its financial statements with the following accounting policies and accounting estimates in accordance with the Accounting Standards for Business Enterprises – basic Standards, specific accounting standards and other relevant provisions (hereinafter collectively known as "Accounting Standards for Business Enterprises" or "CAS")

3. Declaration on compliance with the Accounting Standards for Business Enterprises

The financial statements have been prepared in compliance with the Accounting Standards for Business Enterprises to truly and completely reflect the Company's financial position as of 30 June 2021 and its operating results, cash flows and other relevant information for the period ended 30 June 2021.

4. Significant accounting policies and accounting estimates

4.1 Accounting period

The financial year of the Company is from January 1 to December 31 of each calendar year.

4.2 Operating cycle

The Company's operating cycle is 12 months in each calendar year and it classifies the assets and liabilities' liquidity by operating cycle.

4.3 Functional currency

The Company's functional currency is Chinese Renminbi (hereafter referred to as "RMB").

4.4 Business combination

4.4.1 Business combinations involving enterprises under common control

In a business combination involving enterprises under common control, if the acquirer pays for the business combination in cash, by transferring of non-cash assets or assuming liabilities, the initial investment cost is the holding share of the acquiree's equity in the ultimate controlling party's consolidated financial statements measured at the carrying amounts at the acquisition date. If the acquirer issues equity instruments for the business combination, the acquirer measures the share capital by the par value of the shares issued. The difference between the original investment cost and the carrying amount (or the total par value of shares issued) will be adjusted to the capital reserve. If the capital reserve is insufficient to absorb the difference, the remaining amount shall be deducted from the retained earnings.

4.4.2 Business combinations involving enterprises not under common control

In a business combination involving enterprises not under common control, the combination costs are the aggregate of the fair values of the assets paid, the liabilities incurred or assumed and the equity instruments issued by the acquirer in exchange for control over the acquiree at the acquisition

date. At the acquisition date, the acquired assets, liabilities and contingent liabilities of the acquiree that meet the recognition criteria are measured at their fair value. The Company recognises the difference of the combination costs in excess of its interest portion in the fair value of the net identifiable assets acquired from the acquiree as goodwill. The Company recognises the difference of the combination costs less than its interest portion in the fair value of the net identifiable assets acquired from the acquiree in the non-operating income for current period after reassessment.

4.5 Preparation of consolidated financial statements

4.5.1 The scope of consolidated financial statements

The Company incorporates all its subsidiaries (including individual entities under its control) into the scope of the consolidated financial statements, including the enterprises controlled by the Company, divisible part in the investees and structured entities.

4.5.2 The elimination in the preparation of consolidated financial statements

The consolidated financial statements are prepared based on the individual financial statements of the Company and its subsidiaries, after elimination of the transactions incurred among the Company and the subsidiaries. The portion of a subsidiary's equity that is not attributable to the Company is treated as minority interests and presented in the consolidated balance sheet within equity. The equity investment of the Company held by one subsidiary is treated as the Company's treasury shares and a deduction of the shareholders' equity which is presented as "less: treasury shares" in the consolidated balance sheet within equity.

4.5.3 The accounting treatment for obtaining subsidiaries through a business combination

Where a subsidiary or business has been acquired through a business combination involving enterprises under common control in the reporting period, the obtained subsidiary or business is deemed to be included in the consolidated financial statements from the date they are controlled by the ultimate controlling party. Their assets, liabilities, operating results and cash flows are included in the consolidated financial statements from the beginning of the accounting period in which the acquisition occurred. Where a subsidiary or business has been acquired through a business combination not involving enterprises under common control, their individual financial statements are adjusted based on the fair value of identifiable net assets at the acquisition date when preparing the consolidated financial statements.

4.5.4 The accounting treatment for disposal of equity investment in a subsidiary

In the consolidated financial statements, when the Company partly disposes its investment in a subsidiary without losing its control on the subsidiary, the difference between the consideration received and its corresponding portion of the net asset continually calculated from the purchase date or combination date should be adjusted to the capital reserve and if the capital reserve is insufficient to absorb the difference, the remaining amount will be deducted from the retained earnings.

If the Company loses its control on a investee because of disposing some portion of its equity investment in the investee, when it prepares its consolidated financial statements, the remaining balance of its equity investment will be remeasured at the fair value of the date at which it loses its control. The difference between the sum of the consideration received and the fair value of the remaining equity investment, and its corresponding interest portion of the net asset continually calculated from the purchase date or the combination date should be recorded in the investment income of the current period, and be deducted to goodwill simultaneously. Other comprehensive income (OCI) etc. relating to the investment in the former subsidiary will be transferred to the investment income in the same period in which it loses its control.

4.6 Joint arrangement classification and accounting treatments

4.6.1 The classification of joint arrangement

Joint arrangements are classified as joint operations or joint ventures. A joint arrangement will be classified as joint operation when the joint arrangement achieves not through an individual entity. Individual entity is an entity with individual identifiable finance structure, including single legal entity and entity unqualified as legal entity but qualified as lawful entity. A joint arrangement is usually be classified as joint venture when the joint arrangement achieves through incorporating an individual entity. When changes arising from relevant events or environment cause changes of the cooperative parties' rights and obligations in the joint arrangements, the cooperative parties shall reassess the classification of the joint arrangements.

4.6.2 The accounting treatment of joint operations

The Company acted as a party participating in joint operations, recognises the following items relating to its interests in the joint operations and accounts for them in accordance with related requirements of Accounting Standards for Business Enterprises: (a) Its solely-held assets and

solely-assumed liabilities, and its share of any assets and liabilities held jointly; (b) Its revenue from the sale of its share of the output arising from the joint operation; (c) Its share of the revenue from the sale of the output by the joint operation; (d) Its own expenses and its share of any expenses incurred jointly.

The Company acted as a party involving in joint operations without common control power, accounts for its investments referring to the treatment method of joint operation participants if it is entitled to relevant assets and undertake relevant liabilities of the joint operations, otherwise, it accounts for its investments according to related requirements of Accounting Standards for Business Enterprises.

4.6.3 The accounting treatment of joint ventures

The Company accounts for its investments in accordance with Accounting Standards for Business Enterprises No.2 - Long-term Equity Investment if it is one of the participating parties with common control power in joint ventures. And the Company accounts for its investments according to its influence extent on the joint ventures if it is not one of the participating parties with common control power involved in the joint ventures.

4.7 Cash and cash equivalents

The cash in the Company's statement of cash flows is cash on hand and deposits that can be readily drawn on demand. Cash equivalents in the statement of cash flows are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

4.8 Foreign currency transactions and translation of financial statements denominated in foreign currency

4.8.1 Translation of foreign currency transactions

The Company records foreign currency transactions in RMB for accounting purpose using the spot exchange rate prevailing at the date when the transactions occurs. At the balance sheet date, monetary items denominated in foreign currency are translated to RMB by adopting the prevailing exchange rate on that date. Foreign exchange difference between the prevailing exchange rate on that date and the prevailing exchange rate on initial recognition or on the previous balance sheet date are recognised in profit or loss for the current period, except the foreign exchange arising from

specific loan denominated in foreign currency qualified as capital expenditure and included in the cost of related assets. Non-monetary items denominated in foreign currency that are measured at historical cost are still translated at amount in functional currency exchanged at the prevailing exchange rate at the transaction date. Non-monetary items denominated in foreign currency that are measured at fair value are translated using the exchange rate at the date when fair value was determined and the difference between the translated functional currency amount and the prior translated amount on initial recognition or on the previous balance sheet date are recorded in profit or loss for the current period or other comprehensive income.

4.8.2 The translation of financial statements denominated in foreign currency

If the Company's controlled subsidiaries, joint ventures and associates etc. adopt different reporting currency, their financial statements denominated in foreign currency shall be translated to financial statements in RMB when preparing consolidated financial statements. The assets and liabilities are translated to RMB amounts using the spot exchange rate at the balance sheet date. Items of the equity, except for "retained earnings ", are translated at the spot exchange rate at the dates when such items occurred. The revenue and expenditures in the statement of income are translated using the spot exchange rate at the transaction date. The difference arising from foreign currency financial statements translation is presented in other comprehensive income at the consolidated balance sheet within equity. Items of the statement of cash flows are translated using the spot exchange rate when they incurred. Effect arising from changes of exchange rates on cash and cash equivalents is presented separately in the statement of cash flows. When disposing of foreign operations, exchange differences of foreign currency financial statements attributable to the foreign operations are transferred to profit or loss for the current period entirely or in proportion with the disposal portion of the foreign operations.

4.9 Financial instruments

4.9.1 Classification and reclassification of financial instruments

Financial instruments are the contracts under which the financial assets of an entity are formed and correspondingly the financial liabilities or equity instruments of any other entity are formed.

4.9.1.1 Financial assets

The Company classifies a financial asset as subsequently measured at amortised cost that meets both

of the following conditions:

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

The Company classifies a financial asset as subsequently measured at fair value through other comprehensive income that meets both of the following conditions:

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

The Company may make an irrevocable election at initial recognition to designate non-traded equity instruments as subsequently measured at fair value through other comprehensive income. The designation is made on the basis of single investment which meets the equity instrument definition from the aspect of the issuer.

The Company classifies a financial asset as subsequently measured at fair value through profit or loss unless it is subsequently measured at amortised cost or measured at fair value through other comprehensive income. The Company may make an irrevocable election at initial recognition to designate a financial asset as subsequently measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

When the Company changes its business model for managing financial assets, all affected financial assets are reclassified from the first day of the next subsequent reporting period after the business model changes and the reclassification is applied prospectively from the reclassification date, meaning that any previously recognised gains, losses (including impairment gains or losses) or interest will not be restated.

4.9.1.2 Financial liabilities

Financial liabilities are classified at initial recognition as: a) financial liabilities measured at fair value through profit or loss; b) financial liabilities that arise when transfers of financial assets do not qualify for derecognition or when the continuing involvement approach applies; c) and financial

liabilities as subsequently measured at amortised cost. All financial liabilities are not be reclassified.

4.9.2 Measurement of financial instruments

The Company measures financial instruments at fair value upon their initial recognition. The related transaction fees for the financial assets and financial liabilities subsequently measured at fair value through profit or loss are charged in profit or loss directly. The related transaction fees for other financial assets and financial liabilities are included in their initial costs. The Company measures the accounts receivable and notes receivable deriving from selling goods or providing services at their transaction price if the accounts receivable and notes receivable do not contain a significant financing component or the Company applies the practical expedient not considering the significant financing component. The subsequent measurement of a financial instrument is determined by its classification.

4.9.2.1 Financial assets

A. Financial assets measured at amortised cost

The financial assets are measured subsequently at amortised cost using the effective interest method after initial recognition. The gains or losses calculated by the effective interest method which do not belong to any hedging relationships are recognised in profit or loss when the financial assets are derecognised, reclassified, amortized or impaired.

B. Financial assets measured at fair value through profit or loss

After initial recognition, the financial assets are measured subsequently at fair value except that they belong to any hedging relationships, and any gains or losses including interests and dividends are recognised in profit or loss.

C. Financial assets measured at fair value through other comprehensive income

After initial recognition, the financial assets are measured subsequently at fair value. The interest calculated by the effective interest method, impairment losses or gains and exchange gains or losses are recognised in profit or loss and other gains or losses are recognised in other comprehensive income. The accumulated gains or losses recognised in other comprehensive income will be reclassified in profit or loss upon derecognition of the financial assets.

D. Non-traded equity instruments designated as measured at fair value through other comprehensive income.

After initial recognition, the financial assets are subsequently measured at fair value. Except that dividends (excluding recovery of investment costs) from these equity instruments are recognised in profit or loss, other relevant gains and losses are recognised in other comprehensive income and will not be reclassified to profit or loss subsequently.

4.9.2.2 Financial liabilities

A. Financial liabilities measured at fair value through profit or loss

The category includes financial liabilities held for trading, derivative financial liabilities and financial liabilities designated as measured at fair value through profit or loss. After initial recognition, financial liabilities in this category are measured at fair value and the gains and losses from changes of fair value of financial liabilities held for trading are recognised in profit or loss except those relating to hedging accounting. For financial liabilities designated as measured at fair value through profit or loss, the change of fair value due to the change of the Company's self-credit risk are recognised in other comprehensive income, and other changes of fair value are recognised in profit or loss. If the recognition in other comprehensive income for the change of fair value due to the change of the financial liabilities' self-credit risk will cause or enhance an accounting mismatch in profit or loss, the Company recognises all gains or losses from the financial liabilities in profit or loss.

B. Financial liabilities measured at amortised cost

After initial recognition, financial liabilities in this category are measured at amortised cost using the effective interest method.

4.9.3 Measurement method of financial instruments' fair value

For financial instruments that active markets exist, the Company uses the quoted prices in the active markets to determine their fair value. If there is no active market for the financial instruments, the Company uses valuation techniques to determine their fair value. The valuation techniques mainly include market approach, income approach and cost approach. In limited conditions, if there is no sufficient updated information to determine the fair value, or the range of estimated fair value is so wide that the cost indicates the best estimate of the fair value, the cost may represent the appropriate estimate of the fair value within the distribution range. The Company makes use of all available information concerning the investee's business performance and operation to determine if the cost

may represent its fair value.

4.9.4 The recognition basis and measurement approach for transfer of financial assets and liabilities

4.9.4.1 Financial assets

A financial asset of the Company is derecognised when it meets one of the following conditions: a) the contractual rights to the cash flows from the financial asset expire, or b) the financial asset has been transferred and the Company transfers substantially all the risks and rewards of ownership of the financial asset; c) the financial asset has been transferred, although the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it has not retained control.

If the Company neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, and has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset, and recognises related financial liabilities correspondingly.

On derecognition of a financial asset in its entirety, the difference between the following two items is recognised in profit or loss:

- (a) the carrying amount measured at the date of derecognition and
- (b) the sum of the consideration received and the accumulated change amount of fair value recognised directly in other comprehensive income for the corresponding derecognition financial asset (relating to a financial asset measured at fair value through other comprehensive income) .

If a financial asset is partly transferred, the entire carrying amount of the financial asset is split into the derecognised part and retained part according to their respective fair value at the derecognition date, and the difference between the following two items is recognised in profit or loss:

- a) the carrying amount measured at the date of derecognition which is allocated to the derecognized part; and
- (b) the sum of the consideration received for the derecognised part and the accumulated change amount of fair value which has been recognised in other comprehensive income belonging to the corresponding derecognised part (relating to a financial asset measured at fair value through other comprehensive income).

4.9.4.2 Financial liabilities

When the present obligation specified in the contract is extinguished, the Company derecognises a financial liability (or a part of a financial liability).

When a financial liability (or a part of a financial liability) is derecognised, the Company recognises the difference between the carrying amount of the financial liability (or a part of the financial liability) and the consideration paid (including any non-cash assets transferred or liabilities assumed) in profit or loss.

4.10 The approach and accounting treatment of expected credit losses (ECL)

4.10.1 The approach of expected credit losses

The Company recognises loss allowance based on ECL on financial assets that are measured at amortized cost (including accounts receivable), financial assets measured at fair value through other comprehensive income (including receivables for financing), lease receivables, and contract assets,.

The Company assesses whether the credit risk on financial instruments have increased significantly since initial recognition at each balance sheet date and divides the credit risk impairment process into three stages and adopts different accounting treatment:

(a) In the first stage, the credit risk on financial instruments has not significantly increased since initial recognition. The Company measures the loss allowance for the financial instruments at an amount equal to 12-month expected credit losses, and calculates interest income by applying the effective interest rate to the gross carrying amount of the financial assets.

(b) In the second stage, the credit risk on financial instruments has significantly increased since initial recognition which are not subject to impairment. The Company measures the loss allowance for the financial instruments at an amount equal to the lifetime expected credit losses, and calculates interest income by applying the effective interest rate to the gross carrying amount of the financial assets.

(c) In the third stage, the financial instruments are subject to impairment since initial recognition. The Company measures the loss allowance for the financial instruments at an amount equal to the lifetime expected credit losses, and calculates interest income by applying the effective interest rate to the net carrying amount (gross carrying amount minus the impairment allowance) of the financial instruments.

4.10.1.1 The approach of expected credit losses for the financial instruments with a low risk of default

The Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition directly without comparing the credit risk with that on initial recognition if the financial instrument is determined to have a low credit risk at the balance sheet date.

If the financial instrument has a a low risk of default, the debtor has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the debtor to fulfil its contractual cash flow obligations, the financial instrument is considered to have a low credit risk.

4.10.1.2 The approach of expected credit losses for accounts receivable, lease receivables, and contract assets

(a) Accounts receivable and contract assets not containing a significant financing component

The Company adopts simplified approach, i.e. the measurement of lifetime ECL, to determine the impairment losses for accounts receivable and contract assets not containing a significant financing component that result from transactions within the scope of Accounting Standards for Business Enterprises No. 14- Revenue.

The company divides notes receivable, accounts receivable, and contract assets into several combinations based on the type of financial instrument, credit risk rating, initial confirmation date, remaining contract duration, debtor's industry, debtor's geographic location, and other credit risk characteristics. The expected credit loss is calculated on the basis of the combination, and the basis for determining the combination is as follows:

Accounts receivable portfolio 1: Accounts receivable from external customers, the company refers to historical credit loss experience, combined with current conditions and forecasts of future economic conditions, compiles a comparison table of accounts receivable aging and the entire duration of the expected credit loss rate, and calculates Expected credit losses.

Accounts receivable portfolio 2: Accounts receivable from related parties within the scope of consolidation, the company judges that there is no expected credit loss, and no credit loss provision

is made.

Notes receivable portfolio 1: Bank acceptance bills, no credit loss is expected, and no credit loss provision is made.

Notes receivable portfolio 2: Commercial acceptance bills. The company refers to historical credit loss experience, combined with current conditions and forecasts of future economic conditions, and calculates expected credit losses through default risk exposure and the entire duration of expected credit loss rate.

Contract asset portfolio: For general performance contracts, the company refers to historical credit loss experience, combined with current conditions and forecasts of future economic conditions, and calculates expected credit losses through default risk exposure and the entire duration of the expected credit loss rate.

(b) Accounts receivable, contract assets and lease receivables containing a significant financing component

The Company adopts the normal approach, i.e. the three-stage model, to determine the impairment losses for accounts receivable and contract assets that result from transactions within the scope of Accounting Standards for Business Enterprises No. 14- Revenue, and the lease receivables that result from transactions within the scope of Accounting Standards for Business Enterprises No. 21- Lease, all of which contain a significant financing component.

(c) Methods of measuring loss reserves for other financial assets

For financial assets other than the above, such as debt investment, other debt investment, other receivables, long-term receivables other than lease receivables, etc., the company uses the general method, namely the "three-stage" model to measure loss reserves.

When measuring the credit impairment of financial instruments, the company considers the following factors in assessing whether the credit risk has increased significantly:

- (a) The issuer or debtor has major financial difficulties;
- (b) The debtor breached the contract, such as defaulting or overdue payment of interest or principal;
- (c) The creditor, out of economic or contractual considerations related to the debtor's financial difficulties, gives the debtor a concession that the debtor would not make under any other

circumstances;

- (d) The debtor is likely to go bankrupt or carry out other financial reorganizations;
- (e) The issuer or debtor's financial difficulties have caused the disappearance of the active market for the financial asset.

4.10.1.3 The approach of expected credit losses for other financial instruments

The Company adopts the normal approach, i.e. the three-stage model, to determine the impairment losses for other financial instruments except aforementioned financial assets, like debt investments, other debt investments, other receivables, long-term receivables excluding lease receivables etc.

The Company considers the following factors for ECL measurement when assessing whether the credit risk on financial instruments has significantly increased or not:

4.10.2 The accounting treatment of expected credit losses

The Company remeasures ECL at each balance sheet date to reflect the credit risk change of financial instruments after initial recognition and recognises the additional or reverse amount of the impairment allowance in profit or loss of the current period as impairment losses or gains, which will be deducted from the carrying amount of the financial assets in the balance sheet, or recorded to the provisions for loan commitments or financial guarantee contracts or in other comprehensive income for financial assets measured at fair value through other comprehensive income depending on the category of the financial instruments.

4.11 Inventories

4.11.1 Categories of inventories

Inventories are the finished goods or commodities that the Company holds to sell, the work in progress in production process, and the material and goods consumed during the production process or service rendering process in daily operation. Inventories include raw materials, revolving materials (packaging materials and low-value consumables etc.), consigned processing materials, work in progress, self-manufactured semifinished product, and finished goods (commodities) etc.

4.11.2 Measurement of inventories upon delivery

Weighted average method is used to measure the actual costs of inventories upon delivery.

4.11.3 Provision for diminution in value of inventories

At each balance sheet date, inventories are measured at the lower of cost and net realisable value.

When the cost of inventory exceeds its net realizable value, provision for diminution in value of inventories is recognised. The Company usually recognises provision for diminution in value of inventories on the basis of a single inventory item. For the inventory items of large quantity and low price, the Company recognises provision for diminution in value of inventories based on inventory categories.

4.11.4 Inventory count system

The Company adopts the perpetual inventory system.

4.11.5 Amortization methods of low-value consumables and packaging materials

Low-cost consumables and packaging materials are amortized by the once-off amortization method.

4.12 Long-term equity investment

4.12.1 Determination of initial investment cost

Long-term equity investment acquired through a business combination: For a business combination involving enterprises under common control, the initial investment cost of a long-term equity investment is the holding share of the acquiree's equity in the ultimate controlling party's consolidated financial statements measured at the carrying amounts at the acquisition date. For a business combination not involving enterprises under common control, the initial investment cost of a long-term equity investment is the cost of acquisition determined at the date of acquisition. For a long-term equity investment acquired in cash, the initial investment cost is the amount of cash paid. For a long-term equity investment acquired by issuing equity securities, the initial investment cost is the fair value of the equity securities issued. For a long-term equity investment acquired by debt restructuring, the initial investment cost is determined according to related requirements of Accounting Standards for Business Enterprises No. 12- Debt Restructuring. For a long-term equity investment acquired by exchange of non-cash assets, the initial investment cost is determined according to related requirements of Accounting Standards for Business Enterprises No. 7- Exchange of Non-monetary Assets .

4.12.2 Subsequent measurement and recognition of profit or loss

Where the Company is able to exercise control over an investee, the long-term equity investment is accounted for using the cost method. Where the Company has investment in associates and joint ventures, the long-term equity investment is accounted for using the equity method. Where portion

of the long-term equity investment in an associate is indirectly held through venture capital organizations, mutual funds, trust companies or similar entities including investment-linked insurance funds, regardless whether these entities can exercise significant influence on the investments, the Company treats the investment portion according to Accounting Standards for Business Enterprises No. 22- Financial Instrument Recognition and Measurement and accounts for the remaining portion using the equity method.

4.12.3 Basis for recognition of joint control or significant influence over an investee

Joint control of an investee is that the decision of activities that can significantly affect the arrangement's return must require the unanimous consent of the parties sharing control, including sale and purchase of goods or services, financial assets management, purchase and disposal of assets, research and development activity and financing activities etc. The Company holding of 20%-50% voting capital of the investee presents it can exercise significant influence over the investee. The Company usually can exercise significant influence over the investee even its voting capital less than 20% if it can meet one of the following situations: a) Appointing representatives in the board of directors or similar governing body of the investee; b) Participating in the strategy and policy decision process; c) Delegating management personnel; d) The investee relying on the Company's technique or technical material; e) Significant transactions occur between the Company and the investee.

4.13 Investment property

Investment property of the Company includes land use rights and buildings leased to other party, and land use rights held for resale after appreciation. Investment property is initially measured at acquisition cost, and is subsequently measured using the cost method.

The buildings leased to third parties are depreciated using the straight line method according to the same depreciation policy for fixed assets. The land use rights leased to third parties and land use rights held for resale after appreciation are amortized using the straight line method according to the same amortization policy for intangible assets.

4.14 Fixed assets

4.14.1 Recognition criteria for fixed assets

Fixed assets refer to tangible assets held for the purpose of producing commodities, services

rendering, renting or business administration with useful lives exceeding one accounting year. Fixed assets can be recognised when the following criteria are met: a) It is probable that the economic benefits relating to the fixed assets will flow into the Company; and b) The costs of the fixed assets can be measured reliably.

4.14.2 Classification and depreciation method of fixed assets

The categories of fixed assets mainly include: Land assets, buildings, machinery & equipment, electronic equipment and transportation vehicles. The Company adopts the straight line method for depreciation. The useful life and residual value of an asset is assessed based on its nature and the manner of use. At the end of each financial year, the useful lives, residual values and the depreciation method are reviewed, and adjusted if there are variances with the original estimates. Other than fully depreciated assets which are still in use and land individually measured and recorded, depreciation is provided for all fixed assets.

Category	Depreciation period (years)	Residual rate (%)	Annual depreciation rate (%)
Land assets	No depreciation		
Buildings	20-50	5.00	1.90-4.75
Machinery & equipment	5-14	5.00	6.79-19.00
Electronic equipment	3-5	5.00	19.00-31.67
Transportation vehicles	4-8	5.00	11.88-23.75
Others	3-5	5.00	19.00-31.67

4.14.3 Identification basis and pricing method of fixed assets leased by financing

Financing leased fixed assets is a lease that substantially transfers all risks and rewards related to asset ownership. The initial valuation of finance leased fixed assets is the lower of the fair value of the leased asset and the current value of the minimum lease payment on the beginning of the lease period; the subsequent valuation of the finance leased fixed assets adopts the depreciation policy consistent with its own fixed assets provision for depreciation and impairment.

4.15 Construction in progress

The construction in progress of the Company includes self-construction and sub-contracting construction. Construction in progress is transferred to fixed assets when it has reached the working condition for its intended use. The recognition criteria of intended use include any of the followings: a) The tangible work of fixed assets (including installation) have been entirely or substantively

completed; b) Trial production or trial operation has occurred whose outcome indicates the asset can be operated properly or manufacture quality product steadily; c) No expenditure or insignificant expenditure occur subsequently for the constructed asset; d) The constructed asset has achieved or substantively achieved the requirement of design or contract.

The construction in progress will be confirmed if it meets the possibility of inflow of economic benefits and the cost can be reliably measured. Construction in progress is measured at the actual cost incurred before the asset is constructed to reach the intended useable state.

When the construction in progress reaches the expected usable state, it shall be transferred to fixed assets according to the actual cost of the project. Those who have reached the expected usable status but have not yet processed the final accounts for completion shall first be transferred to fixed assets at the estimated value. After the final accounts for the completion are processed, the original temporary estimated value shall be adjusted according to the actual cost, but the depreciation previously accrued shall not be adjusted.

4.16 Borrowing costs

4.16.1 Recognition criteria for capitalization of borrowing costs

Borrowing costs are capitalized when they are directly attributable to the acquisition, construction or production of a qualifying asset and included in the cost of related assets. Other borrowing costs are recognised as expenses and recorded in profit or loss for the current period when incurred. Qualifying assets that meet conditions for capitalization are fixed assets, investment property, inventory or other assets that take a substantial period of time for construction or production in order to get ready for their intended use or sale.

4.16.2 Calculation of capitalization cost

Capitalization period refers to the period from commencement of capitalization of borrowing costs to its termination. The period during which capitalization is suspended is excluded. Capitalization of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is suspended abnormally and when the suspension is for a continuous period of more than 3 months.

For designated borrowings, the amount of interest to be capitalized is the actual interest expense incurred on that borrowing less any bank interest earned from unused funds of the designated

borrowings or any investment income on the temporary investment of those funds. For funds borrowed for general purpose, the amount of interest to be capitalized on such borrowings is calculated by applying a capitalization rate to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of designated borrowings. Capitalization rate is determined by calculating weighted average interest rate of general borrowings. If there is any premium or discount of the borrowings, the interest cost shall be adjusted in every accounting period by the amortized amount of premium or discount calculating by effective interest method.

Effective interest method is the method to calculate the amortization amount of premium or discount or interest expenses by the effective interest rate of the borrowings. The effective interest rate is the interest rate to discount the future cash flow of the borrowing during its expected duration to the present carrying amount of the borrowing.

4.17 Intangible assets

4.17.1 The measurement of intangible assets

The intangible assets shall be initially measured according to its cost. Acquisition costs of intangible assets include purchase price and relevant expenditures. The invested cost of intangible assets contributed by investors shall be determined according to the conventional value in the investment contract or agreement, except for those of unfair value in the contract or agreement. If the conventional value in the investment contract or agreement is unfair, the costs of intangible assets shall be their fair value. The costs of internally generated intangible assets include the total development expenditures to bring the asset to its intended use.

The subsequent measurements for intangible assets are as follows: a) The intangible assets with definite useful life are amortized by straight line method and reviewed the useful life and amortization method at the end of each year. Any discrepancy between the review and initial estimates shall be adjusted accordingly. b) The intangible assets with indefinite useful life are not amortized, and reviewed for the useful life at the end of each year. If there are objective evidence indicating their useful life is definite, the Company shall estimate the useful life of the intangible assets and amortize them by straight line method.

The amortization methods of intangible assets with limited service life are as follows:

Category	Depreciation period (years)	Amortization methods
Software	5	Straight-line
Land use rights	45-50	Straight-line
Patent	5-10	Straight-line
Others	5-10	Straight-line

4.17.2 The assessment basis for indefinite useful life

Intangible assets without foreseeable period to bring economic benefits to the Company or with uncertain useful life are classified as intangible assets of indefinite life. The judgment basis for indefinite life includes: a) The legal rights are derived from contractual rights or other legal rights, however there is no explicit useful life indicated in the contracts or regulations; b) Although considering the industry practice or demonstration from related professionals comprehensively, the benefit period of the intangible assets still can't be decided.

At the end of each year, the Company reviews the intangible assets with indefinite useful life mainly using bottom-to-top approach. The related departments who use the intangible assets will perform a basic review and evaluate whether there are changes on the basis to determine indefinite useful life.

4.17.3 The specific criteria for research phase and development phase of internally generated projects, and the specific criteria for capitalization of expenditure incurred during development phase

Expenditures for the research phase of internal research and development projects are included in the current profit and loss when incurred; expenditures for the development phase meet the conditions for recognition as intangible assets and are transferred to intangible assets. If the following conditions are met at the same time, it is recognized as an intangible asset: a) It is technically feasible to complete the intangible asset so that it can be used or sold; b) There is the intention to complete the intangible asset and use or sell it; c) The ways in which intangible assets generate economic benefits include the ability to prove that the products produced by the intangible assets exist in the market or the intangible assets themselves exist in the market. If the intangible assets will be used internally, they can prove their usefulness; d) There are sufficient technology and finance resources and other resource support to complete the development of the intangible asset and the ability to use or sell the intangible asset; e) The expenditure attributable to the development stage of the intangible asset can be reliably measured.

4.18 Impairment of long-term assets

At each balance sheet date, if there are impairment indications for the long-term assets including long-term equity investments, investment property subsequently measured at cost model, fixed assets, construction in progress, productive biological assets measured at cost, oil and gas assets, and intangible assets etc., the Company performs impairment test. If the outcome of impairment test indicates the recoverable amount of the asset is lower than its carrying amount, the Company recognises the provision for impairment based on the amount of the shortfall.

The recoverable amount of an asset is determined by the higher of the net amount after deducting the disposal costs from the asset's fair value and the present value of the asset's estimated future cash flow. The provision for impairment of asset is estimated and recognised on individual basis. If it is not possible to estimate the recoverable amount of the individual asset, the Company determines the recoverable amount of the asset group to which the asset belongs. The asset group is the minimum portfolio of assets that could generate cash inflow independently.

Impairment tests are conducted for goodwill presented in the financial statements separately at least at the end of every accounting year regardless whether there are impairment indications or not. The carrying amount of goodwill arising from business combinations is allocated to relevant asset groups or asset group portfolio. The related impairment loss is recognised if the impairment test indicates the recoverable amount of the asset groups or asset group portfolio embodied the goodwill is lower than their carrying amounts. The amount of impairment loss is firstly deducted from the carrying amount of goodwill embodied in the asset groups or asset group portfolio, then be deducted from the carrying amounts of other assets' based on the proportions of their carrying amounts in the asset group or asset groups portfolio.

The impairment losses of assets will not be reversed in subsequent periods once they are recognised.

4.19 Long-term deferred expenses

Long-term deferred expenses refer to expenses that have been paid but their benefit period is more than one year (excluding one year). Long-term deferred expenses will be amortized in the benefit periods. If one long-term deferred expense can't benefit the Company in the subsequent periods, the remaining balance of the long-term deferred expense shall be recognised as expense in profit or loss

for the current period.

4.20 Employee benefits

Employee benefits refer to all forms of consideration or compensation given by the Company in exchange for service rendered by employees or for the termination of employment relationship. Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits.

4.20.1 Short-time employee benefits

In the accounting period in which employees have rendered services, the Company recognizes the employee benefits as liability, and charges to profit or loss for the current period, or includes in the cost of relevant assets in accordance with other accounting standards. Welfare benefit are charged to profit or loss for the current period or included in the cost of relevant assets when incurred. Welfare benefit in non-monetary forms is measured at fair value. In the accounting period in which employees have rendered services, the Company recognizes the social security contributions as liability according to regulations such as medical insurance, work injury insurance and maternity insurance as well as housing funds, and charges to profit or loss for the current period or includes in the cost of relevant assets.

4.20.2 Post-employment benefits

During the accounting period in which employees provide the service, the Company calculates the defined contribution plans payable according to the basis and percentage required by local government, recognised as the liability and charges to profit or loss for current period or includes in the cost of related assets. The Company attributes the obligation incurred by defined benefits plans using the projected accumulated benefit unit credit method to periods in which the employees rendered services and charges the obligation to profit or loss for the current period or includes in the cost of related assets.

4.20.3 Termination benefits

Termination benefits provided by the Company to employees are recognised as an employee benefit liability and charged to profit or loss for the current period at the earlier of the following dates: a) The Company cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment proposal; and b) When the Company recognizes costs

or expenses related to the restructuring that involves the payment of termination benefits.

4.20.4 Other long-term employee benefits

If other long-term employee benefits provided by the Company to the employees meet the conditions for classifying as a defined contributions plan, those benefits are accounted for in accordance with the above requirements relating to defined contribution plan. Besides, net obligations or net assets of other long-term employee benefits are recognised and measured in accordance with the above requirements relating to defined benefits plan.

4.21 Share-based payment

The share-based payment can be distinguished into equity-settled and cash-settled share-based payment. Equity-settled share-based payment in exchange for services rendered by employees is measured at fair value of the equity instruments granted to the employees. If there exists an active market for options and other equity instruments granted by the Company, their fair value is determined on the price quotes in the active market. If there does not exist an active market, the fair value shall be determined by valuation techniques, including referring to the recent market prices in an arm's length transaction between the knowledgeable and willing parties, the fair value of other financial instruments with the same substance, the discount cash flow method and option price model.

At each balance sheet date in the vesting period, the Company revises the number of equity instruments that will ultimately vest based on the best estimate of the latest number of eligible employees, the fulfillment of performance conditions and other subsequent information, and recognises the expenses in each accounting period accordingly. The share-based payment can be allocated among the accounting periods based on the vesting period's proportion of the whole vesting period in each accounting period if the share-based payment will be recognised in more than one accounting period.

4.22 Provisions

A provision relating to contingency is recognised when: a) The obligation is a present obligation of the Company; b) It is probable that an outflow of economic benefits will be required to settle the obligation; c) The amount of the obligation can be measured reliably. Provisions are initially measured at the best estimate of the payment to settle the associated obligations. If there is a

continuous range for the necessary expenses and probabilities of occurrence of all the outcomes within this range are equal, the best estimate is determined at the average amount of upper and lower limits within the range. If the contingency involves two or more items, the best estimate is determined according to all the possible outcomes with their relevant probabilities.

The Company reviews the carrying amounts of provisions at each balance sheet date, and if there are conclusive evidences that indicate the carrying amounts of provisions can't reflect the present best estimate of the payment, the carrying amounts of provisions will be adjusted to the present best estimate of the payment.

4.23 Preference shares and perpetual bonds

4.23.1 Classification of financial liabilities and equity instruments

The Company classifies the preference shares, perpetual bonds, warrants and convertible bonds etc. into financial liabilities or equity instruments according to the following criteria:

(a) To settle the contract obligation in cash, by other financial assets or exchange of financial assets or liabilities

If the Company can't avoid paying cash or other financial assets unconditionally to fulfill its obligation in one contract, the obligation of contract meets the definition of financial liabilities.

(b) To settle the contract obligation by the Company's own equity instruments

If the financial instrument shall or can be settled by the Company's own equity instruments for the alternatives of cash or other financial assets, the financial instrument is a financial liability of the Company; if the holder of financial instrument can enjoy the rest equity benefit after the Company deducts all liabilities from the assets, the financial instrument is an equity instrument of the Company.

(c) To distinguish between derivative financial instrument and non-derivative financial instrument when the Company shall or can settle the contract obligation using own equity instrument

For non- derivative financial instrument, if the Company has no obligation to settle by issuing convertible-quantity own equity instrument in the future, the non-derivative financial instrument is an equity instrument. Conversely the non-derivative financial instrument is a financial liability. For derivative financial instrument, if the Company can only settle the contract obligation using fixed-quantity own equity instrument to exchange fixed-amount cash or other financial assets, the derivative financial instrument is an equity instrument; if the Company uses fixed-quantity own

equity instrument to exchange convertible-amount cash or other financial assets, or uses convertible-quantity own equity instrument to exchange fixed-amount cash or other financial assets, or when the transfer price is not fixed, uses convertible-quantity own equity instrument to exchange convertible-amount cash or other financial assets, the derivative financial instrument is a financial liability or a financial asset.

4.23.2 The accounting treatment for preference shares and perpetual bonds

The Company accounts for the financial instruments that is classified as financial liabilities by the account "Bonds payable", calculates interest and adjusts the carrying amount of the interests payable etc. in accordance with the regulation of financial liability subsequent measurement with amortized cost in the financial instrument recognition and measurement standard. The Company accounts for the equity instruments in the account "other equity instruments" and treats the dividend payments (including interests arising from instruments that are classified as equity instruments) as profit distribution during the equity instruments' existence.

4.24 Revenues

The Company recognises revenue at the allocated transaction price when it satisfies a performance obligation in a contract, i.e. the customer obtains the control of related goods or services. Obtaining control of related goods means the ability to direct the use of, and obtain substantively all the benefits from it. A performance obligation is the Company's a promise in a contract with a customer to transfer to the customer a good or service (or a bundle of goods or services) that is distinct. The transactions price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties and amounts to be expected to repay the customer.

A performance obligation satisfied over time or at a point of time is determined by the terms in the contract and the requirements of relevant laws and regulations. If a performance obligation is satisfied over time, the Company will recognise revenue over time by its progress towards complete satisfaction of the performance obligation. Otherwise the Company will recognise revenue at a point of time when the customer obtains the control of related assets.

4.24.1 Sales of goods contract

For a domestic sales contract of goods in China for which the control of goods is transferred at a certain point in time, when the Group delivers the goods to the customer or carrier and the Group

has obtained the current right of payment request and is likely to recover the consideration, that is when the customer obtains the relevant goods Confirm when the customer have the right to control. For a sales contract outside of China for the transfer of commodity control rights at a certain point in time, when the income is issued and the goods are shipped and departed at the port of shipment and the Group has obtained the current right of payment request and is likely to recover the consideration, that is when the customer obtains the relevant Confirm when controlling the goods.

4.24.2 Service contract

The service contract between the Company and its customers usually includes performance obligations such as maintenance guarantee services, operation and maintenance services, and engineering services. If the customer obtains and consumes the economic benefits brought by the Company' s performance as the company performs the contract, the Company will recognize the revenue according to the performance progress in this period. For the service contract with clear output indicators, such as maintenance guarantee services, operation and maintenance services, etc., the Company determines the performance progress of the services provided in accordance with the output method; for contracts with a small number of output indicators that cannot be clearly measured, the input method is used to determine the performance progress of the service.

4.25 Contract costs

The contract costs of the Company include the incremental costs to obtain a contract and the costs to fulfil a contract. The incremental costs of obtaining a contract are those costs that the Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. If the Company expects to recover those costs, the costs will be recognised as an asset.

If the costs incurred in fulfilling a contract with a customer are not within the scope of another standard like Accounting Standards for Business Enterprises No. 1- Inventories, they will be treated as the costs to fulfil a contract and recognised as an asset when meeting the following conditions:

a) the costs relate directly to a contract or to an anticipated contract that the Company can specifically identify, including direct labour, direct materials, allocations of costs that relate directly to the contract, costs that are explicitly chargeable to the customer under the contract and other costs that are incurred only because the Company entered into the contract;

b) the costs generate or enhance resources of the Company that will be used in satisfying performance obligations in the future;

c) the costs are expected to be recovered.

The Company amortizes the assets recognised by the term of costs to obtain a contract and costs to fulfil a contract on a systematic basis that is consistent with the revenue recognition to which the assets relate. The incremental costs of obtaining a contract are recognised as an expense when incurred if the amortisation period of the asset that the Company otherwise would have recognised is one year or less.

The Company recognizes an impairment loss in profit or loss to the extent that the carrying amount of an asset recognised exceeds:

(a) the remaining amount of consideration that the Company expects to receive in exchange for the goods or services to which the asset relates; less

(b) the costs that relate directly to providing those goods or services and that are estimated to incur.

If the depreciation factors of the previous period have changed, and it makes the difference between the aforementioned two conditions is higher than the book value of the asset, the original provision for impairment of the asset should be reversed and included in the current profit and loss, but the book value of the asset after the reversal should not exceed the book value of the asset on the date of reversal under the assumption that no impairment provision is made.

4.26 Government grants

4.26.1 Category and accounting treatment of government grants

Government grants are the monetary assets and non-monetary assets received from the government without consideration to be paid which are not including the capital injected by the government acted as an owner role. Government grants in the form of monetary assets are measured for the received or receivable amount, while government grants in the form of non-monetary assets are measured at fair value. When the fair value of non-monetary assets can't be obtained reliably, the government grants are measured at nominal amount.

Government grants related to the Company's routine operation will be recorded in other income based on the nature of its economic substance and government grants not related to the Company's routine operation will be recorded in non-operating income or expenses.

If the government documents explicitly state that the government grants will be used to establish or form long-term assets, the government grants will be classified as government grants related to assets. If there is no explicit subsidy object in the government document, the portion related to long-term assets will be classified as government grants related to assets and the rest portion will be classified as government grants related to income. If the category of a government grant can't be distinguished reasonably, all the government grant will be classified as government grants related to income. Government grants related to assets are deducted from the carrying amount of related assets. Except those grants which are classified as government grants related to assets, other government grants are classified as government grants related to income. If the grant related to income is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and amortized in profit or loss over the periods in which the related costs are recognised. If the grant related to income is a compensation for related expenses or losses already incurred, the grant is recognised directly in profit or loss for the current period.

When a bank receives the discount interest fund from the financial sector and then provides a loan to the Company with preferential interest rate, the Company accounts for the loan at the actual received amount and related interest expenses will be calculated based on the principal and the preferential interest rate. When the Company receives the discount interest fund from the financial sector directly, the discount interest fund will be deducted from related borrowing cost.

4.26.2 The recognition timing for government grants

The government grants will be recognised when the Company meets the accompanying conditions of the government grants which are entitled to be received. The receivable government grants will be recognised when there are conclusive evidence to indicate the Company could meet all related requirements of the government grants and the Company expects to receive the government grants in the future. Other government grants will be recognised when the grant fund is received.

4.27 Deferred tax asset and deferred tax liability

4.27.1 Temporary differences arising from the difference between the carrying amount of an asset or liability (asset or liability not recognised in balance sheet but the tax base is ascertained by the current tax laws and regulation, the tax base is the temporary difference) and its tax base are recognised as deferred tax calculating by the effective tax rate in the expected period to receive the

asset or discharge the liability.

4.27.2 Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized and should be recognised for deductible loss or tax reduction that could be carried forward in subsequent periods to the extent that it is probable that taxable income will be available against which deductible loss or tax reduction can be utilized. If it is probable that sufficient taxable profits will not be available in future periods to allow the benefit of the deferred tax asset to be utilized, the carrying amount of the deferred tax asset is reduced.

4.28.3 The taxable temporary differences associated with investments in subsidiaries and associates shall be recognised deferred tax liability; except the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The deductible temporary differences associated with investments in subsidiaries, associates, the corresponding deferred tax asset is recognised when it is probable that the temporary difference will reverse in the foreseeable future and it is probable that taxable profits will be available in the future against which the temporary difference can be utilized.

4.28 Leases

4.28.1 The accounting treatment for lessee

At the lease commencement date, the Company recognises right-of-use assets and lease liabilities for all other leases except short-term leases and leases of low-value assets, and will recognise depreciation expenses and interest expenses separately over the lease term.

The Company recognises rental expenses in profit or loss applying a straight-line basis in each period over the lease term for short-term leases and leases of low-value assets.

4.28.1.1 Right-of-use assets

Right-of-use assets represent a lessee's rights to use the underlying assets for the lease term. At the commencement date, a right-of-use asset is measured at cost. The cost includes:

- a) the amount of the initial measurement of the lease liability;
- b) any lease payments made at or before the commencement date, less any lease incentives received if such lease incentives exist;
- (c) any initial direct costs incurred by the lessee;

(d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets of the Company are depreciated by the straight line method based on their category. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If the Company can reasonably be certain that the ownership of a leased asset will be obtained at the expiration of the lease term, the related right-of-use asset is depreciated over the useful life of the underlying asset. The related right-of-use asset is depreciated over the shorter of lease term and residual use life of the underlying asset if the Company can not reasonably be certain that the ownership of a leased asset will be obtained at the expiration of lease term.

The Company determines whether a right-of-use asset is subject to impairment or not in accordance with the requirements of Accounting Standards for Business Enterprises No. 8- Impairment of assets.

4.28.1.2 Lease liabilities

At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date. The lease payments include: a) fixed payments (including in-substance fixed payments) less any lease incentives if such lease incentives exist; b) variable lease payments that depend on an index or a rate; c) amounts expected to be payable by the lessee under residual value guarantees; d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The Company uses the interest rate implicit in the lease as the discount rate. If that rate cannot be readily determined, the Company uses its incremental borrowing rate. The Company calculates the interest expenses which are recorded in finance expenses using the constant periodic rate of interest in each period during the lease term. The periodic rate of interest is the discount rate or adjusted discount rate the Company uses.

Variable lease payments which are not included in the measurement of lease liabilities are recognised in profit or loss when they actually occur.

If the assessment of an option to renew, terminate or purchase the underlying asset changes, the lease

liability is remeasured by the revised lease payments using a revised discount rate and the carrying amount of right-of-use asset is revised accordingly. When there is a change in the in-substance fixed payment, the amount expected to be payable under a residual value guarantee, or the variable lease payment that depends on an index or a rate, the lease liability is remeasured by the revised lease payments using an unchanged discount rate and the carrying amount of right-of-use asset is revised accordingly.

4.28.2 The accounting treatment for lease

4.28.2.1 The accounting treatment for operating lease

The Company recognises lease payments for operating leases in profit or loss applying a straight-line basis in each period over the lease term. The Company capitalized the initial direct expenses incurred which are amortizes in profit or loss over the lease term on the same recognition basis as the lease income.

4.28.2.2 The accounting treatment for finance lease

The Company recognises the unearned finance income by the difference between the sum of finance lease receivable and unguaranteed residual value, and their present value at the commencement date, which will be recognised as lease income in the periods to collect lease payment. The initial direct expenses incurred relating to the lease transaction will be included in the initial carrying amount of finance lease receivable.

5. Changes of significant accounting policies and accounting estimates

5.1 The changes of accounting policies and reason for change

5.1.1 In 2017, the Ministry of Finance issued the revised "Accounting Standards for Business Enterprises No. 22-Recognition and Measurement of Financial Instruments", "Accounting Standards for Business Enterprises No. 23-Transfer of Financial Assets", "Accounting Standards for Business Enterprises No. 24" ——Hedging Accounting", and "Accounting Standards for Business Enterprises No. 37-Presentation of Financial Instruments" (hereinafter collectively referred to as the "New Financial Instruments Standards").

The New Financial Instrument Standards divide financial assets into three categories: a) Financial assets measured at amortized cost; b) Financial assets measured at fair value with changes included in other comprehensive income; c) Financial assets that are measured at fair value and whose

changes are included in the current profit and loss. Under the New Financial Instrument Standards, the classification of financial assets is determined based on the company's business model for managing financial assets and the contractual cash flow characteristics of the assets. The New Financial Instruments Standards abolished the three categories of held-to-maturity investments, loans and receivables, and available-for-sale financial assets stipulated in the original financial instrument standards. The New Financial Instruments Standards replace the "incurred loss" model in the original financial instrument standard with the "expected credit loss" model. Under the New Financial Instruments Standards, the Company's specific accounting policies can be found in Note 4 (9) (10).

5.1.2 In 2017, the Ministry of Finance issued the revised "Accounting Standards for Business Enterprises No. 14-Revenue" (hereinafter referred to as the "New Revenue Standards"), and issued the revised "Accounting Standards for Business Enterprises No. 14-Leases" in 2018. "(Hereinafter referred to as the "New Lease Standards"). The Company implements the New Revenue Standards and the New Lease Standards from January 1, 2021, and adjusts the relevant content of the accounting policies.

The New Revenue Standards replace the "Accounting Standards for Business Enterprises No. 14-Revenues" and "Accounting Standards for Business Enterprises No. 15-Construction Contracts" (collectively referred to as the "Original Revenue Standards") promulgated by the Ministry of Finance in 2006. Under the Original Revenue Standards, the Company used the transfer of risk rewards as the judgment standard for the timing of revenue recognition. The New Revenue Standards introduce the "five-step method" of revenue recognition and measurement, and provide more guidance for specific transactions or events. Under the New Revenue Standards, the Company uses the transfer of control as the judgment standard for revenue recognition. For the accounting policies for revenue recognition and measurement, refer to Note 4 (24).

The New Lease Standards replace the "Accounting Standards for Business Enterprises No. 21-Leases" issued by the Ministry of Finance in 2006. The accounting treatment of lessees under the New Lease Standards is revised from a dual model to a single model, and the lease classification principles and related accounting treatments for lessors are improved, and the disclosure content are enriched. For specific accounting policies for lease confirmation and

measurement, refer to Note 4. (28)

5.2 The impact of accounting policies change

The items affected on January 1, 2021 are as follows:

Items in consolidated financial statements	As at 31/12/2020	The amount affected	As at 31/1/2021
Accounts receivable	1,202,008,535.00	-204,654,645.91	997,353,889.09
Contract assets		204,654,645.91	204,654,645.91
Other current assets	1,400,046,117.23	-1,004,139,827.38	395,906,289.85
Financial assets held for trading	83,416,674.72	1,004,139,827.38	1,087,556,502.10
Held-to-maturity investments	318,262,459.65	-318,262,459.65	
Debt investments		318,262,459.65	318,262,459.65
Available-for-sale financial assets	1,620,175,161.42	-1,620,175,161.42	
Other debt investments		1,620,175,161.42	1,620,175,161.42
Prepayments	337,132,364.92	-2,786,457.46	334,345,907.46
Lease liabilities		1,762,899.65	1,762,899.65
Right-of-use assets		4,549,357.11	4,549,357.11
Advances from customers	1,112,240,044.50	-1,112,240,044.50	
Contract liabilities		1,112,240,044.50	1,112,240,044.50

5.2 Significant changes in accounting estimates

None.

5.3 Correction of prior accounting errors

None.

6. Taxes

6.1 Main taxes categories and tax rates

Tax category	Tax base	Tax rate
Value added tax	Domestic sales; provide processing, repair and repair services; import goods; provide tangible movable property leasing services	16%、13%
	Sell or import fertilizers	10%、9%
	Provide real estate leasing services ; sell real estate	10%、9%
	Other taxable sales services	6%
	Simple tax calculation method	5%、3%

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HUALU HOLDINGS CO.,LTD.

Tax category	Tax base	Tax rate
Urban maintenance and construction tax	Turnover tax payable	7%
Educational surtax	Turnover tax payable	3%
Local educational surtax	Turnover tax payable	2%
Enterprise income tax	Taxable income	8.84%、15%、 16.5%、19%、20%、 21%、25%

Income tax rates for different taxpayers:

Name of tax enterprise	Tax rate of income tax
China Shandong group limited	16.5%
Shandong Xinhua Pharmaceutical Co., Ltd.	15%
Shandong Zibo Xinda Pharmaceutical Co., Ltd.	15%
Shandong Xinhua Pharmaceutical (Europe) Co. LTD	25%、19%
Shandong Xinhua Pharmaceutical (USA) Co. LTD	Federal tax 21%, State tax 8.84%
Shandong Lukang Pharmaceutical Co., Ltd.	15%
Shandong Lukang Shelile Pharmaceutical Co., Ltd.	15%
Shandong Lukang Biomanufacturing Co., Ltd.	15%
Shandong Lukang Group Saite Co., Ltd.	15%
Shandong Lukang International Trading Co., Ltd.	20%
Shandong Lukang Biotechnology Development Co. LTD	20%
Shandong Lukang Hecheng Pharmaceutical Co., Ltd.	20%
Shandong Lukang Biological chemicals Management Co. LTD	20%
Shandong Lukang Electromechanical Engineering Co., LTD	20%
Shandong Lukang Zhonghe Environment Protection Technology Co., Ltd.	15%
Dezhou Minxin Service Co., LTD	20%
Shandong Hualu-Hengsheng Chemical Co., Ltd	15%
Shandong Academy of Environmental Science Co., Ltd	15%
Shandong Huanke Environmental Engineering Co., Ltd.	15%
Linyi Kechuang Water Treatment Co., Ltd.	20%
ZhongLu Environmental Engineering Assessment Center of Shandong Province Co., Ltd.	20%
Shandong Boer Radiation Environment Technology Co., Ltd.	20%
Shandong Huatong Chemical Co. LTD	20%
Shandong Hualu International Commerce Centre Co., Ltd.	20%
Shandong Hualu International Advertising Co., Ltd.	20%

6.2 Significant tax incentives and approval documents

6.2.1 Shandong Xinhua Pharmaceutical Co.,Ltd. (hereinafter referred to as "Xinhua Pharmaceutical"):

6.2.1.1 According to the approval of the Shandong Provincial Department of Science and Technology, the Shandong Provincial Department of Finance, and the State Administration of Taxation, Shandong Provincial Taxation Bureau Luoke Zi [2021] No. 10 document, Xinhua Pharmaceutical was recognized as a high-tech enterprise and obtained the high-tech enterprise certificate on December 8, 2020 with the number GR202037002800, valid for 3 years. According to the "Enterprise Income Tax Law of the People's Republic of China", Xinhua Pharmaceutical enjoys the preferential tax policy of levying corporate income tax at the tax rate of 15%. Xinhua Pharmaceutical is in the preferential tax period from January to June 2021, and the applicable income tax rate is 15%.

6.2.1.2 According to the approval of Shandong Provincial Department of Science and Technology, Shandong Provincial Department of Finance, State Administration of Taxation, Shandong Provincial Taxation Bureau Luoke Zi [2021] No. 10 document, Xinhua Pharmaceutical's subsidiary Shandong Zibo Xinda Pharmaceutical Co., Ltd. (hereinafter referred to as "Xinda Pharmaceutical ") was recognized as a high-tech enterprise, and obtained the high-tech enterprise certificate on December 8, 2020, with the number GR202037003952, valid for 3 years. According to the "Enterprise Income Tax Law of the People's Republic of China", Xinda Pharmaceuticals enjoys the preferential tax policy of corporate income tax at the tax rate of 15%. Xinda Pharmaceutical is in the preferential tax period from January to June 2021, and the applicable income tax rate is 15%

6.2.2 Shandong Lukang Pharmaceutical Co.,Ltd. (hereinafter referred to as "Lukang Pharmaceutical"):

6.2.2.1 According to the "Notice on Recognizing Shandongbei Douhuachen Navigation Technology Co., Ltd. and other 2064 companies as the second batch of high-tech enterprises in 2018" issued by the Shandong Provincial Department of Science and Technology, Shandong Provincial Department of Finance, and Shandong Provincial Taxation Bureau on February 22, 2019, Lukang Pharmaceutical passed the recognition of high-tech enterprise. The high-tech enterprise certificate number is GR201837002466, the date of issuance is November 30, 2018, and

the high-tech enterprise qualification is valid for 3 years.

6.2.2.2 According to the document Guokehuozi [2020] No. 36 of the National Leading Group Office of the National High-tech Enterprise Recognition Management Work on January 22, 2020, "Response to the first batch of high-tech enterprises in Shandong Province in 2019", Lukang Pharmaceutical's subsidiary, Shandong Lukang Shelile Pharmaceutical Co., Ltd., was registered as a high-tech enterprise. According to the relevant provisions of the "Enterprise Income Tax Law of the People's Republic of China" and the "Implementation Regulations of the Enterprise Income Tax Law of the People's Republic of China", Shandong Lukang Shelile Pharmaceutical Co., Ltd. actually implements the preferential corporate income tax rate of 15% from January to June 2021 .

6.2.2.3 According to the "Notice on Recognizing 505 Enterprises including Mecher Robot Automation Co., Ltd. as the first batch of high-tech enterprises in 2018" issued by the Shandong Provincial Department of Science and Technology, Shandong Provincial Department of Finance, and Shandong Provincial Taxation Bureau on February 22, 2019 , Shandong Lukang Bio-manufacturing Co., Ltd., a subsidiary of Lukang Pharmaceutical, passed the high-tech enterprise certification. The high-tech enterprise certificate number is GR201837000196, the date of issuance is August 16, 2018, and the validity period is 3 years. According to the relevant provisions of the "Enterprise Income Tax Law of the People's Republic of China" and the "Implementation Regulations of the Enterprise Income Tax Law of the People's Republic of China", Shandong Lukang Biological Manufacturing Co., Ltd. actually implements the preferential corporate income tax rate of 15% from January to June 2021.

6.2.2.4 According to the document No. 25 Guokehuozi [2021] No. 25 of the Office of the National High-tech Enterprise Recognition Management Work Leading Group on January 15, 2021, "Response to the Second Batch of High-tech Enterprises in Shandong Province in 2020", Lukang Pharmaceutical's subsidiary, Shandong Lukang Pharmaceutical Group Saite Co., Ltd. , passed the high-tech enterprise certification. The number of the high-tech enterprise certificate is GR202037002856, the date of issuance is December 8, 2020, and the validity period is 3 years. According to the relevant provisions of the "Enterprise Income Tax Law of the People's Republic of China" and the "Implementation Regulations of the Enterprise Income Tax Law of the People's

Republic of China", Shandong Lukang Pharmaceutical Group Saite Co., Ltd. actually implements the preferential corporate income tax rate of 15% from January to June 2021 .

6.2.1.5 Shandong Lukang Pharmaceutical's subsidiaries, Shandong Lukang International Trade Co., Ltd., Shandong Lukang Biotechnology Development Co., Ltd., Shandong Lukang Hecheng Pharmaceutical Co., Ltd., Shandong Lukang Biochemical Operation Co., Ltd. and Shandong Lukang Electromechanical Engineering Co., Ltd. belong to the small and low-profit enterprises. According to the "Notice on Implementing Inclusive Tax Deduction Policies for Small and Micro Enterprises" (Caishui [2019] No. 13) issued by the Ministry of Finance and the State Administration of Taxation, from January 1, 2019 to December 31, 2021 , the part of small and low-profit enterprises whose annual taxable income does not exceed 1 million yuan, 25% shall be included in the taxable income, and the corporate income tax shall be paid at the tax rate of 20%; the part of the annual taxable income exceeding 1 million yuan but not in excess of 3 million yuan will be included in taxable income at a reduced rate of 50%, and corporate income tax will be paid at a tax rate of 20%.

6.2.3 Shandong Lukang Zhonghe Environment Protection Technology Co., Ltd. (hereinafter referred to as " Lukang Zhonghe "):

According to Shandong Provincial Department of Science and Technology, Shandong Provincial Department of Finance, Shandong Provincial State Taxation Bureau, and Shandong Provincial Local Taxation Bureau Luke Gaozi [2015] No. 154 dated December 10, 2015, Lukangzhonghe passed the high-tech enterprise review. Obtained the high-tech enterprise certificate (certificate number GR201837000342) on August 16, 2018. In accordance with the relevant provisions of the "Enterprise Income Tax Law of the People's Republic of China" and the "Implementation Regulations of the Enterprise Income Tax Law of the People's Republic of China", from January 1, 2015, it enjoy the preferential tax policy of 15% of the high-tech enterprise income tax rate.

6.2.4 Shandong Hualu-Hengsheng Group Co.,Ltd (hereinafter referred to as " Hualu-Hengsheng Group "):

6.2.4.1 The Ministry of Finance and the State Administration of Taxation Caishui [2019] No. 13 "Notice on the Implementation of Inclusive Tax Relief Policies for Small and Micro Enterprises"

stipulates: Dezhou Minxin Service Co., Ltd., a subsidiary of Hengsheng Group, from January 1, 2019 to December 31, 2021, for small and low-profit enterprises that meet the requirements and meet the annual taxable income of not more than 3 million yuan, their income will be reduced to 25% of the taxable income, and the corporate income tax will be paid at the tax rate of 20%. The portion of the annual taxable income exceeding 1 million yuan but not exceeding 3 million yuan shall be included in the taxable income at a reduced rate of 50%, and the income tax shall be paid at the tax rate of 20%.

6.2.4.2 According to the notice issued by the Shandong Province High-tech Enterprise Certification Management Agency on December 7, 2020 of the "Shandong Province's 2020 First Batch of High-tech Enterprises List", Shandong Hualu Hengsheng Chemical Co., Ltd., a subsidiary of Hengsheng Group, obtained the high-tech enterprise certificate, the number is GR202037000299, and the corporate income tax will be paid at a tax rate of 15% from January to June 2021.

6.2.5 Shandong Provincial Environmental Protection Research and Design Institute Co., Ltd. (hereinafter referred to as "Academy of Environmental Sciences"):

6.2.5.1 Approved by the Shandong Provincial Department of Science and Technology, Shandong Provincial Department of Finance, and Shandong Provincial Taxation Bureau of the State Administration of Taxation, the Academy of Environmental Sciences obtained the high-tech enterprise certificate numbered GR201837000388 on November 30, 2018, and the applicable income tax rate is 15%.

6.2.5.2 Approved by Shandong Provincial Department of Science and Technology, Shandong Provincial Department of Finance, and Shandong Provincial Taxation Bureau of the State Administration of Taxation, Shandong Provincial Academy of Environmental Sciences Environmental Engineering Co., Ltd., a subsidiary of the Academy of Environmental Sciences, obtained a high-tech enterprise certificate numbered GR201837000388 on August 16, 2018, the applicable income tax rate is 15%.

6.2.5.3 According to the third paragraph of Article 27 of the "Enterprise Income Tax Law": "The income from qualified environmental protection, energy saving and water saving projects can be exempted or reduced for corporate income tax." and Article 88 of the "Enterprise Income Tax Law

Implementation Regulations" , "Eligible environmental protection, energy-saving and water-saving projects referred to in Article 27(3) of the Enterprise Income Tax Law include public sewage treatment, public garbage treatment, comprehensive development and utilization of biogas, technical transformation of energy saving and emission reduction, seawater Desalination, etc. The income of enterprises engaged in the eligible environmental protection, energy-saving and water-saving projects specified in the preceding paragraph shall be exempted from corporate income tax for the first to third years starting from the tax year in which the project obtains the first production and operation income. From the year to the sixth year, the corporate income tax will be halved."

Linyi Kechuang Water Treatment Co., Ltd., a subsidiary of the Academy of Environmental Sciences, obtained the first operating income in 2016, and the tax year for which it was exempt from corporate income tax is from May 1, 2016 to December 31, 2018,.The period of enjoying the 50% reduction corporate income tax is from January 1, 2019 to December 31, 2021, and corporate income tax preferential matters have been filed.

6.2.5.4 The Ministry of Finance and the State Administration of Taxation Caishui [2019] No. 13 "Notice on the Implementation of Inclusive Tax Relief Policies for Small and Micro Enterprises" stipulates that from January 1, 2019 to December 31, 2021, the small and low-profit enterprises whose annual taxable income does not exceed 3 million yuan, their income is reduced by 25% in the taxable income, and the corporate income tax is paid at a tax rate of 20%. For the part of the annual taxable income exceeding 1 million yuan but not more than 3 million yuan is reduced by 50% and calculated into taxable income, and income tax is paid at the tax rate of 20%. Shandong Zhonglu Environmental Engineering Evaluation Center Co., Ltd., Shandong Boer Radiation Environmental Technology Co., Ltd. The annual taxable income of the company, Shandong Academy of Environmental Sciences Environmental Inspection Co., Ltd., and Linyi Kechuang Water Treatment Co., Ltd. does not exceed 3 million yuan, and the income tax rate of 20% is applicable.

6.2.6 China Shandong Group Co., Ltd. (hereinafter referred to as " Shandong Group "):

Shandong Hualu's subsidiaries, Shandong Huatong Chemical Co., Ltd., Shandong Hualu

International Business Center Co., Ltd., and Shandong Hualu International Advertising Co., Ltd. are applicable to the "Notice of the Ministry of Finance and the State Administration of Taxation on the Implementation of Inclusive Tax Reduction and Exemption Policies for Small and Micro Enterprises" (Caishui [2019] No. 13), for small and low-profit enterprises whose annual taxable income does not exceed 1 million yuan, the 25% reduction is included in the taxable income, and corporate income tax is paid at a tax rate of 20%;the portion of taxable income exceeding 1 million yuan but not exceeding 3 million yuan shall be included in the taxable income at the reduced rate of 50%, and the corporate income tax shall be paid at the tax rate of 20%.

7. Business combination and consolidated financial statements

7.1 Sub-enterprises

No.	Name of Subsidiaries	Level	Registration place	Business Nature	Paid-up capital (10 thousand yuan)	Holding proportion (%)
1	China Shandong Group Co., Ltd.	2	Jinan	Trade	11,112.00	100.00
2	China Shandong group limited	2	Hong Kong	Trade	25,424.97	100.00
3	Shandong Hualu-Hengsheng Group Co.,Ltd	2	Dezhou	Chemical	10,117.06	100.00
4	Shandong Xinhua Pharmaceutical Co.,Ltd.	2	Zibo	Pharmaceutical	62,736.74	36.63
5	Shandong Lukang Pharmaceutical Co.,Ltd.	2	Jining	Pharmaceutical	88,022.97	24.31
6	Shandong Lukang Zhonghe Environment Protection Technology Co., Ltd.	2	Jining	Environmental Protection	5,000.00	60.00
7	Huaru Investment Development Co., Ltd.	2	Jinan	Investment Management	30,000.00	100.00
8	Shandong Academy of Environmental Science Co.,Ltd	2	Jinan	Environmental Protection	9,804.00	51.00

Note: The Group has 43 third-level subsidiaries and 5 fourth-level subsidiaries.。

8. Notes to the consolidated financial statements

8.1 Cash at bank and on hand

Item	Balance as at 30/6/2021	Balance as at 1/1/2021
Cash on hand	180,295.80	245,404.81
Cash at bank	3,392,914,678.65	4,369,916,377.19
Other monetary funds	307,584,380.84	385,384,121.13
Total	3,700,679,355.29	4,755,545,903.13

Notes to the Financial Statement
For the Period ended June 30 2021
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Item	Balance as at 30/6/2021	Balance as at 1/1/2021
Including: the total balance deposited overseas	54,903,679.80	58,876,163.28

Details of other monetary funds:

Item	Balance as at 30/6/2021	Balance as at 1/1/2021
The bank acceptance deposit	225,916,666.75	289,359,993.63
Performance bond	3,802,432.48	11,065,604.48
The letter of credit deposit	4,413,891.65	200,000.00
Foreign exchange margin		3,000,000.00
Loans margin deposit	4,688,782.63	2,699,659.53
Deposited investment funds	195,575.36	
Frozen funds in bank deposits		8,007,451.83
Regulated advance receipt for the sale of real estate	41,320,658.61	41,320,658.61
Others	542,725.14	
Total	280,880,732.62	355,653,368.08

8.2 Financial assets held for trading

Item	Balance as at 30/6/2021	Balance as at 1/1/2021
Financial assets classified upon initial recognition as at fair value through profit or loss	1,842,984,592.90	1,087,556,502.10
Including: Equity instrument investment	246,537,937.14	83,416,674.72
Others	1,596,446,655.76	1,004,139,827.38
Total	1,842,984,592.90	1,087,556,502.10

Note: Others are functional deposits.

8.3 Accounts receivable

8.3.1 Accounts receivable by category

Item	As at 30/6/2021			
	Balance		Allowance for credit losses	
	Amount	PCT (%)	Amount	Allowance rate (%)
Individual assessment subject to allowance for credit losses	246,376,921.57	12.94	218,471,804.89	88.67
Account receivable withdrawing bad debt provision according to credit risk characteristic combination	1,657,788,756.79	87.06	255,770,120.01	15.43
Total	1,904,165,678.36	100.00	474,241,924.90	24.91

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Item	As at 1/1/2021			
	Balance		Allowance for credit losses	
	Amount	PCT (%)	Amount	Allowance rate (%)
Individual assessment subject to allowance for credit losses	248,349,698.99	16.91	220,744,582.31	88.88
Account receivable withdrawing bad debt provision according to credit risk characteristic combination	1,220,590,066.90	83.09	250,841,294.49	20.55
Total	1,468,939,765.89	100.00	471,585,876.80	32.10

8.3.1.1 Accounts receivable that are individually assessed allowance for credit losses

Company name	Book Balance	Allowance for credit losses	Aging	ECL rate (%)	Allowance reason
BIOASIALIMITED	57,639,741.82	40,347,819.27	More than 3 years	70.00	Expected to not be fully collectible
LABIOFAMS.ACUBA	28,549,323.59	19,984,526.51	More than 3 years	70.00	Expected to not be fully collectible
WEIFANG CHINA SHOW TEXTILES CO.,LTD.	25,874,754.84	25,874,754.84	More than 3 years	100.00	At the prosecution stage, it may be uncollectible
Shandong Quanlin Group Thermal Power Co. LTD	14,417,747.53	14,417,747.53	More than 3 years	100.00	Expected to be uncollectible
Shaanxi Lukang Pharmaceutical Co., LTD. (Zhang Baohou settles debts)	5,013,885.55	5,013,885.55	More than 3 years	100.00	Expected to be uncollectible
Zhanjiang Mazhang Ruiping Pharmaceutical Co. LTD	3,862,140.80	3,862,140.80	More than 3 years	100.00	Expected to be uncollectible
Lukang Feed branch factory	3,736,688.52	3,736,688.52	More than 3 years	100.00	Expected to be uncollectible
China Economic and trade Co., LTD	2,929,708.60	2,929,708.60	More than 3 years	100.00	For historical reasons
Anhui Province Taihe County Pharmaceutical Company pharmaceutical supply station	2,595,127.20	2,595,127.20	More than 3 years	100.00	Expected to be uncollectible
Jinan Medical procurement and supply station of Shandong Province	2,519,913.40	2,519,913.40	More than 3 years	100.00	Expected to be uncollectible
Shandong Ninghua Environmental Protection Building Materials Co., LTD	2,324,333.93	2,324,333.93	More than 3 years	100.00	The customer is bankrupt and it is uncollectible
Shandong Jiuda Pharmaceutical Co. LTD	2,255,677.20	2,255,677.20	More than 3 years	100.00	Expected to be uncollectible
Shandong Rui Traditional Chinese Medicine Co. LTD	2,248,893.40	2,248,893.40	More than 3 years	100.00	Expected to be uncollectible
Shandong Yikang Pharmaceutical Co. LTD	2,100,397.26	2,100,397.26	More than 3 years	100.00	Expected to be uncollectible
Shandong Jinyuyuan Co., LTD	1,873,260.00	1,873,260.00	More than 3 years	100.00	Expected to be uncollectible
Shandong Ecord Technology Development Co., LTD	1,820,966.09	1,820,966.09	More than 3 years	100.00	Expected to be uncollectible
Tengzhou Minsheng Pharmaceutical Co. LTD	1,841,653.00	1,841,653.00	More than 3 years	100.00	Expected to be uncollectible
Dezhou Lukang Pharmaceutical Management	1,814,782.77	1,814,782.77	More than 3 years	100.00	Expected to be uncollectible

Notes to the Financial Statement
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Company name	Book Balance	Allowance for credit losses	Aging	ECL rate (%)	Allowance reason
Co. LTD					
Zhangqiu Xiuhui town people's government	1,780,374.14	1,780,374.14	More than 3 years	100.00	Expected to be uncollectible
Lukang Three Leaf Company	1,759,164.28	1,759,164.28	More than 3 years	100.00	Expected to be uncollectible
Shandong Sanzheng Pharmaceutical Co. LTD	1,273,098.00	1,273,098.00	More than 3 years	100.00	Expected to be uncollectible
Chengdu Jinniu District Pharmaceutical Corporation procurement and supply station	1,267,640.00	1,267,640.00	More than 3 years	100.00	Expected to be uncollectible
Jinan Biochemical Medicine Corporation	1,227,238.08	1,227,238.08	More than 3 years	100.00	Expected to be uncollectible
Hunan Yinhai Pharmaceutical Co. LTD	1,179,916.60	1,179,916.60	More than 3 years	100.00	Expected to be uncollectible
Hunan Yinhai Pharmaceutical Co. LTD	1,079,342.00	1,079,342.00	More than 3 years	100.00	Expected to be uncollectible
Jinan Yongning Pharmaceutical Management Co. LTD	1,052,973.39	1,052,973.39	More than 3 years	100.00	Expected to be uncollectible
Hainan Pharmaceutical Corporation Drug Wholesale Department	1,017,240.00	1,017,240.00	More than 3 years	100.00	Expected to be uncollectible
Others	73,293,717.00	69,272,542.53	More than 3 years	94.51	Expected to not be fully collectible
Total	248,349,698.99	218,471,804.89			

8.3.1.2 Account receivable withdrawing bad debt provision according to credit risk characteristic combination

Group 1: Accounts receivable due from aging analysis:

Aging	As at 30/6/2021			As at 1/1/2021		
	Balance	ECL rate(%)	Allowance for credit losses	Balance	ECL rate(%)	Allowance for credit losses
Within 1 year	1,444,791,614.15	9.97	144,095,469.30	909,048,192.38	1.95	17,692,502.42
1-2 years	30,204,374.29	30.32	9,158,957.30	34,312,459.82	28.37	9,735,242.45
2-3 years	19,580,495.55	71.82	14,062,897.84	151,996,637.83	84.55	128,519,554.83
More than 3 years	83,908,144.86	99.75	83,694,547.89	100,752,856.39	92.73	93,425,199.56
Total	1,578,484,628.85		251,011,872.33	1,196,110,146.42		249,372,499.26

Group 2: Accounts receivable due from the balance percentage method :

Combination name	As at 30/6/2021			As at 1/1/2021		
	Balance	ECL rate(%)	Allowance for credit losses	Balance	ECL rate(%)	Allowance for credit losses
Coal chemical industry	79,304,127.94	6.00	4,758,247.68	24,479,920.48	6.00	1,468,795.23
Total	79,304,127.94	6.00	4,758,247.68	24,479,920.48	6.00	1,468,795.23

8.3.2 Accounts receivable due from the top five debtors of the Company are as follows:

Company name	Balance as at 30/6/2021	Percentage in total accounts receivable (%)	Balance of allowance for credit losses as at 30/6/2021
Zibo Yuchuan Construction Investment Co., LTD	48,799,153.66	2.56	487,991.54
Shandong Xinkangqi Pharmaceutical Co. LTD	40,405,087.51	2.12	40,405,087.51
Fujian Zhibao Trading Co., LTD	40,000,000.00	2.10	40,000,000.00
Fujian Rongding Industrial Co., LTD	40,000,000.00	2.10	40,000,000.00
FUZHOU JIEWANG TRADING CO., LTD.	39,200,000.00	2.06	39,200,000.00
Total	208,404,241.17	10.94	160,093,079.05

8.4 Receivables for financing

Item	Balance as at 30/6/2021	Balance as at 1/1/2021
Notes receivable	2,995,961,499.77	904,883,563.66
Total	2,995,961,499.77	904,883,563.66

8.5 Prepayments

8.5.1 Aging analysis of prepayments

Aging	As at 30/6/2021			As at 1/1/2021		
	Balance	ECL(%)	Allowance for credit losses	Balance	ECL(%)	Allowance for credit losses
Within 1 year	404,963,706.29			321,620,020.91		
1-2 years	12,076,306.72			7,175,677.36	0.01	716.53
2-3 years	353,926.97			1,295,663.10		
More than 3 years	62,401,743.67	94.97	59,264,249.49	63,519,512.11	93.30	59,264,249.49
Total	479,795,683.65	12.35	59,264,249.49	393,610,873.48	15.06	59,264,966.02

The prepayments with aging more than 1 year

Creditor name	Debtor name	Balance as at 30/6/2021	Aging	Reasons for outstanding balance
China Shandong Group Co., Ltd.	Shandong Sedan Chair Gao Trading Co., LTD	40,330,807.72	More than 3 years	Involved in appeal
China Shandong Group Co., Ltd.	Huanyuan County Tongjin Mining Co. LTD	8,098,012.62	More than 3 years	Involved in appeal
China Shandong Group Co., Ltd.	Shandong Shunhe Economic and trade Co. LTD	5,558,195.18	More than 3 years	Involved in appeal
Total		53,987,015.52		

8.5.2 The top five prepayments are as follows:

Company name	Balance as at 30/6/2021	Percentage in total prepayment(%)
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Company name	Balance as at 30/6/2021	Percentage in total prepayment(%)
Shandong Sedan Chair Gao Trading Co., LTD	40,330,807.72	8.41
Pingdingshan Jinhui Chemical Technology Service Co. LTD	32,165,953.00	6.70
CNPC north China Chemical Sales Branch	30,931,369.66	6.45
SHAN XI HUA YANG GROUP NEW ENERGY CO.,LTD.	26,327,096.56	5.49
Shanxi Yangquan Yinying Coal Industry Co., LTD	15,218,095.82	3.17
Total	144,973,322.76	30.22

8.6 Other receivables

Category	Balance as at 30/6/2021	Balance as at 1/1/2021
Interest receivable	8,302,818.33	3,227,087.50
Other receivables	280,479,637.88	271,463,401.40
Less: Allowance for credit losses	138,184,073.25	144,113,142.46
Total	150,598,382.96	130,577,346.44

8.6.1 Category of interest receivable

Item	Balance as at 30/6/2021	Balance as at 1/1/2021
Bond investments	8,302,818.33	3,227,087.50
Total	8,302,818.33	3,227,087.50

8.6.2 Other receivables

8.6.2.1 Category of other receivables by nature

Nature	Balance as at 30/6/2021	Balance as at 1/1/2021
Current account	166,751,298.22	150,190,277.16
Reserve fund	4,828,276.74	3,364,860.17
Guaranteed deposit	47,092,049.14	54,644,400.19
deposit	7,536,303.43	4,904,074.29
Other	54,271,710.35	58,359,789.59
Less: Allowance for credit losses	138,184,073.25	144,113,142.46
Total	142,295,564.63	127,350,258.94

8.6.2.2 Aging analysis of other receivables

Aging	Balance as at 30/6/2021		Balance as at 1/1/2021	
	Balance	PCT (%)	Balance	PCT (%)
Within 1 year	120,345,975.77	42.91	122,902,176.08	45.27
1-2 years	20,150,766.90	7.18	38,595,575.55	14.22
2-3 years	35,343,570.38	12.60	23,805,187.69	8.77

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Aging	Balance as at 30/6/2021		Balance as at 1/1/2021	
	Balance	PCT (%)	Balance	PCT (%)
3-4 years	21,399,752.72	7.63	34,130,681.37	12.57
4-5 years	31,810,479.96	11.34	398,355.95	0.15
More than 5 years	51,429,092.15	18.34	51,631,424.76	19.02
Total	280,479,637.88	100.00	271,463,401.40	100.00

8.6.2.3 The provision of allowance for credit losses

The allowance for credit losses	Stage one	Stage two	Stage three	Total
	12-month ECL	Lifetime ECL (credit-unimpaired)	Lifetime ECL (credit-impaired)	
Beginning balance	106,182,141.06		37,931,001.40	144,113,142.46
Revaluation of beginning balance	106,182,141.06		37,931,001.40	144,113,142.46
Provision	-6,295,759.63		366,690.42	-5,929,069.21
Reversal				
Write-off				
Other changes				
Ending balance	99,886,381.43	0.00	38,297,691.82	138,184,073.25

8.6.2.4 Other receivables due from the top five debtors are as follows:

Debtor name	Nature of balance	Balance as at 30/6/2021	Percentage in total other receivables(%)	Balance of allowance for credit losses as at 30/6/2021
Ping An International Financial Leasing Co., Ltd.	Guaranteed deposit	10,000,000.00	3.57	
People's Court of Quyang County, Hebei Province	Court deduction	9,900,000.00	3.53	9,900,000.00
Dezhou People's Government	Guaranteed deposit	5,000,000.00	1.78	5,000,000.00
Pingan Dianchuang International Finance Lease Co., LTD	loans	5,000,000.00	1.78	
Yucheng Chemical Plant	Winter Reserve Fund	4,153,372.26	1.48	4,153,372.26
Total		34,053,372.26	12.14	19,053,372.26

8.7 Inventories

8.7.1 Inventories by categories

Category	As at 30/6/2021			As at 1/1/2021		
	Book balance	Provision for diminution in value	Carrying amount	Book balance	Provision for diminution in value	Carrying amount
Raw materials	870,672,303.39	6,782,124.65	863,890,178.74	482,056,174.91	13,481,558.66	468,574,616.25

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Category	As at 30/6/2021			As at 1/1/2021		
	Book balance	Provision for diminution in value	Carrying amount	Book balance	Provision for diminution in value	Carrying amount
Self-manufactured semifinished product and work in progress	167,281,836.75	21,219,060.90	146,062,775.85	446,270,385.74	27,887,916.79	418,382,468.95
Finished goods	834,578,611.84	28,478,524.63	806,100,087.21	1,301,013,079.91	54,385,322.46	1,246,627,757.45
Revolving materials	714,925,251.59	29,551,099.92	685,374,151.67	15,778,281.24	389,816.88	15,388,464.36
Project construction (completed but unsettled payment)	65,653,784.73		65,653,784.73	42,367,631.17		42,367,631.17
Others	144,128,559.55		144,128,559.55	215,647,317.71	390,826.65	215,256,491.06
Total	2,797,240,347.85	86,030,810.10	2,711,209,537.75	2,503,132,870.68	96,535,441.44	2,406,597,429.24

8.8 Contract assets

Item	As at 30/6/2021			As at 1/1/2021		
	Balance	Allowance for credit losses	Carrying amount	Balance	Allowance for credit losses	Carrying amount
Warranty and progress payment	213,550,814.45	2,071,714.17	211,479,100.28	206,724,929.09	2,070,283.18	204,654,645.91
Total	213,550,814.45	2,071,714.17	211,479,100.28	206,724,929.09	2,070,283.18	204,654,645.91

8.9 Non-current assets due within one year

Item	Balance as at 30/6/2021	Balance as at 1/1/2021
Finance lease payments due within one year	65,452,223.51	87,605,581.71
Total	65,452,223.51	87,605,581.71

8.10 Other current assets

Item	Balance as at 31/6/2021	Balance as at 1/1/2021
Advanced payment of taxes	9,450,777.34	51,412,565.04
To be deducted Vat input tax	180,428,404.96	343,050,508.80
Others	8,344,091.71	1,443,216.01
Total	198,223,274.01	395,906,289.85

8.11 Debt investments

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Item	As at 30/6/2021			As at 1/1/2021		
	Balance	Provision for credit losses	Carrying amount	Balance	Provision for credit losses	Carrying amount
Shan Steel Group dollar bonds	65,520,000.00		65,520,000.00	65,520,000.00		65,520,000.00
Lushang Group dollar bonds	78,909,327.89		78,909,327.89	46,084,139.14		46,084,139.14
Bank of Qingdan Preference Shares	46,152,701.01		46,152,701.01	45,640,062.07		45,640,062.07
Yankuang Group dollar bonds	36,569,554.31		36,569,554.31	36,530,258.44		36,530,258.44
Guotaizulin dollar bonds	32,760,000.00		32,760,000.00	32,760,000.00		32,760,000.00
Lixia Jinan dollar bonds	45,864,000.00		45,864,000.00	45,864,000.00		45,864,000.00
Zhongtai International dollar bonds	45,864,000.00		45,864,000.00	45,864,000.00		45,864,000.00
Zhangqiu Jinan dollar bonds	45,864,000.00		45,864,000.00			
Qingdao Huatong dollar bonds	43,093,273.44		43,093,273.44			
Total	440,596,856.65		440,596,856.65	318,262,459.65		318,262,459.65

8.12 Long-term receivables

Item	As at 30/6/2021			As at 1/1/2021		
	Balance	Allowance for credit losses	Carrying amount	Balance	Allowance for credit losses	Carrying amount
Finance Leases	244,678,597.09	185,254,744.74	59,423,852.35	255,735,266.09	182,454,405.39	73,280,860.70
Including: Unrealized finance income	45,623,758.91	45,623,758.91		50,701,695.08		50,701,695.08
Others	129,719,159.60		129,719,159.60	124,226,326.73		124,226,326.73
Total	374,397,756.69	185,254,744.74	189,143,011.95	379,961,592.82	182,454,405.39	197,507,187.43

8.13 Long-term equity investment

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HUALU HOLDINGS CO.,LTD.

Item	As at 1/1/2021	Additions	Reductions	As at 30/6/2021
Investment to joint associates	50,125,861.76	44,038,100.00		94,163,961.76
Subtotal	50,125,861.76	44,038,100.00		94,163,961.76
Less: provision for impairment of long-term equity investment	3,882,999.22			3,882,999.22
Total	46,242,862.54	44,038,100.00		90,280,962.54

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Investee	Balance as at 1/1/2021	Movement during the financial year							Balance as at 30/6/2021	Provision for impairment as at 30/6/2021
		Addition of investment	Reduction of investment	Investment income/loss recognised under the equity method	Adjustment of OCI	Changes of other equity	Cash dividend or profit announced to be issued	Provision for impairment		
Associates										
Hualu Yellow River Delta (Ningxia) Equity Investment Fund (limited Partnership)	4,753,546.24								4,753,546.24	
Cansheng Pharmaceutical (Zibo) Co., Ltd.	41,489,316.30			596,471.59					42,085,787.89	
Lukang America Pharmaceuticals Ltd	3,882,999.22								3,882,999.22	3,882,999.22
Shandong Lukang Haoliyou Biotechnology Development Co., Ltd.		42,182,040.00		-660,411.59					41,521,628.41	
Suez Huanke Environmental Protection Technology (Jinan) Co., LTD		1,920,000.00							1,920,000.00	
Total	50,125,861.76	44,102,040.00		-63,940.00					94,163,961.76	3,882,999.22

8.14 Other equity instrument investments

Item	Investment cost	Balance as at 30/6/2021	Balance as at 1/1/2021	Changes in fair value of other comprehensive income in the current period
Shandong Railway Development Co.,Ltd Funds	622,130,000.00	622,130,000.00	622,130,000.00	
Shandong Investment Holding Group Co. LTD	690,000,000.00	690,000,000.00	690,000,000.00	
Subscription of new shares	23,145.42	23,145.42	23,145.42	
Shandong Huanke Kechuang Environmental Protection Technology Co. LTD	1,000,000.00	1,000,000.00	1,000,000.00	
Shandong Airlines Co. LTD	200,000.00	200,000.00	200,000.00	
Chengdu CNNC New Materials Co., LTD	4,700,000.00			
Dezhou Bank Co.,LTD	5,000,000.00	5,000,000.00	5,000,000.00	
Dezhou Modern Agriculture Development Co. LTD	1,000,000.00			
BANK OF COMMUNICATIONS CO.,LTD.	14,225,318.00	40,274,080.00	36,822,016.00	3,452,064.00
China Pacific Insurance (Group) Co. , Ltd.	7,000,000.00	144,850,000.00	192,000,000.00	-47,150,000.00
North Health And Medical Big Data Technology Co., LTD	60,000,000.00	60,000,000.00	60,000,000.00	
Tiangong Biotechnology (Tianjin) Co., LTD	2,000,000.00	7,000,000.00	2,000,000.00	
Guizhou Crown Energy Investment Co. LTD	11,000,000.00	11,000,000.00	11,000,000.00	
Total	1,418,278,463.42	1,581,477,225.42	1,620,175,161.42	-43,697,936.00

8.15 Investment property

Item	Balance as at 1/1/2021	Additions	Reductions	Balance as at 30/6/2021
I. Cost	597,030,603.67	33,231,378.15	21,909,185.31	608,352,796.51
Including: Buildings	585,455,833.49	33,231,378.15	21,909,185.31	596,778,026.33
Land use rights	11,574,770.18			11,574,770.18
II . Accumulated depreciation or amortization	200,968,671.50	20,578,738.48	1,784,649.22	219,762,760.76
Including: Buildings	197,586,790.49	20,346,172.60	1,784,649.22	216,148,313.87
Land use rights	3,381,881.01	232,565.88		3,614,446.89
III. Provision for impairment				
Including: Buildings				
Land use rights				

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Item	Balance as at 1/1/2021	Additions	Reductions	Balance as at 30/6/2021
IV. Carrying amount	396,061,932.17			388,590,035.75
Including: Buildings	387,869,043.00			380,629,712.46
Land use rights	8,192,889.17			7,960,323.29

8.16 Fixed assets

Category	Balance as at 30/6/2021	Balance as at 1/1/2021
Fixed assets	18,964,851,687.56	18,174,635,357.31
Disposal of fixed assets	12,201,578.45	
Total	18,977,053,266.01	18,174,635,357.31

8.16.1 Fixed assets

8.16.1.1 Movement of fixed assets

Item	Balance as at 1/1/2021	Additions	Reductions	Balance as at 30/6/2021
I. Cost	32,084,250,994.18	1,843,220,888.35	351,856,378.52	33,575,615,504.01
Including: Land assets	19,414,065.07			19,414,065.07
Buildings	6,715,934,500.27	359,671,407.80	43,225,328.26	7,032,380,579.81
Machinery & equipment	24,158,393,307.05	1,385,870,158.01	303,725,214.54	25,240,538,250.52
Transportation vehicles	156,085,568.55	14,155,306.98	2,293,995.95	167,946,879.58
Electronic equipment	1,007,408,555.21	82,301,328.48	787,420.81	1,088,922,462.88
Office equipment	8,066,234.33	701,113.62	7,280.00	8,760,067.95
Others	18,948,763.70	521,573.46	1,817,138.96	17,653,198.20
II. Accumulated depreciation	13,877,063,089.59	1,006,837,694.03	305,384,030.62	14,578,516,753.00
Including: Land assets	—	—	—	—
Buildings	1,759,849,460.87	140,920,572.34	16,403,077.81	1,884,366,955.40
Machinery & equipment	11,314,638,919.48	800,995,150.98	286,264,533.04	11,829,369,537.42
Transportation vehicles	83,995,602.95	7,387,580.85	1,945,342.49	89,437,841.31
Electronic equipment	700,347,160.78	56,685,790.78	754,808.28	756,278,143.28
Office equipment	6,124,967.26	319,079.66	7,280.00	6,436,766.92
Others	12,106,978.25	529,519.42	8,989.00	12,627,508.67
III. Provision for impairment	32,552,547.28	42,095.06	347,578.89	32,247,063.45
Including: Land assets	—	—	—	—
Buildings	4,145,994.61		7,023.84	4,138,970.77
Machinery & equipment	28,095,402.25	35,071.22	37,224.84	28,093,248.63
Transportation vehicles				
Electronic equipment	36,725.60		26,302.05	10,423.55

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Item	Balance as at 1/1/2021	Additions	Reductions	Balance as at 30/6/2021
Office equipment				
Others	274,424.82	7,023.84	277,028.16	4,420.50
IV. Carrying amount	18,174,635,357.31	—	—	18,964,851,687.56
Including: Land assets	19,414,065.07	—	—	19,414,065.07
Buildings	4,951,939,044.79	—	—	5,143,874,653.64
Machinery & equipment	12,815,658,985.32	—	—	13,383,075,464.47
Transportation vehicles	72,089,965.60	—	—	78,509,038.27
Electronic equipment	307,024,668.83	—	—	332,633,896.05
Office equipment	1,941,267.07	—	—	2,323,301.03
Others	6,567,360.63	—	—	5,021,269.03

8.16.2 Disposal of fixed assets

Item	Balance as at 30/6/2021	Balance as at 1/1/2021	Reasons for transfer to cleanup
Buildings	636,686.95		Process elimination of backward production capacity
Machinery & equipment	11,541,790.39		Process elimination of backward production capacity
Others	23,101.11		Long years, poor vehicle condition, replacement disposal
Total	12,201,578.45		

8.17 Construction in process

Category	As at 30/6/2021			As at 1/1/2021		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Projects constructed in process	4,305,258,954.51	1,368,000.00	4,303,890,954.51	4,063,377,030.82	1,368,000.00	4,062,009,030.82
Construction materials	149,453,983.13		149,453,983.13	98,603,833.66		98,603,833.66
Total	4,454,712,937.64	1,368,000.00	4,453,344,937.64	4,161,980,864.48	1,368,000.00	4,160,612,864.48

8.17.1 Movement of significant construction in progress

Project name	Budget	As at 1/1/2021	Additions	Transfer to fixed assets	Other reductions	As at 30/6/2021
High-end pharmaceutical preparation project	639,656,900.00	1,009,926.73				1,009,926.73
Biomedical Recycling Industrial Park Project	1,416,310,000.00	180,796,507.60	107,396,481.06			288,192,988.66

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Project name	Budget	As at 1/1/2021	Additions	Transfer to fixed assets	Other reductions	As at 30/6/2021
High-end new pharmaceutical preparation industrialization project injection workshop	212,340,000.00	101,709,562.02	30,628,462.19			132,338,024.21
Ibuprofen expansion and synthesis process capacity improvement project	98,230,000.00	57,246,627.03	33,475,119.88			90,721,746.91
Solid preparation international processing technology transformation project	174,290,000.00	51,131,819.27	1,086,337.77	25,335,354.79		26,882,802.25
Pharmaceutical Preparation Industry Base Phase II Project-Veterinary Drug Preparation Project	47,160,000.00	33,345,067.55	10,976,947.94			44,322,015.49
Wastewater Treatment (RTO) Project of the First Branch	16,000,000.00	13,308,946.06	4,688,490.10	17,997,436.16		
Wastewater Treatment (RTO) Project of the Second Branch	17,000,000.00	10,974,051.53	4,538,169.68	15,512,221.21		
Refined Adipic Acid Quality Improvement Project	1,572,000,000.00	1,342,192,280.57	226,871,932.85	1,569,064,213.42		
New amide and nylon material project (300,000 tons/year)	4,980,000,000.00	1,591,692,030.64	1,022,339,731.32			2,614,031,761.96
Total	9,172,986,900.00	3,383,406,819.00	1,442,001,672.79	1,627,909,225.58		3,197,499,266.21

8.17.2 Construction materials

Item	Balance as at 30/6/2021	Balance as at 1/1/2021
Special materials	588,310.31	636,245.85
Construction materials	148,865,672.82	97,967,587.81
Total	149,453,983.13	98,603,833.66

8.18 Right-of-use assets

Item	Balance as at 1/1/2021	Additions	Reductions	Balance as at 30/6/2021
I. Cost	6,623,972.51	1,066,613.96		7,690,586.47
Including: Buildings	6,623,972.51	1,066,613.96		7,690,586.47
II. Accumulated depreciation	2,074,615.40	873,097.84		2,947,713.24
Including: Buildings	2,074,615.40	873,097.84		2,947,713.24
III. Provision for impairment				

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Item	Balance as at 1/1/2021	Additions	Reductions	Balance as at 30/6/2021
Including: Buildings				
IV. Carrying amount	4,549,357.11	—	—	4,742,873.23
Including: Buildings	4,549,357.11	—	—	4,742,873.23

8.19 Intangible assets

Item	Balance as at 1/1/2021	Additions	Reductions	Balance as at 30/6/2021
I. Cost	2,573,233,190.59	233,488,279.21		2,806,721,469.80
Including: Software	42,631,136.89	1,818,536.56		44,449,673.45
Land use rights	2,382,504,572.95	211,524,071.05		2,594,028,644.00
Patent rights	3,891,279.37			3,891,279.37
Non-Patent techniques	102,520,041.15	20,145,671.60		122,665,712.75
Trademark rights	20,797,921.65			20,797,921.65
Franchise	18,273,315.34			18,273,315.34
Others	2,614,923.24			2,614,923.24
II. Accumulated depreciation	414,694,110.62	30,227,157.91		444,921,268.53
Including: Software	29,944,746.84	1,563,887.89		31,508,634.73
Land use rights	298,682,177.92	25,342,696.43		324,024,874.35
Patent rights	3,800,803.68	5,648.71		3,806,452.39
Non-Patent techniques	62,979,668.37	2,377,477.22		65,357,145.59
Trademark rights	13,786,678.81	632,730.76		14,419,409.57
Franchise	2,885,111.76	304,716.90		3,189,828.66
Others	2,614,923.24			2,614,923.24
III. Provision for impairment	13,612,210.60			13,612,210.60
Including: Software	15,107.90			15,107.90
Land use rights				
Patent rights				
Non-Patent techniques	7,234,191.05			7,234,191.05
Trademark rights	6,362,911.65			6,362,911.65
Franchise				
Others				
IV. Carrying amount	2,144,926,869.37	—	—	2,348,187,990.67
Including: Software	12,671,282.15	—	—	12,925,930.82
Land use rights	2,083,822,395.03	—	—	2,270,003,769.65
Patent rights	90,475.69	—	—	84,826.98
Non-Patent techniques	32,306,181.73	—	—	50,074,376.11
Trademark rights	648,331.19	—	—	15,600.43
Franchise	15,388,203.58	—	—	15,083,486.68
Others				

8.20 Development expenditures

Project	Balance as at 1/1/2021	Additions		Reductions		Balance as at 30/6/2021
		Internally development expenditures	Others	Profit or loss	Recognised as intangible assets	
Febuxostat, Febuxostat tablets	750,000.00	9,433.96				759,433.96
Parecoxib sodium raw material and freeze-dried powder injection	4,763,973.54	23,584.91		4,787,558.45		
Cefmenoxime hydrochloride raw materials and powder injections	1,600,000.00				1,600,000.00	
Memantine Hydrochloride/Donepezil Sustained Release Capsules	2,139,622.64					2,139,622.64
Ticagrelor raw materials and tablets	5,075,471.60					5,075,471.60
Dapagliflozin raw materials and tablets	9,014,214.03					9,014,214.03
GF-Process Development	34,368,134.90	11,851,254.74		3,298,679.16		42,920,710.48
ST-Process Development	39,950,073.47	7,672,544.19				47,622,617.66
DD-Process Development		55,586.71				55,586.71
Rosuvastatin calcium tablets	5,482,250.74					5,482,250.74
Celecoxib raw materials and capsules	1,565,660.37					1,565,660.37
Esomeprazole sodium and freeze-dried powder injection	3,213,018.86	900,000.00				4,113,018.86
Apixaban raw materials and tablets	1,215,000.00	14,150.94				1,229,150.94
Y-JYSTFTB project	1,604,150.94	1,673,018.86				3,277,169.80
CIGB-814 project	37,509,683.27	400,943.40			400,943.40	37,509,683.27
Aprepitant and capsules (specifications: 80mg, 125mg) commissioned to develop	2,520,000.00					2,520,000.00
R&D of Acarbose Tablets	7,972,075.22					7,972,075.22
CMS203 non-clinical safety evaluation study	1,786,117.94	799,525.73				2,585,643.67
Study on the Expression and Secretion Technology of Long-acting	200,000.00					200,000.00
TRN-157	7,333,004.50					7,333,004.50
Imatinib and tablets	1,140,000.00					1,140,000.00
Moxifloxacin Hydrochloride and Tablets	960,000.00					960,000.00
Gefitinib raw materials and tablets	1,060,000.00					1,060,000.00
Highly active Azotobacter chroococcus and Pseudomonas fluorescens products	2,702,517.45					2,702,517.45
Highly active Bacillus thuringiensis subsp. Israel and Bacillus sphaericus products	5,127,362.55					5,127,362.55

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Project	Balance as at 1/1/2021	Additions		Reductions		Balance as at 30/6/2021
		Internally development expenditures	Others	Profit or loss	Recognised as intangible assets	
Fermentation (biotransformation) production technology of levodopa		94,339.62				94,339.62
Total	179,052,332.02	23,494,383.06		8,086,237.61	2,000,943.40	192,459,534.07

8.21 Long-term deferred expenses

Item	Balance as at 1/1/2021	Additions	Amortization	Reductions	Balance as at 30/6/2021
Financing service expense	4,215,000.06		1,056,666.66		3,158,333.40
Asset decoration expense	6,270,205.70	770,118.53	830,736.44		6,209,587.79
Zoucheng office building renovation	634,780.56	10,570.62	267,286.38		378,064.80
Environmental protection R&D base 3# workshop usage expense	13,536,585.37				13,536,585.37
Company qualification expense	667,951.02		226,075.50		441,875.52
Compensation expenses and water rights for agricultural irrigation facilities	43,333,333.52		4,999,999.98		38,333,333.54
Rent of dormitory building in Linyi Office of Market Development Center	8,320.00		8,320.00		
Office rent of Linyi Office of Market Development Center	62,500.00		62,500.00		
Laboratory upgrade project	6,235,110.63		831,348.05		5,403,762.58
Right to use parking spaces on the ground	1,520,000.00		22,166.69		1,497,833.31
Advertising space usage rights expense	1,493,708.33		15,583.33		1,478,125.00
Renovation and renovation costs of the Pharmaceutical Innovation Park	11,916,370.88		1,232,728.02		10,683,642.86
Coal quota transfer expense		7,416,000.00	247,200.00		7,168,800.00
Li Bao Building rent		716,645.70	179,161.43		537,484.27
Software expense		10,500.00	875.01		9,624.99
Total	89,893,866.07	8,923,834.85	9,980,647.49		88,837,053.43

8.22 Deferred tax assets and deferred tax liabilities

8.22.1 Deferred tax assets and deferred tax liabilities before offsetting

Item	As at 30/6/2021		As at 1/1/2021	
	Deferred tax assets or liabilities	Deductible or taxable temporary differences	Deferred tax assets or liabilities	Deductible or taxable temporary differences
Deferred tax assets:				

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Item	As at 30/6/2021		As at 1/1/2021	
	Deferred tax assets or liabilities	Deductible or taxable temporary differences	Deferred tax assets or liabilities	Deductible or taxable temporary differences
Provisions for impairment of assets	138,498,676.63	643,701,749.35	145,892,448.07	673,047,942.74
Deferred income	3,722,648.20	23,450,154.68	4,023,548.21	25,456,154.74
Deductible losses	2,344,989.04	15,633,260.27	14,373,979.79	95,826,531.94
Accrued expenses	24,689,514.53	164,596,763.61	24,637,014.53	163,551,463.64
Unrealized internal profits from purchases and sales with subsidiaries	4,939,568.29	20,224,891.98	7,205,253.14	32,187,569.91
Changes in the fair value of financial assets that are measured at fair value and whose changes are included in the current profit and loss			396,894.68	1,240,875.90
Share-based payment	6,377,535.00	42,516,900.00	6,377,535.00	42,516,900.00
Others	8,463,940.99	54,786,825.51	4,978,726.39	31,962,144.82
Sub-total	189,036,872.68	964,910,545.40	207,885,399.81	1,065,789,583.69
Deferred tax liabilities:				
Changes in fair value of the financial assets recognised in other comprehensive income	24,398,815.46	118,757,160.85	31,803,738.26	211,736,525.38
Depreciation of fixed assets	90,612,862.03	553,310,942.63	76,820,255.78	473,709,913.42
Sub-total	115,011,677.49	672,068,103.48	108,623,994.04	685,446,438.80

8.23 Other non-current assets

Item	Balance as at 30/6/2021	Balance as at 1/1/2021
Advance payment for outsourcing patent technology		15,913,207.59
Prepayments for land, projects and equipments and other long-term assets	1,819,222,095.86	1,376,178,482.27
Advanced payment of taxes		604,745.48
Unrealized sale and leaseback gains and losses	7,236,778.22	8,469,014.32
Total	1,826,458,874.08	1,401,165,449.66

8.24 Short-term loans

Borrowing condition	Balance as at 30/6/2021	Balance as at 1/1/2021
Secured loans	37,553,360.00	10,569,200.00
Guarantee loans	781,475,808.60	1,059,293,302.39
Loans on credit	646,881,319.61	876,959,609.28
Total	1,465,910,488.21	1,946,822,111.67

8.25 Notes payable

Item	Balance as at 30/6/2021	Balance as at 1/1/2021
Bank acceptance notes	720,951,129.82	685,727,255.33
Total	720,951,129.82	685,727,255.33

8.26 Accounts payable

Item	Balance as at 30/6/2021	Balance as at 1/1/2021
Within 1 year (including 1 year)	3,133,749,688.84	2,689,040,580.66
1-2 years (including 2 year)	228,082,613.45	235,440,670.07
2-3 years (including 3 year)	45,634,418.86	32,338,685.11
More than 3 year	93,064,729.92	78,637,213.00
Total	3,500,531,451.07	3,035,457,148.84

8.27 Contract liabilities

Item	Balance as at 30/6/2021	Balance as at 1/1/2021
Within 1 year (including 1 year)	762,991,875.29	911,446,262.57
More than 1 year	56,318,369.33	200,793,781.93
Total	819,310,244.62	1,112,240,044.50

8.28 Employee benefits payable

8.28.1 Movement of employee benefits payable

Item	Balance as at 30/6/2021	Balance as at 1/1/2021
I. Short-term employee benefits	345,623,099.46	307,804,998.40
II. Post-employment benefits—defined contribution plans	258,309.02	485,840.04
Total	345,881,408.48	308,290,838.44

8.28.2 Details of the short-term employee benefits

Item	As at 1/1/2021	Accrued	Paid	As at 30/6/2021
Salaries, bonus, and allowances	169,806,024.83	976,425,267.21	941,887,727.63	204,343,564.41
Staff welfare	23,919,603.83	43,007,012.66	43,035,513.73	23,891,102.76
Social insurances	87,219.28	66,041,510.76	66,036,831.75	91,898.29
Including: Medical insurance	44,740.70	59,184,117.70	59,179,389.36	49,469.04
Work injury insurance	3,670.37	5,223,184.05	5,223,233.38	3,621.04
Maternity insurance	26,459.42	288,001.39	288,001.39	26,459.42
Others	12,348.79	1,346,207.62	1,346,207.62	12,348.79

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Item	As at 1/1/2021	Accrued	Paid	As at 30/6/2021
Housing Fund	800,110.64	81,185,497.17	81,251,687.13	733,920.68
Union funds and employee education fee	113,028,039.82	26,137,262.73	22,648,607.47	116,516,695.08
Others	164,000.00	9,839,934.99	9,958,016.75	45,918.24
Total	307,804,998.40	1,202,636,485.52	1,164,818,384.46	345,623,099.46

8.28.3 Defined contribution plans

Item	As at 1/1/2021	Accrued	Paid	As at 30/6/2021
Primary endowment insurance	451,137.37	119,282,144.84	119,510,388.23	222,893.98
Unemployment insurance	6,885.27	5,220,168.74	5,219,456.37	7,597.64
Pension insurance	27,817.40	32,105,995.52	32,105,995.52	27,817.40
Total	485,840.04	156,608,309.10	156,835,840.12	258,309.02

8.29 Taxes and surcharges payable

Category	Balance as at 30/6/2021	Balance as at 1/1/2021
Value added tax	41,674,384.74	84,062,735.84
Resource tax	6,103,143.20	5,157,482.40
Enterprise income tax	407,664,500.78	110,963,742.01
Estate tax	10,838,190.65	11,309,608.17
Land use tax	7,796,101.28	11,845,975.71
Individual income tax	6,064,262.56	20,546,757.85
Urban maintenance and construction tax	6,713,942.26	7,853,667.09
Educational surtax	2,900,077.30	3,521,780.02
Local educational surtax	1,909,569.84	2,098,558.29
Water conservancy construction fund	88,722.08	551,343.79
Other taxes and surcharges	5,906,764.88	5,588,665.96
Total	497,659,659.57	263,500,317.13

8.30 Other payables

Category	Balance as at 30/6/2021	Balance as at 1/1/2021
Interest payable	5,845,936.45	25,108,966.47
Dividends payable	101,096,622.07	6,991,505.02
Other payables	878,920,865.80	935,497,835.77
Total	985,863,424.32	967,598,307.26

8.30.1 Interest payable

Category	Balance as at 30/6/2021	Balance as at 1/1/2021
Interest for long-term loans	4,402,433.37	14,749,959.51
Interest on corporate bonds	971,539.63	2,978,367.59
Interest payable for short-term loans	471,963.45	7,151,912.98
Others		228,726.39
Total	5,845,936.45	25,108,966.47

8.30.2 Dividends payable

Category	Balance as at 30/6/2021	Balance as at 1/1/2021
Dividends for common shares	101,096,622.07	6,991,505.02
Total	101,096,622.07	6,991,505.02

8.30.3 Other payables

8.30.3.1 Other payables by nature

Nature	Balance as at 30/6/2021	Balance as at 1/1/2021
Warranty	67,249,711.64	10,296.00
Deposit and guaranteed deposit	100,408,846.89	105,492,270.25
Collection	191,000.00	1,783,871.55
Borrowing from non-financial institutions		1,900,000.00
Accrued expenses	155,404,136.63	160,807,982.92
Current accountt	1,332,680.77	64,977,499.93
Restricted stock repurchase obligations	54,296,376.80	54,296,376.80
Payable for engineering equipment	327,224,378.58	365,478,173.25
Others	172,813,734.49	180,751,365.07
Total	878,920,865.80	935,497,835.77

8.31 Non-current liabilities due within one year

Item	Balance as at 30/6/2021	Balance as at 1/1/2021
Long-term loans due within one year	1,277,198,008.67	1,195,536,321.35
Long-term payables due within one year	32,863,664.60	126,562,620.99
Others	47,344,874.36	1,557,200.49
Total	1,357,406,547.63	1,323,656,142.83

8.32 Other current liabilities

Item	Balance as at 30/6/2021	Balance as at 1/1/2021
Ultra-short-term financing bills	500,000,000.00	2,100,000,000.00
Deferred income	6,408,982.05	6,408,982.05
Output tax to be transferred	75,241,530.87	42,455,367.93
Total	581,650,512.92	2,148,864,349.98

8.33 Long-term loans

Borrowing condition	Balance as at 30/6/2021	Balance as at 1/1/2021
Secured loans	163,800,000.00	185,690,400.00
Guarantee loans	2,816,408,695.77	1,552,540,735.32
Loans on credit	247,967,405.22	364,237,939.80
Total	3,228,176,100.99	2,102,469,075.12

8.34 Bonds payable

Item	Balance as at 30/6/2021	Balance as at 1/1/2021
Corporate bonds	2,000,000,000.00	1,000,000,000.00
Total	2,000,000,000.00	1,000,000,000.00

8.34.1 Movement of bonds payable (excluding other financial instruments like preference shares, perpetual loans etc.)

Bond name	Par value	Issue date	Bond period	Issue amount
20 Hualu 01	1,000,000,000.00	2020-03-27	3 Years	1,000,000,000.00
21 Hualu 01	1,000,000,000.00	2021-04-28	5 Years	1,000,000,000.00
Total	2,000,000,000.00			2,000,000,000.00

Movement of bonds payable (Continued)

Bond name	Balance as at 1/1/2021	Issue in current period	Interest accrued on par value	Amortization of premium or discount	Repayment	Balance as at 30/6/2021
20 Hualu 01	1,000,000,000.00					1,000,000,000.00
21 Hualu 01		1,000,000,000.00				1,000,000,000.00
Total	1,000,000,000.00	1,000,000,000.00				2,000,000,000.00

8.35 Long-term payables

Nature	Balance as at 30/6/2021	Balance as at 1/1/2021
Long term payables	140,375,919.14	169,832,349.96
Special payables	27,752,845.48	19,595,934.54
Total	168,128,764.62	189,428,284.50

8.35.1 Long-term payables according to the nature of the payment

Item	Balance as at 30/6/2021	Balance as at 1/1/2021
Finance lease payable		25,805,521.17
Shandong Zhengfang Industrial Development Co. LTD	121,857,705.00	121,857,705.00
Sale and leaseback payment	18,518,214.14	22,169,123.79
Total	140,375,919.14	169,832,349.96

8.35.2 The ending balance of large-amount special payables

Item	Balance as at 1/1/2021	Accrued	Paid	Balance as at 30/6/2021
Ibuprofen continuous synthesis technology transformation project	12,500,000.00	2,500,000.00		15,000,000.00
The project to improve the supply guarantee ability of small varieties of medicines that are prone to shortages		7,900,200.00		7,900,200.00
Injection, solid preparation project	1,810,000.00			1,810,000.00
Total	14,310,000.00	10,400,200.00		24,710,200.00

8.36 Provisions

Item	Balance as at 30/6/2021	Balance as at 1/1/2021
Guarantees for third parties	20,750,786.02	20,750,786.02
Restructuring obligations	29,059,145.18	29,059,145.18
Others		2,798,439.25
Total	49,809,931.20	52,608,370.45

Note1: Explanation of external guarantee: In 1997, in accordance with the relevant merger policy requirements of the Zibo Municipal Government, Shandong Xinhua Pharmaceutical Group Co., Ltd. ("Xinhua Group"), the subsidiary company of the Company, successively merged three loss-making enterprises including Shandong Zibo Acid Plant, Zibo Dongfeng Chemical Plant, and Shandong Dongda Group, and had undertaken corresponding bank loan guarantee responsibilities for the aforementioned three enterprises. Among them, the Zibo Dongfeng Chemical Plant (later changed to Shandong Xinhua Dongfeng Chemical Company), which Xinhua Group merged on March 31, 2003, provided 4 bank loan guarantees and assumed joint guarantee responsibilities. The principal amount of the four borrowings was RMB 12.91 million. As of December 31, 2009, the accumulated interest owed was RMB 6,633,800, and the total principal and interest amounted to RMB 19,550,800. The above guarantee contracts have all expired, and the bank collects the arrears through notarized delivery every year, and requires the company to perform the guarantee responsibilities.

Note2: Description of the reorganization obligation: The Company's subsidiary, the Academy of Environmental Sciences, was originally an institution under the Shandong Provincial Environmental Protection Department. In 2016, according to the Shandong Provincial Environmental

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Protection Department's "Request for Adjustment of the Shandong Provincial Environmental Protection Research and Design Institute Transformation Plan" (Luhuanfa [2016] No. 44) and the Shandong Provincial People's Government "Approval of the Approval of the Transformation of Shandong Provincial Environmental Protection Research and Design Institute into a State-owned Enterprise" (Luzhengzi [2016] No. 90) documents, it began to be transformed into a state-owned enterprise. According to the number of retirees, internal retired persons, resignation and the number of persons who choose to enter the enterprise, the expected wages, social insurance premiums and economic compensations to be assumed are included in the estimated liabilities-restructuring obligation as the cost of the transformation of a public institution into a state-owned enterprise.

8.37 Deferred income

8.37.1 Deferred income by category

Item	Balance as at 1/1/2021	Increase	Decrease	Balance as at 30/6/2021
Government grants	269,184,361.51	18,432,805.00	18,061,416.63	269,555,749.88
Expansion fee	61,919,288.31	325,153.75		62,244,442.06
Total	331,103,649.82	18,757,958.75	18,061,416.63	331,800,191.94

8.37.2 Deferred income from government grants

Item	Balance as at 1/1/2021	Increase	Recorded in profit or loss for current period	Other movement	Balance as at 30/6/2021	Related to assets/income
Government subsidies for the renovation of heating pipe networks in old communities	23,981,666.60		1,240,208.34			Related to assets
Special funds for oxo synthesis project	1,058,035.68					Related to assets
Special funds for flue gas desulfurization renovation project	1,142,857.16					Related to assets
Special funds for upgrading traditional industries and comprehensive utilization of cleaner production	2,994,642.86					Related to assets
Special Funds for Air Pollution Prevention and Control	5,814,285.71					Related to assets
Special Funds for Air Pollution Prevention and Control	833,333.32		250,000.00			Related to assets
Special Funds for Air Pollution Prevention and Control	2,332,583.33		608,500.00			Related to assets
Special Funds for Air Pollution Prevention and Control	3,912,500.00		787,500.00			Related to assets
Special funds for MVR energy-saving renovation	1,680,000.00		240,000.00			Related to assets
Comprehensive air pollution prevention and control project for the recovery of methylene chloride and other organic gases	28,191,250.00		1,780,500.00			Related to assets

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Item	Balance as at 1/1/2021	Increase	Recorded in profit or loss for current period	Other movement	Balance as at 30/6/2021	Related to assets/income
Modern Medicine International Cooperation Center Project *1	59,410,650.00	1,016,500.00	3,779,954.15			Related to assets
New construction project Dongyuan 2000m3/day sewage treatment system	3,035,500.00		233,500.00			Related to assets
Modern Chemical Medicine Industrialization Center (II) Project	1,740,037.50		127,315.00			Related to assets
Xinhua Pharmaceutical E-commerce Health Innovation Industrial Park Project	820,333.34		53,500.00			Related to assets
Hormone series product technological transformation project	4,491,245.83		294,000.00			Related to assets
Research and industrialization project of polycarbophil calcium and tablets	2,663,000.00		168,000.00			Related to assets
Aspirin Technical Transformation Project	3,000,000.00		200,000.00			Related to assets
High-tech Zone Medical and Health Industry Support Project	683,067.76		62,986.34			Related to assets
Caffeine green key technology and continuous system construction project	1,600,000.00					Related to assets
Equipment government subsidy *2	7,047,366.68	5,000,000.00	285,700.00			Related to assets
Injection transformation GMP project (high-end pharmaceutical preparation industrialization project)	19,419,000.00					Related to assets
Policy-based preferential loan interest discount	51,250.00				-51,250.00	Related to assets
Others	3,779,118.70		312,015.00			Related to assets
Total	179,681,724.47	6,016,500.00	10,423,678.83		-51,250.00	

8.38 Other non-current liabilities

Item	Balance as at 30/6/2021	Balance as at 1/1/2021
Authorized reserve fund	3,561,500.00	3,561,500.00
Total	3,561,500.00	3,561,500.00

8.39 Share capital

Item	Balance as at 1/1/2021		Increase	Decrease	Balance as at 30/6/2021	
	Investment amount	Proportion (%)			Investment amount	Proportion (%)
State-owned Assets Supervision and Administration Commission of Shandong People's Government	1,835,700,000.00	59.16			1,835,700,000.00	59.16

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Item	Balance as at 1/1/2021		Increase	Decrease	Balance as at 30/6/2021	
	Investment amount	Proportion (%)			Investment amount	Proportion (%)
Social Security Fund Council of Shandong Province	262,200,000.00	8.45			262,200,000.00	8.45
Shandong Finance investment Group Co. LTD	377,700,000.00	12.17			377,700,000.00	12.17
Shandong Development Investment Holding Group Co. LTD	103,000,000.00	3.32			103,000,000.00	3.32
Shandong Guohui Investment Co. LTD	524,400,000.00	16.90			524,400,000.00	16.90
Total	3,103,000,000.00	100.00			3,103,000,000.00	100.00

8.40 Capital reserve

Category	Balance as at 1/1/2021	Increase	Decrease	Balance as at 30/6/2021
I. Capital premiums	998,450,495.41			998,450,495.41
II. Other capital reserve	144,122,272.76			144,122,272.76
Total	1,142,572,768.17			1,142,572,768.17

8.41 Other comprehensive income

Item	Balance as at 1/1/2021	Movement in the year						Balance as at 30/6/2021
		Amount before tax	Less: OCI in prior periods transfer in profit or loss for the current period	Less: OCI in prior periods carried forward to retained earnings	Less: income tax	Amount after tax attributable to the Company	Amount after tax attributable to minority interests	
OCI items which will be reclassified subsequently to profit or loss	58,309,482.31	-44,075,137.05			-6,554,690.40	-12,250,425.82	-25,378,373.44	46,059,056.49
Including: gains and losses from changes in fair value of available-for-sale financial assets	48,804,050.12	-43,697,936.00			-6,554,690.40	-12,127,269.68	-25,124,328.53	36,676,780.44
Translation differences from translation of foreign currency financial statements	9,505,432.19	-377,201.05				-123,156.14	-254,044.91	9,382,276.05
Total of OCI	58,309,482.31	-44,075,137.05			-6,554,690.40	-12,250,425.82	-25,378,373.44	46,059,056.49

8.42 Special reserve

Category	Balance as at 1/1/2021	Increase	Decrease	Balance as at 30/6/2021
Safety costs	2,832,008.45	8,593,689.63	7,995,152.28	3,430,545.80
Total	2,832,008.45	8,593,689.63	7,995,152.28	3,430,545.80

8.43 Surplus reserve

Category	Balance as at 1/1/2021	Increase	Decrease	Balance as at 30/6/2021
Statutory surplus reserve	34,432,803.61			34,432,803.61
Total	34,432,803.61			34,432,803.61

8.44 Retained earnings

Item	As at 30/6/2021	
	Amount	Appropriation proportion
Retained earnings as at 1/1/2021	4,775,578,291.29	
Add: Net profit attributable to the Company during the year	1,305,533,214.81	
Less: Appropriation of statutory surplus reserve	22,900,000.00	10%
Retained earnings as at 30/6/2021	6,058,211,506.10	

8.45 Operating income and operating costs

Item	Period from Jan to June 2021		Period from Jan to June 2020	
	Income	Costs	Income	Costs
I. Primary operating business	17,932,630,270.16	11,425,677,230.84	11,504,433,584.23	8,748,768,192.68
Chemical industry	9,253,289,047.84	5,150,298,776.69	4,094,145,971.52	3,322,557,291.00
fertilizer	2,076,159,908.75	1,354,958,612.52	1,778,480,748.76	1,209,457,332.72
preparation	1,488,746,016.48	1,020,655,330.15	1,344,752,815.46	993,976,942.77
Raw materials	2,598,261,439.57	1,885,590,507.47	1,538,952,813.09	1,010,529,763.98
Pharmaceutical intermediates and others	1,701,358,820.90	1,248,488,296.13	2,339,204,239.24	1,867,740,461.12
Technical Services	222,927,974.70	177,958,681.38	89,028,534.03	52,216,983.18
Thermoelectric	95,083,937.97	106,074,461.53	79,365,338.53	81,138,153.81
Finance lease income	6,147,261.56	8,082,510.02	11,703,781.35	17,426,302.59
Trade income	378,633,003.80	374,993,445.59	74,572,155.83	73,553,437.29
contractor	5,833,140.60	5,646,753.63	77,294,039.71	68,364,588.98
Others	106,189,717.99	92,929,855.73	76,933,146.71	51,806,935.24
II. Other operating business	245,907,904.66	208,732,916.23	102,626,499.70	144,969,169.99
Lease income	10,639,570.43	3,266,604.23	11,033,874.92	184,269.13
Others	235,268,334.23	205,466,312.00	91,592,624.78	144,784,900.86
Total	18,178,538,174.82	11,634,410,147.07	11,607,060,083.93	8,893,737,362.67

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8.46 Taxes and surcharges

Item	Period from Jan to June 2021	Period from Jan to June 2020
Property tax	20,797,799.51	18,269,570.68
Land use tax	2,318,818.90	27,406,174.76
Urban maintenance and construction tax	38,016,278.27	28,913,951.02
Educational surcharge	16,297,374.96	12,367,511.18
Stamp duty	7,127,528.63	2,670,532.48
Local educational surtax	10,879,486.13	8,245,147.58
Water conservancy construction fund	11,417.10	2,056,845.81
Vehicle and vessel use tax	85,056.20	76,230.68
Others	6,809,357.31	3,160,470.50
合 计 Total	102,343,117.01	103,166,434.69

8.47 Selling and distribution expenses

Item	Period from Jan to June 2021	Period from Jan to June 2020
Sales service expenses	303,949,065.41	219,971,587.66
Employee benefits	138,490,906.39	114,985,770.74
Transport expenses		52,220,684.72
Advertising expenses	6,071,619.47	12,357,247.89
Depreciation	5,102,160.15	3,976,601.91
Custody expenses	5,102,134.57	5,034,760.13
Business expenses	127,128,573.19	111,416,672.88
Others	43,022,546.16	47,261,089.73
Total	628,867,005.34	567,224,415.66

8.48 General and administrative expenses

Item	Period from Jan to June 2021	Period from Jan to June 2020
Employee benefits	206,802,112.58	165,977,717.91
Depreciation	53,456,894.89	44,005,754.43
Amortization	27,065,376.10	24,519,288.19
Hiring intermediary agency expenses	18,669,837.98	3,677,078.35
Consulting expenses	10,948,771.16	11,963,523.43
Retirement expenses	6,285,022.24	4,944,909.26
Office expenses	5,427,177.15	5,080,992.81
Repair expenses	5,294,680.94	4,435,548.29
Business Hospitality	5,109,489.51	3,543,455.85
Consultation expenses	4,432,364.09	899,844.50
Travel expenses	3,583,977.15	2,039,029.14
Rental expenses	2,908,074.12	5,096,313.98

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Item	Period from Jan to June 2021	Period from Jan to June 2020
Insurance expenses	546,008.66	334,610.95
Litigation expenses	265,954.08	1,431,288.43
Conference expenses	128,586.46	124,856.02
Others	74,300,731.15	67,956,982.62
Total	425,225,058.26	346,031,194.16

8.49 Research and development expenses

Item	Period from Jan to June 2021	Period from Jan to June 2020
Employee benefits	143,177,210.53	114,744,071.70
Materials expenses	161,935,349.41	156,843,382.90
Power expenses	7,195,132.24	5,617,385.36
Depreciation and amortization	23,904,222.18	21,626,082.30
New technology and new process	235,841.58	
Others	89,806,913.20	82,005,381.79
Total	426,254,669.14	380,836,304.05

8.50 Finance expenses

Item	Period from Jan to June 2021	Period from Jan to June 2020
Interest expenses	131,399,473.94	138,194,432.58
Less: interest income	30,964,799.97	23,848,462.93
Less: Gains from foreign exchange	-4,615,203.81	3,969,696.85
Others	6,096,051.61	5,633,958.60
Total	111,145,929.39	116,010,231.40

8.51 Other income

Item	Period from Jan to June 2021	Period from Jan to June 2020
Government grants	28,751,602.95	44,016,552.39
Total	28,751,602.95	44,016,552.39

8.52 Investment income

Category	Period from Jan to June 2021	Period from Jan to June 2020
Gain/(Loss) from long-term equity investments in equity method	-63,940.00	-1,860,254.87
Gain/(Loss) on financial assets held for trading for the current period	8,336,203.92	26,648,355.28
Gain/(Loss) on disposal of financial assets held for trading for the current period	960,012.46	-829,720.32

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Category	Period from Jan to June 2021	Period from Jan to June 2020
Interest income from debt investments during the holding period	11,023,879.49	9,352,735.44
Interest income from other debt investments during the holding period	7,368,279.00	5,440,455.00
Gains/(Loss) on other equity instrument investments during the holding period	7,368,279.00	5,440,455.00
Gain/(Loss) on disposal of other equity instrument investments	97,137.91	1,533,728.22
Others		559,545.00
Total	27,721,572.78	40,844,843.75

8.53 Credit impairment losses

Item	Period from Jan to June 2021	Period from Jan to June 2020
Allowance for credit losses	-12,516,868.88	
Total	-12,516,868.88	

8.54 Impairment on assets

Item	Period from Jan to June 2021	Period from Jan to June 2020
Provision for diminution in value of inventory	-48,037,654.49	282,736.99
Allowance for credit losses		-5,432,421.52
Impairment loss on fixed assets	126,397.34	
Total	-47,911,257.15	-5,149,684.53

8.55 Gains from disposal of assets

Item	Period from Jan to June 2021	Period from Jan to June 2020
Net income from disposal of fixed assets	-11,593.57	207,360,268.91
Total	-11,593.57	207,360,268.91

8.56 Gain from fair value changes

Source of gains/(losses) from changes in fair value	Period from Jan to June 2021	Period from Jan to June 2020
Financial assets measured at fair value through profit or loss for the current period	10,026,839.20	-6,542,153.46
Total	10,026,839.20	-6,542,153.46

8.57 Non-operating income

Item	Period from Jan to June 2021	Period from Jan to June 2020
Government grants from non-routine activities	721,000.00	
Non-current assets damage and retirement gains	35,784.00	10,193,159.02
Confiscation income	577,357.00	950,924.89
Compensation income	465,552.54	210,883.33
Unpayable	194,861.00	237,253.11
Others	2,002,918.00	1,122,626.97
Total	3,997,472.54	12,714,847.32

8.58 Non-operating expenses

Item	Period from Jan to June 2021	Period from Jan to June 2020
Donation		7,161,227.59
Losses on damage or abandonment of non-current assets	281,331.88	577,574.99
Liquidated damages, compensation, late fees and fines	85,032.26	131,657.50
Relocation expenses	632,100.40	
Three supply and one industry expenditure	1,294,884.16	
Others	2,794,466.86	1,829,730.56
Total	5,087,815.56	9,700,190.64

8.59 Income tax expenses

8.59.1 Details of income tax expenses

Item	Period from Jan to June 2021	Period from Jan to June 2020
Current income tax expense calculated according to tax laws	733,116,649.58	209,002,863.78
Deferred income tax	31,676,776.28	-4,510,578.94
Total	764,793,425.86	204,492,284.84

8.59.2 Reconciliation between income tax expenses and accounting profit is as follows:

Item	Amount
Profit before tax	4,855,262,200.92
Income tax expenses calculated at statutory/applicable tax rates	747,075,058.75
Effect of different tax rate of subsidiaries	11,071,581.38
Effect of adjustment for income tax in prior year	11,169,221.55
Effect of income not subject to income tax	-1,064,470.74

Notes to the Financial Statement
For the Period ended June 30 2021
HUALU HOLDINGS CO.,LTD.

Item	Amount
Effect of expenses nondeductible for tax purposes	3,314,024.72
Effect of utilization of deductible temporary differences or deductible losses in prior years which haven't been recognised deferred tax assets	-17,894,919.25
Effect of unrecognised deductible temporary differences and deductible losses in current period	11,364,903.28
Others	-241,973.83
Income tax expenses	764,793,425.86

8.60 Notes to statement of cash flows

8.60.1 Supplement to statement of cash flows

Item	Period from Jan to June 2021	Period from Jan to June 2020
Net profit adjusted to cash flows from operating activities		
Net profit	4,090,468,775.06	1,279,106,340.20
Add: provision for asset impairment	47,911,257.15	5,149,684.53
Credit impairment losses	12,516,868.88	
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of productive biological assets and depreciation of investment property	1,028,289,530.35	941,022,368.07
Amortization of intangible assets	30,227,157.78	26,067,307.99
Amortization of long-term deferred expenses	9,980,647.49	7,478,109.71
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	11,243.57	-220,318,587.44
Losses on write-down of fixed assets ("-" for gains)	280,431.61	-9,800,001.44
Losses from changes in fair value ("-" for gains)	-10,026,839.20	6,507,713.46
Financial expenses ("-" for income)	117,013,009.39	123,417,426.85
Investments losses ("-" for gains)	-27,721,572.78	-35,304,343.82
Decreases in the deferred tax assets ("-" for increases)	45,619,949.21	9,481,925.20
Increases in the deferred tax liabilities ("-" for decreases)	-25,781,235.94	4,804,492.94
Decreases in inventories ("-" for increases)	-294,170,934.04	185,496,404.31
Decreases in operating receivables ("-" for increases)	-2,847,579,752.38	247,168,296.84
Increases in operating payables ("-" for decreases)	229,477,674.57	-836,263,850.09
Others		
Net cash flows from operating activities	2,406,516,210.72	1,734,013,287.31
Significant investing and financing activities not involving cash inflow and outflow		
Conversion of debt into capital		
Convertible corporate bonds maturing within one year		
Fixed assets acquired under financial lease		
Net change in cash and cash equivalents		

Notes to the Financial Statement
For the Period ended June 30 2021
HUALU HOLDINGS CO.,LTD.

Item	Period from Jan to June 2021	Period from Jan to June 2020
Cash as at 30/6/2021	3,419,798,622.67	3,615,519,779.22
Less: cash as at 1/1/2021	4,399,892,535.05	3,298,408,595.78
Add: cash equivalents as at 30/6/2021		
Less: cash equivalents as at 1/1/2021		
Net increase in cash and cash equivalents	-980,093,912.38	317,111,183.44

8.60.2 Cash and cash equivalents

Item	Balance as at 30/6/2021	Balance as at 1/1/2021
I . Cash	3,419,798,622.67	3,615,519,779.22
Including: cash on hand	180,295.80	335,553.54
Unrestricted bank deposits	3,392,914,678.65	3,401,284,253.24
Unrestricted other cash and cash equivalents	26,703,648.22	213,899,972.44
II . Cash equivalents		
Including: bonds investment maturing within 3 months		
III. Cash and cash equivalents as at 30/6/2021	3,419,798,622.67	3,615,519,779.22
Including: cash and cash equivalents restricted for use in the Company or the subsidiaries		

8.61 Monetary items denominated in foreign currency

Item	Balance in foreign currency as at 30/6/2021	Exchange rate	Balance translated into RMB as at 30/6/2021
Cash at hand and in banks			
Including: USD	14,006,047.70	6.46	90,480,468.75
GBP	235,532.23	7.69	1,810,347.83
HKD	9,864,518.87	0.83	8,208,067.97
EUR	30,455.66	8.94	272,304.06
JPY	1,217.00	0.06	71.11
Accounts receivable			
Including: USD	64,120,776.94	6.46	414,226,631.11
GBP	3,905,254.81	8.94	34,916,883.26
Other receivables			
Including: USD	1,099,005.56	6.46	7,099,685.82
HKD	1,354,939.67	0.83	1,127,418.08
Short-term loans			
Including: USD	31,550,000.00	6.46	203,816,155.00
Euro	10,000,000.00	7.69	76,862,000.16
HKD	12,000,000.00	0.83	9,984,958.92
Accounts payable			
Including: USD	2,181,719.64	6.46	14,094,127.05

Notes to the Financial Statement
For the Period ended June 30 2021
HUALU HOLDINGS CO.,LTD.

Item	Balance in foreign currency as at 30/6/2021	Exchange rate	Balance translated into RMB as at 30/6/2021
Other payables	—	—	—
Including: USD	2,347,555.85	6.46	15,165,445.55
HKD	49,844,692.50	0.83	41,474,767.24
Long-term loans	—	—	—
Including: USD	56,150,000.00	6.46	362,734,615.03

8.62 Ownership or using rights of assets subject to restriction

Item	Carrying amount as at 30/6/2021	Restriction reason
Cash at bank and on hand	280,880,732.62	Bill deposit, regulated advance payment for the sale of real estate, etc.
Receivables for financing	100,561,139.15	Acceptance pledge
Fixed assets	184,407,761.76	Mortgage loan, etc.
Intangible assets	13,691,427.29	Mortgage loan, etc.
Total	579,541,060.82	--

9. Commitments and contingencies

None.

10. Post balance sheet events

None.

11. Related parties and transactions

11.1 The parent company of the Company

The actual controller of the company is the State-owned Assets Supervision and Administration Commission of Shandong Provincial People's Government.

11.2 Subsidiaries of the Company

Details of subsidiaries refer to Note 7 Interest in other entities.

11.3 Joint ventures and associates of the Company

Details of Significant joint ventures and associates of the Company refer to Note 7 Interest in other entities. Information of other joint ventures and associates having transactions with the Company in current period or having outstanding balances carried forward from prior periods are as follows:

11.4 Other related parties

Entity name	Relationship
Cansheng Pharmaceutical (Zibo) Co., Ltd.	Joint stock company
Perrigo Company	Subsidiary shareholder
Shandong Huanke Kechuang Environmental Protection Technology Co. LTD	Joint stock company

11.5 Transactions with related parties

11.5.1 Purchase of goods/receipt of services and sales of goods/rendering of services

Name	Contents	Period from Jan to June 2021	Period from Jan to June 2020
Purchase of goods/receipt of services:			
Cansheng Pharmaceutical (Zibo) Co., Ltd.	Procurement of preparation raw materials	8,970,464.60	7,383,694.69
Sales of goods/rendering of services:			
Cansheng Pharmaceutical (Zibo) Co., Ltd.	Providing services	113,013.30	405,042.68
Cansheng Pharmaceutical (Zibo) Co., Ltd.	Sales motivation	4,076,661.14	4,236,722.51
Perrigo Company	Sales of raw materials	113,075,269.85	120,573,419.24
Perrigo Company	Sales of preparation products	11,850,179.86	

11.5.2 Guarantee activities with related parties

Guarantor	Guarantee	Amount of guarantee as at 30/6/2021	Amount of guarantee as at 1/1/2021
HUALU HOLDINGS CO.,LTD.	Shandong Xinhua Pharmaceutical Co.,Ltd.	80,000,000.00	80,000,000.00
HUALU HOLDINGS CO.,LTD.	Shandong Xinhua Pharmaceutical Co.,Ltd.	148,500,000.00	148,500,000.00
HUALU HOLDINGS CO.,LTD.	Shandong Xinhua Pharmaceutical Co.,Ltd.	270,000,000.00	
Shandong Lukang Pharmaceutical Co.,Ltd.	Shandong Lukang Shelile Pharmaceutical Co., Ltd.	226,425,700.00	208,980,300.00
Shandong Lukang Pharmaceutical Co.,Ltd.	Shandong Lukang Group Saite Co., Ltd.	20,000,000.00	11,928,300.00
Shandong Lukang Pharmaceutical Co.,Ltd.	Qinghai Lukang Dadi Pharmaceutical Co., Ltd.	10,000,000.00	10,000,000.00
Shandong Lukang Shelile Pharmaceutical Co., Ltd.	Shandong Lukang Pharmaceutical Co.,Ltd.	293,383,000.00	252,020,000.00
HUALU HOLDINGS CO.,LTD.	Shandong Lukang Pharmaceutical Co.,Ltd.	732,400,000.00	741,900,000.00
HUALU HOLDINGS CO.,LTD.	China Shandong Group Co., Ltd.	68,203,100.00	36,000,000.00
HUALU HOLDINGS CO.,LTD.	Hualu International Financial Leasing Co.,Ltd.		20,000,000.00
HUALU HOLDINGS CO.,LTD.	Shandong Lukang Pharmaceutical Co.,Ltd.	258,404,000.00	141,590,000.00
Shandong Hualu-Hengsheng Group Co.,Ltd	Shandong Hualu-Hengsheng Chemical Co.,Ltd	2,400,036,500.00	1,822,521,800.00
Shandong Lukang Pharmaceutical Co.,Ltd.	Well bring Ltd.	48,450,750.02	

11.6. Other transactions with related parties

11.6 Receivables due from and payables due to related parties

11.6.1 Receivables due from related parties

Account name	Related party	As at 30/6/2021		As at 1/1/2021	
		Balance	Allowance for credit losses	Balance	Allowance for credit losses
Accounts receivable	Perrigo Company	15,566,981.59	77,834.91	28,498,901.58	142,494.51
Accounts receivable	Cansheng Pharmaceutical (Zibo) Co., Ltd.	157,651.20	788.26	73,001.20	365.01

10.6.2 Payables due to related parties

Account name	Related party	Balance as at 30/6/2021	Balance as at 1/1/2021
Accounts payable	Cansheng Pharmaceutical (Zibo) Co., Ltd.	1,997,736.85	3,068,443.87

12. Notes to the financial statements of the Company

12.1 Other receivables

Category	Balance as at 30/6/2021	Balance as at 1/1/2021
Other receivables	471,261,071.07	1,387,477,408.44
Less: Allowance for credit losses	66,997,962.04	83,220,896.31
Total	404,263,109.03	1,304,256,512.13

12.1.1 Other receivables

12.1.1.1 Category of other receivables by nature

Nature	Balance as at 30/6/2021	Balance as at 1/1/2021
Current account	471,261,071.07	1,387,477,408.44
Less: Allowance for credit losses	66,997,962.04	83,220,896.31
Total	404,263,109.03	1,304,256,512.13

12.1.1.2 Aging analysis of other receivables

Aging	Balance as at 30/6/2021		Balance as at 1/1/2021	
	Balance	PCT (%)	Balance	PCT (%)
Within 1 year	445,688,999.47	94.57	1,360,085,336.84	98.02
1-2 years			26,350,500.00	1.90
2-3 years	24,530,500.00	5.21		
More than 5 years	1,041,571.60	0.22	1,041,571.60	0.08
Total	471,261,071.07	100.00	1,387,477,408.44	100.00

12.1.1.3 The provision of allowance for credit losses

Notes to the Financial Statement
For the Period ended June 30 2021
HUALU HOLDINGS CO.,LTD.

The allowance for credit losses	Stage one	Stage two	Stage three	Total
	12-month ECL	Lifetime ECL (credit-unimpaired)	Lifetime ECL (credit-impaired)	
Beginning balance	83,220,896.31			83,220,896.31
Revaluation of beginning balance	83,220,896.31			83,220,896.31
Provision	-16,222,934.27			-16,222,934.27
Reversal	-			-
Write-off	-			-
Other changes	-			-
Ending balance	66,997,962.04			66,997,962.04

12.1.1.4 Other receivables due from the top five debtors are as follows:

Debtor name	Nature of balance	Balance as at 30/6/2021	Percentage in total other receivables(%)	Balance of allowance for credit losses as at 30/6/2021
Huaru Investment Development Co., Ltd.	Current account	210,000,000.00	44.56	
China Shandong group limited	Current account	115,274,883.32	24.46	
China Shandong Group Co., Ltd.	Current account	50,134,214.92	10.64	
Shandong Lukang Biological Pesticides Co., Ltd.	Current account	3,164,478.37	0.67	
Hualu International Financial Leasing Co.,Ltd.	Current account	2,185,094.73	0.46	
Total		380,758,671.34	80.79	

12.2 Long-term equity investments

Item	As at 1/1/2021	Additions	Reductions	As at 30/6/2021
Investment to subsidiaries	2,167,007,099.93			2,167,007,099.93
Investment to joint associates	3,882,999.22			3,882,999.22
Subtotal	2,170,890,099.15			2,170,890,099.15
Less: provision for impairment of long-term equity investment	3,882,999.22			3,882,999.22
Total	2,167,007,099.93			2,167,007,099.93

12.2.1 Investment to subsidiaries and associates

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12.3 Operating income and operating costs

Item	Period from Jan to June 2021		Period from Jan to June 2020	
	Income	Cost	Income	Cost
Other operating business	5,575,892.40	62,500.00	9,869,490.31	566,037.74
Lease income	812,213.28		319,176.07	
Others	4,763,679.12	62,500.00	9,550,314.24	566,037.74
Total	5,575,892.40	62,500.00	9,869,490.31	566,037.74

12.4 Investment income

Category	Period from Jan to June 2021	Period from Jan to June 2020
Gain/(Loss) on disposal of long term equity investment		15,906,834.00
Receive cash dividends from subsidiaries		
Total	156,000,000.00	15,906,834.00

12.5 Notes to statement of cash flows

12.5.1 Supplement to statement of cash flows

Item	Period from Jan to June 2021	Period from Jan to June 2020
Net profit adjusted to cash flows from operating activities		
Net profit	128,544,256.95	1,269,383.69
Add: provision for asset impairment		
Credit impairment losses		
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of productive biological assets and depreciation of investment property	1,014,104.48	746,990.88
Amortization of intangible assets	142,936.62	81,900.00
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)		
Losses on write-down of fixed assets ("-" for gains)	1,137.00	
Losses from changes in fair value ("-" for gains)		
Financial expenses ("-" for income)	1,577,277.02	4,926,465.77
Investments losses ("-" for gains)	-156,000,000.00	-15,906,834.00
Decreases in the deferred tax assets ("-" for increases)		
Increases in the deferred tax liabilities ("-" for decreases)		
Decreases in inventories ("-" for increases)		

Notes to the Financial Statement
For the Period ended June 30 2021
HUALU HOLDINGS CO.,LTD.

Item	Period from Jan to June 2021	Period from Jan to June 2020
Decreases in operating receivables ("-" for increases)	60,607,779.27	-8,594,007.18
Increases in operating payables ("-" for decreases)	9,926,156.38	-5,013,611.24
Others		
Net cash flows from operating activities	45,813,647.72	-22,489,712.08
Significant investing and financing activities not involving cash inflow and outflow		
Conversion of debt into capital		
Convertible corporate bonds maturing within one year		
Fixed assets acquired under financial lease		
Net change in cash and cash equivalents		
Cash as at 30/6/2021	263,303,607.14	117,804,005.20
Less: cash as at 1/1/2021	948,994,548.44	204,226,193.68
Add: cash equivalents as at 30/6/2021		
Less: cash equivalents as at 1/1/2021		
Net increase in cash and cash equivalents	-685,690,941.30	-86,422,188.48

12.5.2 Cash and cash equivalents

Item	Balance as at 30/6/2021	Balance as at 1/1/2021
I . Cash	263,303,607.13	117,804,005.20
Including: cash on hand	2,233.10	2,987.30
Unrestricted bank deposits	263,301,316.65	117,800,960.52
Unrestricted other cash and cash equivalents	57.38	57.38
II . Cash equivalents		
Including: bonds investment maturing within 3 months		
III. Cash and cash equivalents as at 30/6/2021	263,303,607.13	117,804,005.20
Including: cash and cash equivalents restricted for use in the Company or the subsidiaries		

13. Other significant events

None.

14. Approval of financial statements

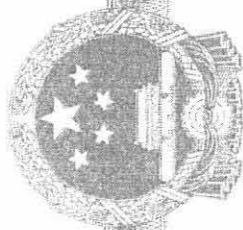
The financial statements have been approved by the board of directors of the Company.

HUALU HOLDINGS CO. , LTD.

September 28, 2021

The notes to the financial statements from page 11 to page 91 were approved by the following representatives:

Legal representative	Person in charge of accounting function	Person in charge of accounting department
Signature: _____	Signature: _____	Signature: _____
Date: _____	Date: _____	Date: _____



营业执照

(副本)(6-1)

统一社会信用代码

91110108590611484C



扫描二维码登录
“国家企业信用
信息公示系统”
了解更多登记、
备案、许可、监
管信息

名称 大信会计师事务所(特殊普通合伙)

类型 特殊普通合伙企业

执行事务合伙人 胡咏华, 吴卫星

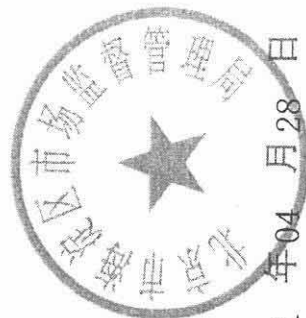
经营范围

审查企业会计报表、出具审计报告；验证企业资本，出具验资报告；办理企业合并、分立、清算事宜中的审计业务，出具有关报告；基本建设年度财务决算审计；代理记账；会计咨询、税务咨询、管理咨询、会计培训；法律法规规定的其他业务。(市场主体依法自主选择经营项目，开展经营活动；依法须经批准的项目，经相关部门批准后依批准的内容开展经营活动；不得从事国家和本市产业政策禁止和限制类项目的经营活动。)

成立日期 2012年03月06日

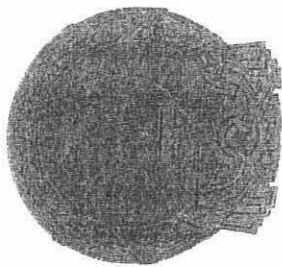
合伙期限 2012年03月06日 至 2112年03月05日

主要经营场所 北京市海淀区知春路1号学院国际大厦1504室



登记机关

2021 年 04 月 28 日



证书序号: 0014492

说明

- 1、《会计师事务所执业证书》是证明持有人经财政部门依法审批, 准予执行注册会计师法定业务的凭证。
- 2、《会计师事务所执业证书》记载事项发生变动的, 应当向财政部门申请换发。
- 3、《会计师事务所执业证书》不得伪造、涂改、出租、出借、转让。
- 4、会计师事务所终止或执业许可注销的, 应当向财政部门交回《会计师事务所执业证书》。

会计师事务所 执业证书

名称: 大信会计师事务所(特殊普通合伙)

首席合伙人: 胡咏华

主任会计师:

经营场所: 北京市海淀区知春路一号学院国际大厦1504室

组织形式: 特殊普通合伙

执业证书编号: 11010141

批准执业文号: 京财会许可[2011]0073号

批准执业日期: 2011年09月09日

发证机关:

北京市财政局

二〇一〇年十二月四日

中华人民共和国财政部制



姓名	田城
Full name	田城
性别	男
Sex	男
出生日期	1977-07-25
Date of birth	1977-07-25
工作单位	大信会计师事务所(特殊普通合伙)-山东分所
Working unit	大信会计师事务所(特殊普通合伙)-山东分所
身份证号码	370221770725061
Identity card No.	370221770725061



证书编号: 110001670112
No. of Certificate

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

发证日期: 2006 年 06 月 05 日
Date of Issuance

年度检验
Annual Renewal

登记
Registration

2019年
注册会计师
年检合格专用章

本证书经检验合格, 继续有效一年。
This certificate is this renewal.

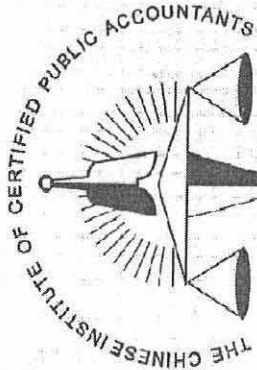
Annual Renewal Registration

2018年
注册会计师
年检合格专用章

本证书经检验合格, 继续有效一年。

山东省注册会计师协会
2020年
注册会计师
年检合格专用章

年 月 日



姓名	张到心
Full name	张到心
性别	男
Sex	男
出生日期	1988-02-16
Date of birth	1988-02-16
工作单位	山东舜天信诚会计师事务所有限公司
Working unit	山东舜天信诚会计师事务所有限公司
身份证号码	371426198802165613
Identity card No.	371426198802165613

年度检验登记 2019年
山东省注册会计师协会
Annual Renewal Registration
注册会计师
年检验合格专用章

本证书经检验合格，继续有效一年。
This certificate is valid for another year after this renewal.

年度检验登记 2018年
山东省注册会计师协会
Annual Renewal Registration
注册会计师
年检验合格专用章

本证书经检验合格，继续有效一年。
This certificate is valid for another year after this renewal.

年度检验合格专用章
2020年
山东省注册会计师协会
注册会计师
年检验合格专用章

证书编号: 370100412700
No. of Certificate
批准注册协会: 山东省注册会计师协会
Authorized Institute of CPAs
发证日期: 2016年04月12日
Date of Issuance

**HUALU HOLDINGS
CO.,LTD.**

Auditor's Report

DAXIN SHEN ZI [2021] No. 3-00451

WUYIGE CERTIFIED PUBLIC ACCOUNTANTS LLP.



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北京市海淀区知春路 1 号
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网址 Internet: www.daxincpa.com.cn

Auditor's Report

DAXIN SHEN ZI [2021] No. 3-00451

To HUALU HOLDINGS CO.,LTD.:

I. Opinion

We have audited the financial statements of HUALU HOLDINGS CO.,LTD. (hereafter referred to as “the Company”), which comprise the consolidated and the Company's balance sheets as at December 31, 2020, the consolidated and the Company's statements of income, the consolidated and the Company's statements of cash flows and the consolidated and the Company's statements of changes in equity for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2020, and of its financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

II. Basis for Opinion

We conducted our audit in accordance with Chinese Certified Public Accountants Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics for Chinese Certified Public Accountants and have fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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III. Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Accounting Standards for Business Enterprises, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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



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V. Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- A. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- B. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- C. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- D. Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.



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If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

E. Evaluate the overall presentation, structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

F. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

WUYIGE CERTIFIED PUBLIC ACCOUNTANTS LLP.

Certified Public Accountant of China

(Engagement partner) 1101080210400

Certified Public Accountant of China

Beijing • China

Date: September 28, 2021



Consolidated Balance Sheet

Prepared by: HUALU HOLDINGS CO.,LTD.

31/12/2020

Unit: RMB Yuan

Item	Note	As at 31/12/2020	As at 31/12/2019
Current assets:			
Cash at bank and on hand		4,755,545,903.13	3,663,891,415.77
Settlement provisions			
Loans to others			
Financial assets held for trading			
Financial assets measured at fair value through profit or loss for the current period		83,416,674.72	1,151,280.00
Derivative financial assets			
Notes receivable		904,883,563.66	1,330,824,829.85
Accounts receivable		1,202,008,535.00	1,000,029,801.09
Receivables for financing			
Prepayments		337,132,364.92	194,111,043.79
Premiums receivable			
Reinsurance receivables			
Reinsurance contract reserve			
Other receivables		130,577,346.44	841,520,918.53
Resale of financial assets			
Inventories		2,406,597,429.24	2,460,796,326.54
Including: Raw materials		468,574,616.25	586,861,776.77
Stock goods (Finished goods)		1,246,627,757.45	1,221,952,981.06
Contract assets			
Held-for-sale assets			
Non-current assets due within one year		87,605,581.71	470,230,742.28
Other current assets		1,400,046,117.23	1,596,471,241.26
Total current assets		11,307,813,516.05	11,559,027,599.11
Non-current assets:			
Loans and advances			
Debt investments			
Available-for-sale financial assets		1,620,175,161.42	882,306,241.42
Other debt investments			
Held-to-maturity investments		318,262,459.65	216,778,822.25
Long-term receivables		197,507,187.43	690,183,900.79
Long-term equity investments		46,242,862.54	49,649,492.49
Other equity instrument investments			
Other non-current financial assets			
Investment property		396,061,932.17	325,607,804.01
Fixed assets		18,174,635,357.31	17,654,123,301.53
Construction in process		4,160,612,864.48	1,612,953,223.84
Productive biological assets			
Oil and gas assets			
Right-of-use assets			
Intangible assets		2,144,926,869.37	1,939,407,535.86
Development expenditures		179,052,332.02	146,850,895.18
Goodwill			
Long-term deferred expenses		89,893,866.07	83,551,155.71
Deferred tax assets		207,885,399.81	201,858,654.57
Other non-current assets		1,401,165,449.66	1,256,213,353.48
Including: Special reserve materials			
Total non-current assets		28,936,421,741.93	25,059,484,381.13
Total of assets		40,244,235,257.98	36,618,511,980.24

Legal representativeLegal: Person in charge of accounting function: Person in charge of accounting department:

Consolidated Balance Sheet (Continued)

Prepared by: HUALU HOLDINGS CO.,LTD.

31/12/2020

Unit: RMB Yuan

Item	Note	As at 31/12/2020	As at 31/12/2019
Current liabilities:			
Short-term loans		1,946,822,111.67	1,807,091,000.00
Borrowings from central banks			
Borrowing money			
Trading financial liabilities			
Financial liabilities measured at fair value through profit or loss for the current period			
Derivative financial liabilities			
Notes payable		685,727,255.33	926,785,863.77
Accounts payable		3,035,457,148.84	2,208,123,650.11
Advances from customers		1,112,240,044.50	984,261,660.18
Contract liabilities			
Employee benefits payable		308,290,838.44	243,335,589.31
Including: Salary payable		169,806,024.83	112,498,964.36
Welfare payable		23,919,603.83	24,377,702.50
Taxes and surcharges payable		263,500,317.13	241,344,170.35
Including: Tax payable		232,158,648.89	237,457,054.97
Other payables		967,598,307.26	989,383,167.17
Handling fees and commissions payable			
Reinsurance account payable			
Held-for-sale liabilities			
Non-current liabilities due within one year		1,323,656,142.83	3,278,955,070.22
Other current liabilities		2,148,864,349.98	4,980,873.51
Total current liabilities		11,792,156,515.98	10,684,261,044.62
Non-current liabilities:			
Insurance contract reserve			
Long-term loans		2,102,469,075.12	2,107,726,970.39
Bonds payable		1,000,000,000.00	-
Including: Preference shares			
Perpetual loans			
Lease liabilities			
long-term accounts payables		189,428,284.50	625,159,227.05
Long-term employee benefits payable			
Provisions		52,608,370.45	45,250,982.90
Deferred income		331,103,649.82	287,265,548.47
Deferred tax liabilities		108,623,994.04	78,943,529.32
Other non-current liabilities		3,561,500.00	3,561,500.00
Including: Special reserve funds		3,561,500.00	3,561,500.00
Total non-current liabilities		3,787,794,873.93	3,147,907,758.13
Total liabilities		15,579,951,389.91	13,832,168,802.75
Shareholders' equity:			
Paid-in capital		3,103,000,000.00	3,103,000,000.00
State-owned		2,097,900,000.00	2,097,900,000.00
State-owned corporate capital		1,005,100,000.00	1,005,100,000.00
Collective capital			
Private capital			
Foreign Capital			
Less: Investment returned			
Net paid-in capital		3,103,000,000.00	3,103,000,000.00
Other equity instruments			
Including: Preference shares			
Perpetual loans			
Capital reserve		1,142,572,768.17	1,035,177,650.03
Less: treasury shares			
Other comprehensive income		58,309,482.31	76,605,578.34
Including: Translation differences from translation of foreign currency financial statements		9,505,432.19	25,939,012.34
Special reserve		2,832,008.45	2,032,262.16
Surplus reserve		34,432,803.61	20,125,750.41
Including: Statutory surplus reserve		34,432,803.61	20,125,750.41
Discretionary reserve			
Reserve Fund			
Enterprise expansion funds			
Profit return for investment			
General Risk Preparation			
Retained earnings		4,775,578,291.29	4,331,682,605.96
Equity attributable to parent company		9,116,725,353.83	8,568,623,846.90
Minority interests		15,547,558,514.24	14,217,719,330.59
Total equity		24,664,283,868.07	22,786,343,177.49
Total liabilities and equity		40,244,235,257.98	36,618,511,980.24

Legal representative: Legal: Person in charge of accounting function: Person in charge of accounting department:

Balance Sheet

Prepared by: HUALU HOLDINGS CO.,LTD.

31/12/2020

Unit: RMB Yuan

Item	Note	As at 31/12/2020	As at 31/12/2019
Current assets:			
Cash at bank and on hand		948,994,548.44	204,226,193.68
Settlement provisions			
Loans to others			
Financial assets held for trading			
Financial assets measured at fair value through profit or loss for the current period		-	-
Derivative financial assets			
Notes receivable		-	90,000.00
Accounts receivable		-	-
Receivables for financing			
Prepayments		-	-
Premiums receivable			
Reinsurance receivables			
Reinsurance contract reserve			
Other receivables		1,304,256,512.13	922,568,400.69
Resale of financial assets			
Inventories		-	-
Including: Raw materials			
Stock goods (Finished goods)			
Contract assets			
Held-for-sale assets			
Non-current assets due within one year		-	-
Other current assets		1,118,503.67	1,336,035.01
Total current assets		2,254,369,564.24	1,128,220,629.38
Non-current assets:			
Loans and advances			
Debt investments			
Available-for-sale financial assets		1,312,153,145.42	622,153,145.42
Other debt investments			
Held-to-maturity investments		-	-
Long-term receivables		1,130,000,000.00	1,200,000,000.00
Long-term equity investments		2,167,007,099.93	2,226,464,054.94
Other equity instrument investments			
Other non-current financial assets			
Investment property		-	-
Fixed assets		23,401,000.99	21,095,421.30
Construction in process		-	-
Productive biological assets			
Oil and gas assets			
Right-of-use assets			
Intangible assets		3,335,050.93	3,622,790.81
Development expenditures		-	-
Goodwill			
Long-term deferred expenses		13,536,585.37	-
Deferred tax assets		-	4,952,897.62
Other non-current assets		-	-
Including: Special reserve materials			
Total non-current assets		4,649,432,882.64	4,078,288,310.09
Total of assets		6,903,802,446.88	5,206,508,939.47

Legal representative: Person in charge of accounting function: Person in charge of accounting department:

Balance Sheet (Continued)

Prepared by: HUALU HOLDINGS CO.,LTD.

31/12/2020

Unit: RMB Yuan

Item	Note	As at 31/12/2020	As at 31/12/2019
Current liabilities:			
Short-term loans		-	-
Borrowings from central banks			
Borrowing money			
Trading financial liabilities			
Financial liabilities measured at fair value through profit or loss for the current period			
Derivative financial liabilities			
Notes payable		-	-
Accounts payable		1,625,770.74	1,625,770.74
Advances from customers		-	-
Contract liabilities			
Employee benefits payable		35,640,102.93	36,808,507.38
Including: Salary payable		6,791,782.45	7,613,966.26
Welfare payable		23,570,328.12	23,570,885.12
Taxes and surcharges payable		887,646.11	1,328,611.84
Including: Tax payable		873,815.24	1,328,611.84
Other payables		81,491,630.73	98,576,008.14
Handling fees and commissions payable			
Reinsurance account payable			
Held-for-sale liabilities			
Non-current liabilities due within one year		-	1,600,000,000.00
Other current liabilities		2,100,000,000.00	-
Total current liabilities		2,219,645,150.51	1,738,338,898.10
Non-current liabilities:			
Insurance contract reserve			
Long-term loans		130,000,000.00	-
Bonds payable		1,000,000,000.00	-
Including: Preference shares			
Perpetual loans			
Lease liabilities			
Long-term accounts payables		600,000.00	2,600,000.00
Long-term employee benefits payable			
Provisions		20,750,786.02	20,750,786.02
Deferred income		33,120.00	33,120.00
Deferred tax liabilities		-	-
Other non-current liabilities		-	-
Including: Special reserve funds			
Total non-current liabilities		1,151,383,906.02	23,383,906.02
Total liabilities		3,371,029,056.53	1,761,722,804.12
Shareholders' equity:			
Paid-in capital		3,103,000,000.00	3,103,000,000.00
State-owned		2,097,900,000.00	2,097,900,000.00
State-owned corporate capital		1,005,100,000.00	1,005,100,000.00
Collective capital			
Private capital			
Foreign Capital			
Less: Investment returned			
Net paid-in capital		3,103,000,000.00	3,103,000,000.00
Other equity instruments			
Including: Preference shares			
Perpetual loans			
Capital reserve		237,000,000.00	237,000,000.00
Less: treasury shares			
Other comprehensive income		-	-
Including: Translation differences from translation of foreign currency financial statements			
Special reserve		-	-
Surplus reserve		46,624,289.04	19,149,283.54
Including: Statutory surplus reserve		46,624,289.04	19,149,283.54
Discretionary reserve			
Reserve Fund			
Enterprise expansion funds			
Profit return for investment			
General Risk Preparation			
Retained earnings		146,149,101.31	85,636,851.81
Equity attributable to parent company		3,532,773,390.35	3,444,786,135.35
Minority interests		-	-
Total equity		3,532,773,390.35	3,444,786,135.35
Total liabilities and equity		6,903,802,446.88	5,206,508,939.47

Legal representative: Legal: Person in charge of accounting function: Person in charge of accounting department:

Consolidated Statement of Income

Prepared by: HUALU HOLDINGS CO.,LTD.

For the year ended 31 December 2020

Unit: RMB Yuan

Item	Note	Year ended 31/12/2020	Year ended 31/12/2019	Item	Note	Year ended 31/12/2020	Year ended 31/12/2019
1. Total operating income				Less:Non-operating expenses		36,381,520.49	15,992,074.39
Including:Operating income		24,346,133,325.04	24,710,477,967.78	4. Profit before tax ("-" for loss)		2,719,042,094.54	3,426,344,272.80
Interest income		24,346,133,325.04	24,710,477,967.78	Less:income tax expenses		427,600,586.90	508,128,114.49
Premium earned				5. Net profit ("-" for net loss)		2,291,441,507.64	2,918,216,158.31
Handling fee and commission income				Categorized by ownership			
2. Total operating cost				1. Net profit attributable to parent company		744,083,419.58	1,037,570,838.88
Including:Operating costs		21,703,177,886.13	21,262,123,697.34	2. Profit/loss attributable to minority shareholders		1,547,358,088.06	1,880,645,319.43
Interest expense		18,551,854,746.82	17,020,396,985.24	Categorized by going concern basis			
Handling charges and commission expenditures				1. Profit or loss from continuing operations			
Refund of insurance				2. Profit or loss from discontinued operations			
Net compensation expenses				6. Net income of other comprehensive after tax			
Withdrawal of insurance liability reserve net				Total comprehensive income attributable to parent company			
Premium bonus expenditures				(1) Comprehensive income not to be reclassified to profit or loss		-18,290,096.03	-14,746,368.32
Reinsurance expenses				(2) Comprehensive income not to be reclassified to profit or loss		-	-
Taxes and surcharges				Changes in remeasurement of defined benefit obligations			
Selling and distribution expenses		208,807,024.37	194,662,686.74	2. Other comprehensive income not to be reclassified to profit or loss in equity method			
General and administrative expenses		1,146,004,770.03	1,717,166,697.53	3. Fair value changes in other equity instrument investments			-
Research and development expenses		804,167,347.30	777,035,616.02	4. Fair value changes in the enterprise's own credit risk			
Finance expenses		808,797,561.30	735,766,870.31	5. Others			
Including:Interest expenses		243,545,836.31	217,094,841.50	(2) Comprehensive income to be reclassified to profit or loss		-18,290,096.03	-14,746,368.32
Interest income		250,045,484.68	305,454,224.93	1. Other comprehensive income to be reclassified to profit or loss in equity method			
Net loss on foreign exchange ("-" for gains)		53,721,573.00	54,900,969.22	2. Gain or loss from fair value changes of available-for-sale financial assets			
Others		37,566,742.40	44,648,437.33	3. Gain or loss from fair value changes of available-for-sale financial assets			
Add: Other income				4. Reclassification of financial assets into other comprehensive income			
Investment income ("-" for loss)		92,419,832.03	82,702,200.63	5. Reclassification of held-to-maturity investments as available-for-sale financial assets			
Including: Investment income from associates and joint ventures		81,311,535.31	59,697,352.64	6. Credit impairment provision of other debt investment			
Income from derecognition of financial assets measured at amortised cost		1,093,370.05	-2,355,147.75	7. Cash flow hedging reserve			
Gains from foreign exchange ("-" for loss)				8. Currency translation difference		-16,433,580.15	3,174,108.26
Gains from net position hedging ("-" for loss)				9. Others			
Gain from fair value changes ("-" for loss)				Net other comprehensive income attributable to minority share-holders after tax		-5,817,786.40	-18,482,410.10
Credit impairment losses ("-" for loss)				7. Total comprehensive income			
Impairment on assets ("-" for loss)		-20,221,354.83	13,590,656.76	Total comprehensive income attributable to parent company			
Gains from disposal of assets ("-" for loss)		-	-	Total comprehensive income attributable to minority shareholders			
Impairment on assets ("-" for loss)		-203,989,233.17	-237,451,496.82	8. Earnings per share			
Gains from disposal of assets ("-" for loss)		204,552,329.73	8,889,664.95	Basic earnings per share			
3. Operating profits ("-" for loss)				Diluted earnings per share			
Add: Non-operating income		2,737,028,747.98	3,375,842,708.60				
Including:Government grants		18,394,867.05	66,493,638.59				
		1,362,550.46	7,821,480.00				
Legal representative Legal:	Person in charge of accounting department:						
	Person in charge of accounting function:						

Statement of Income

Prepared by: HUALU HOLDINGS CO., LTD.

For the year ended 31 December 2020

Unit: RMB Yuan

Item	Note	Year ended 31/12/2020	Year ended 31/12/2019	Item	Note	Year ended 31/12/2020	Year ended 31/12/2019
1. Total operating income				Less: Non-operating expenses		2,500,000.00	1,347,350.13
Including: Operating income		18,723,213.64	13,436,182.43	4. Profit before tax ("-" for loss)		278,908,331.18	203,226,481.81
Interest income		18,723,213.64	13,436,182.43	Less: Income tax expenses		4,158,276.18	9,500,909.92
Premium earned				5. Net profit ("-" for net loss)		274,750,055.00	193,725,571.89
Handling fee and commission income				Categorized by ownership			
2. Total operating cost				1. Net profit attributable to parent company		274,750,055.00	193,725,571.89
Including: Operating costs		50,242,974.91	20,483,886.04	2. Profit/loss attributable to minority shareholders		-	-
Interest expense		945,396.23	-	Categorized by going concern basis			
Handling charges and commission expenditures				1. Profit or loss from continuing operations		274,750,055.00	193,725,571.89
Refund of insurance				2. Profit or loss from discontinued operations			
Net compensation expenses				6. Net income of other comprehensive after tax			
Withdrawal of insurance liability reserve net				Total comprehensive income attributable to parent company		-	-
Premium bonus expenditures				(1) Comprehensive income not to be reclassified to profit or loss		-	-
Reinsurance expenses				1) Changes in remeasurement of defined benefit obligations			
Taxes and surcharges		1,480,561.87	2,686,865.40	2) Other comprehensive income not to be reclassified to profit or loss in equity method			
Selling and distribution expenses		-	-	3) Fair value changes in other equity instrument investments		-	-
General and administrative expenses		48,733,612.22	48,357,065.46	4) Fair value changes in the enterprise's own credit risk			
Research and development expenses		-	-	5) Others			
Finance expenses		-914,595.41	-30,560,044.82	(2) Comprehensive income to be reclassified to profit or loss		-	-
Including: Interest expenses		8,362,575.36	9,880,000.00	1) Other comprehensive income to be reclassified to profit or loss in equity method			
Interest income		9,294,962.98	5,323,776.61	2) Gain or loss from fair value changes of other debt instruments			
Net loss on foreign exchange ("-" for gains)			-35,130,648.50	3) Gain or loss from fair value changes of available-for-sale financial assets		-	-
Others				4) Reclassification of financial assets into other comprehensive income			
Add: Other income		214,563.58	-	5) Reclassification of held-to-maturity investments as available-for-sale financial assets			
Investment income ("-" for loss)		312,956,138.27	161,990,705.93	6) Credit impairment provision of other debt investment			
Including: Investment income from associates and joint ventures				7) Cash flow hedging reserve			
Income from derecognition of financial assets measured at amortised cost				8) Currency translation difference		-	-
Gains from foreign exchange ("-" for loss)				9) Others			
Gains from net position hedging ("-" for loss)				Net other comprehensive income attributable to minority shareholders after tax		-	-
Gain from fair value changes ("-" for loss)		-	-	7. Total comprehensive income			
Credit impairment losses ("-" for loss)				Total comprehensive income attributable to parent company		274,750,055.00	193,725,571.89
Impairment on assets ("-" for loss)		-1,447,610.17	7,157,595.34	Total comprehensive income attributable to minority shareholders		-	-
Gains from disposal of assets ("-" for loss)		24,049.54	1,182,299.08	8. Earnings per share			
Gains from disposal of assets ("-" for loss)		280,227,379.95	163,282,896.74	Basic earnings per share			
3. Operating profits ("-" for loss)				Diluted earnings per share			
Add: Non-operating income		1,180,951.23	41,490,935.20				
Including: Government grants		660,350.46	6,564,280.00				

Legal representative Legal: Person in charge of accounting function: Person in charge of accounting department:

Consolidated Statement of Cash Flows

Prepared by: HUALU HOLDINGS CO.,LTD.

For the year ended 31 December 2020

Unit: RMB Yuan

Item	Note	Year ended 31/12/2020	Year ended 31/12/2019
1. Cash flows from operating activities			
Cash received from sales and services		22,244,562,179.05	23,296,282,017.90
Taxes and surcharges refunds		202,869,805.70	170,355,247.89
Cash received related to other operating activities		692,213,082.28	510,228,004.62
Total cash inflows from operating activities		23,139,645,067.03	23,976,865,270.41
Cash paid for goods and services		13,560,391,848.17	12,900,292,852.47
Cash paid to and for employees		2,358,493,386.99	2,316,543,734.44
Taxes and surcharges cash payments		1,199,226,270.81	1,609,146,007.79
Cash paid related to other operating activities		1,599,425,168.11	1,765,580,526.16
Total cash outflows from operating activities		18,717,536,674.08	18,591,563,120.86
Net cash flows from operating activities		4,422,108,392.95	5,385,302,149.55
2. Cash flows from investing activities:			
Cash received from withdraw of investments		5,238,183,429.97	5,293,953,131.49
Cash received from investment income		77,032,006.57	70,198,846.38
Net cash received from disposal of fixed assets,intangible assets and other long-term assets		241,393,730.01	268,095,608.69
Net cash received from disposal of subsidiaries and other business units		-	
Cash received related to other investing activities		2,482,996.72	4,092,660.00
Total cash inflows from investing activities		5,559,092,163.27	5,636,340,246.56
Cash paid for fixed assets,intangible assets and other long-term assets		3,592,624,530.69	3,054,748,265.91
Cash payments for investments		5,189,478,928.23	5,998,899,117.40
Net cash paid for acquiring subsidiaries and other business units		-	
Cash paid related to other investing activities		27,439,372.93	70,216,383.16
Total cash outflows from investing activities		8,809,542,831.85	9,123,863,766.47
Net cash flows from investing activities		-3,250,450,668.58	-3,487,523,519.91
3. Cash flows from financing activities:			
Cash received from investments		274,983,817.65	345,000,000.00
Including: cash received by subsidiaries from minority shareholders' investments		255,979,017.65	5,000,000.00
Cash received from borrowings		6,090,156,299.23	2,663,951,334.23
Cash received from issuing bonds		-	
Cash received related to other financing activities		97,196,202.94	50,000,000.00
Total cash inflows from financing activities		6,462,336,319.82	3,058,951,334.23
Cash repayments for debts		5,239,070,792.03	5,280,270,068.38
Cash payments for distribution of dividends, profit and interest expenses		909,387,188.28	714,782,331.24
Including: dividends or profit paid by subsidiaries to minority shareholders			
Cash paid related to other financing activities		357,037,218.94	166,353,843.93
Total cash outflows from financing activities		6,505,495,199.25	6,161,406,243.55
Net cash flows from financing activities		-43,158,879.43	-3,102,454,909.32
4. Effect of foreign exchange rate changes on cash and cash equivalents		-27,014,905.67	14,899,240.56
5. Net increase in cash and cash equivalents		1,101,483,939.27	-1,189,777,039.12
Add: beginning balance of cash and cash equivalents		3,298,408,595.78	4,488,185,634.90
6. Ending balance of cash and cash equivalents		4,399,892,535.05	3,298,408,595.78

Legal representative: Person in charge of accounting function: Person in charge of accounting department:

Statement of Cash Flows

Prepared by: HUALU HOLDINGS CO.,LTD.

For the year ended 31 December 2020

Unit: RMB Yuan

Item	Note	Year ended 31/12/2020	Year ended 31/12/2019
1. Cash flows from operating activities			
Cash received from sales and services		10,496,569.48	10,216,700.00
Taxes and surcharges refunds		-	
Cash received related to other operating activities		1,391,153,174.87	102,650,548.89
Total cash inflows from operating activities		1,401,649,744.35	112,867,248.89
Cash paid for goods and services		3,529,695.62	1,454,655.98
Cash paid to and for employees		26,540,478.54	31,694,942.35
Taxes and surcharges cash payments		2,965,351.87	13,209,060.74
Cash paid related to other operating activities		1,210,961,457.82	74,901,195.11
Total cash outflows from operating activities		1,243,996,983.85	121,259,854.18
Net cash flows from operating activities		157,652,760.50	-8,392,605.29
2. Cash flows from investing activities:			
Cash received from withdraw of investments		2,438,738.64	551,624,117.17
Cash received from investment income		312,956,138.27	151,088,046.60
Net cash received from disposal of fixed assets,intangible assets and other long-term assets		81,847.00	486,430.57
Net cash received from disposal of subsidiaries and other business units		-	
Cash received related to other investing activities		269.60	
Total cash inflows from investing activities		315,476,993.51	703,198,594.34
Cash paid for fixed assets,intangible assets and other long-term assets		536,069.75	692,584.51
Cash payments for investments		-	622,130,400.00
Net cash paid for acquiring subsidiaries and other business units		-	
Cash paid related to other investing activities		-	
Total cash outflows from investing activities		536,069.75	622,822,984.51
Net cash flows from investing activities		314,940,923.76	80,375,609.83
3. Cash flows from financing activities:			
Cash received from investments		-	340,000,000.00
Including: cash received by subsidiaries from minority shareholders' investments		-	
Cash received from borrowings		2,929,400,000.00	
Cash received from issuing bonds		-	
Cash received related to other financing activities		314,027,250.00	
Total cash inflows from financing activities		3,243,427,250.00	340,000,000.00
Cash repayments for debts		1,600,000,000.00	340,000,000.00
Cash payments for distribution of dividends, profit and interest expenses		199,902,800.00	96,586,700.00
Including: dividends or profit paid by subsidiaries to minority shareholders		-	
Cash paid related to other financing activities		1,171,349,779.50	
Total cash outflows from financing activities		2,971,252,579.50	436,586,700.00
Net cash flows from financing activities		272,174,670.50	-96,586,700.00
4. Effect of foreign exchange rate changes on cash and cash equivalents		-	
5. Net increase in cash and cash equivalents		744,768,354.76	-24,603,695.46
Add: beginning balance of cash and cash equivalents		204,226,193.68	228,829,889.14
6. Ending balance of cash and cash equivalents		948,994,548.44	204,226,193.68

Legal representative: Person in charge of accounting function: Person in charge of accounting department:

Consolidated Statement of Changes in Equity

Prepared by: HUALU HOLDINGS CO.,LTD.

For the year ended 31 December 2020

Unit: RMB Yuan

Item	Year 2020													Minority interests	Total equity
	Equity attributable to shareholders of parent company														
	Share capital	Other equity instruments			Capital reserve	Loss/treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General Risk Preparation	Retained earnings	Sub-total			
		Preference shares	Perpetual loans	Others											
1. Ending balance of last year	3,103,000,000.00	-	-	-	1,035,177,650.03	-	76,605,578.34	2,032,262.16	20,125,750.41	-	4,331,682,605.96	8,568,623,846.90	14,217,719,330.59	22,786,343,177.49	
Add: Impact from changes in accounting policies															
Impact from corrections of errors in prior period															
Others															
2. Beginning balance of current year	3,103,000,000.00	-	-	-	1,035,177,650.03	-	76,605,578.34	2,032,262.16	20,125,750.41	-	4,331,682,605.96	8,568,623,846.90	14,217,719,330.59	22,786,343,177.49	
3. Movement for current year(" - " for decrease)	-	-	-	-	107,395,118.14	-	-18,296,096.03	799,746.29	14,307,053.20	-	443,895,685.33	548,101,506.93	1,329,839,183.65	1,877,940,690.58	
(1) Total comprehensive income							-18,296,096.03				744,083,419.58	725,787,323.55	1,541,540,301.66	2,267,327,625.21	
(2) Shareholder's contributions and withdrawals of capital	-	-	-	-	8,277,237.09	-	-	-	-			8,277,237.09	254,918,588.83	263,195,825.92	
1) Common stock contributed by shareholders													75,040,000.00	75,040,000.00	
2) Capital contributed by other equity instruments holders														-	
3) Share-based payment recorded in shareholder's equity														-	
4) Others														-	
(3) Special reserve														-	
1) Accrual of special reserve					7,234,107.72							7,234,107.72	17,274,507.14	24,508,614.86	
2) Utilization of special reserve					1,043,129.37							1,043,129.37	162,604,081.69	163,647,211.06	
(4) Profits distribution	-	-	-	-		-	-	799,746.29	-			799,746.29	543,828.47	1,343,574.76	
1) Appropriation of surplus reserve								45,112,417.49				45,112,417.49	12,525,870.96	57,638,288.45	
Including: Statutory surplus reserve								44,312,671.20				44,312,671.20	11,982,042.49	56,294,713.69	
Discretionary reserve												-186,762,800.00	-467,163,535.31	-653,926,335.31	
Reserve Fund														-	
Enterprise expansion funds														-	
Profit return for investment														-	
2) General Risk Preparation														-	
3) Distribution to shareholders												-186,762,800.00	-467,163,535.31	-653,926,335.31	
4) Others														-	
(5) Internal transfer within shareholder's equity	-	-	-	-	99,117,881.05	-	-	-	-13,167,952.30		-85,949,928.75		-	-	
1) Conversion of capital reserve into Paid-in capital														-	
2) Conversion of surplus reserve into Paid-in capital														-	
3) Recover of loss by surplus reserve														-	
4) Change of defined benefit obligations carried forward to retained earnings														-	
5) Other comprehensive income carried forward to retained earnings														-	
6) Others					99,117,881.05				-13,167,952.30		-85,949,928.75		-	-	
4. Ending balance of current year	3,103,000,000.00	-	-	-	1,142,572,768.17	-	58,309,482.31	2,832,008.45	-13,167,952.30		4,775,578,291.29	6,725,353.83	15,547,558,514.24	24,664,283,868.07	

Legal representative/legal: Person in charge of accounting function: Person in charge of accounting department:

Consolidated Statement of Changes in Equity

Prepared by: HUALU HOLDINGS CO., LTD.

For the year ended 31 December 2020

Unit: RMB Yuan

Item	Year 2019											Total equity	
	Equity attributable to shareholders of parent company										Minority interests		
	Share capital	Other equity instruments		Capital reserve	Less treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General Risk Preparation	Retained earnings			Sub-total
		Preference shares	Others										
1. Ending balance of last year	3,000,000,000.00			792,652,597.82		91,351,946.66	1,757,562.47	976,466.87		3,399,967,750.62	7,286,706,234.44	12,617,113,207.75	19,903,819,442.19
Add: Impact from changes in accounting policies													
Impact from corrections of errors in prior period													
Others													
2. Beginning balance of current year	3,000,000,000.00	-	-	792,652,597.82	-	91,351,946.66	1,757,562.47	976,466.87	-	3,399,967,750.62	7,286,706,234.44	12,617,113,207.75	19,903,819,442.19
3. Movement for current year ⁽¹⁾ (for decrease)	103,000,000.00	-	-	242,525,142.21	-	-147,463,668.32	274,699.69	19,149,283.54	-	931,714,855.54	1,281,917,612.46	1,600,606,122.84	2,882,523,735.30
(1) Total comprehensive income						-147,463,668.32				1,037,570,838.88	1,022,824,470.56	1,862,162,909.33	2,884,987,379.89
(2) Shareholder's contributions and withdrawals of capital	103,000,000.00	-	-	238,834,977.39	-	-	-	-	-	-	341,834,977.39	17,979,338.63	359,814,316.02
1) Common stock contributed by shareholders	103,000,000.00			237,000,000.00							340,000,000.00	5,000,000.00	345,000,000.00
2) Capital contributed by other equity instruments holders													
3) Share-based payment recorded in shareholder's equity													
4) Others				1,834,977.39		-		-	-	-	1,834,977.39	46,294,900.00	-11,588,095.91
(3) Special reserve	-	-	-	-	-	-	274,699.69	-	-	-	274,699.69	155,253.43	429,953.12
1) Accrual of special reserve													
2) Utilization of special reserve							40,673,433.83				40,673,433.83	11,942,853.00	52,616,286.83
(4) Profits distribution	-	-	-	3,690,164.82	-	-	-	19,149,283.54	-	-105,855,983.54	-83,016,535.18	11,787,399.57	521,86,335.71
1) Appropriation of surplus reserve								19,149,283.54		-19,149,283.54		-279,691,378.55	-362,707,913.73
Including Statutory surplus reserve								19,149,283.54		-19,149,283.54		-	-
Discretionary reserve												-	-
Reserve Fund												-	-
Enterprise expansion funds												-	-
Profit return for investment												-	-
2) General Risk Preparation												-	-
3) Distribution to shareholders												-	-
4) Others				3,690,164.82		-	-	-	-	-86,706,700.00	-86,706,700.00	282,937,483.36	-369,644,183.36
(5) Internal transfer within shareholder's equity	-	-	-	-	-	-	-	-	-	3,690,164.82	3,690,164.82	3,246,104.81	6,936,269.63
1) Conversion of capital reserve into Paid-in capital												-	-
2) Conversion of surplus reserve into Paid-in capital												-	-
3) Recover of loss by surplus reserve												-	-
4) Change of defined benefit obligations carried forward to retained earnings												-	-
5) Other comprehensive income carried forward to retained earnings												-	-
6) Others												-	-
Ending balance of current year	3,103,000,000.00	-	-	1,035,177,650.03	-	76,605,578.54	2,032,262.16	20,125,750.41	-	4,331,682,605.96	8,568,623,846.90	14,217,719,330.59	22,786,343,177.49

Legal representative Legal: Person in charge of accounting function: Person in charge of accounting department:

Statement of Changes in Equity

Prepared by: HUALU HOLDINGS CO., LTD.

For the year ended 31 December 2020

Unit: RMB Yuan

Item	Equity attributable to shareholders of parent company										Minority interests	Total equity
	Share capital	Other equity instruments			Capital reserve	Less treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General Risk Preparation	Retained earnings	Sub-total
		Preference shares	Perpetual loans	Others								
1. Ending balance of last year	3,103,000,000.00				237,000,000.00				19,149,283.54		85,636,851.81	3,444,786,135.35
Add: Impact from changes in accounting policies												
Impact from corrections of errors in prior period												
Others												
2. Beginning balance of current year												
3. Movement for current year(" " for decrease)	3,103,000,000.00				237,000,000.00				19,149,283.54		85,636,851.81	3,444,786,135.35
(1) Total comprehensive income									27,475,005.50		60,512,249.50	87,987,255.00
(2) Shareholder's contributions and withdrawals of capital											274,750,055.00	274,750,055.00
1) Common stock contributed by shareholders												
2) Capital contributed by other equity instruments holders												
3) Share-based payment accorded in shareholder's equity												
4) Others												
(3) Special reserve												
1) Accrual of special reserve												
2) Utilization of special reserve												
(4) Profits distribution									27,475,005.50		-214,237,805.50	-186,762,800.00
1) Appropriation of surplus reserve									27,475,005.50		-27,475,005.50	
Including: Statutory surplus reserve									27,475,005.50		-27,475,005.50	
Discretionary reserve												
Reserve fund												
Enterprise expansion funds												
Profit return for investment												
2) General Risk Preparation												
3) Distribution to shareholders											-186,762,800.00	-186,762,800.00
4) Others												
(5) Internal transfer within shareholder's equity												
1) Conversion of capital reserve into Paid-in capital												
2) Conversion of surplus reserve into Paid-in capital												
3) Recover of loss by surplus reserve												
4) Change of defined benefit obligations carried forward to retained earnings												
5) Other comprehensive income carried forward to retained earnings												
6) Others												
4. Ending balance of current year	3,103,000,000.00				237,000,000.00				46,624,289.04		146,149,101.31	3,532,773,390.35

Legal representative legal: Person in charge of accounting function: Person in charge of accounting department:

Statement of Changes in Equity

Prepared by: HUALU HOLDINGS CO.,LTD.

For the year ended 31 December 2020

Unit: RMB Yuan

Item	Year 2019												Minority interests	Total equity
	Equity attributable to shareholders of parent company													
	Share capital	Other equity instruments		Capital reserve	Less: treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General Risk Preparation	Retained earnings	Sub-total			
		Preference shares	Perpetual loans											
1. Ending balance of last year	3,000,000,000.00									-2,232,736.54	2,997,767,263.46		2,997,767,263.46	
Add: Impact from changes in accounting policies														
Impact from corrections of errors in prior period														
Others														
2. Beginning balance of current year	3,000,000,000.00									-2,232,736.54	2,997,767,263.46		2,997,767,263.46	
3. Movement for current year(" -" for decrease)	103,000,000.00			237,000,000.00				19,149,283.54		87,869,588.35	447,018,871.89		447,018,871.89	
(1) Total comprehensive income														
(2) Shareholder's contributions and withdrawals of capital	103,000,000.00			237,000,000.00						193,725,571.89	193,725,571.89		193,725,571.89	
1) Common stock contributed by shareholders	103,000,000.00			237,000,000.00						340,000,000.00	340,000,000.00		340,000,000.00	
2) Capital contributed by other equity instruments holders														
3) Share-based payment recorded in shareholder's equity														
4) Others														
(3) Special reserve														
1) Accrual of special reserve														
2) Utilization of special reserve														
(4) Profits distribution								19,149,283.54		-105,855,983.54	-86,706,700.00		-86,706,700.00	
1) Appropriation of surplus reserve								19,149,283.54		-19,149,283.54				
Including: Statutory surplus reserve								19,149,283.54		-19,149,283.54				
Discretionary reserve														
Reserve Fund														
Enterprise expense funds														
Profit return for investment														
2) General Risk Preparation														
3) Distribution to shareholders										-86,706,700.00	-86,706,700.00		-86,706,700.00	
4) Others														
(5) Internal transfer within shareholder's equity														
1) Conversion of capital reserve into Paid-in capital														
2) Conversion of surplus reserve into Paid-in capital														
3) Recover of loss by surplus reserve														
4) Change of defined benefit obligations carried forward to retained earnings														
5) Other comprehensive income carried forward to retained earnings														
6) Others														
4. Ending balance of current year	3,103,000,000.00			237,000,000.00				19,149,283.54		85,636,851.81	3,444,786,135.35		3,444,786,135.35	

Legal representative: Legal: Person in charge of accounting function: Person in charge of accounting department:

HUALU HOLDINGS CO.,LTD.

Notes to the Financial Statements

(All amounts in Chinese Renminbi Yuan unless otherwise stated)

1. Company profile

1.1 The Company's registered place, organization structure and the address of head quarter.

HUALU HOLDINGS CO.,LTD. (hereinafter referred to as "the company" or "company") was established on January 28, 2005, the company's unified social credit code is 913700007710397120; registered capital of RMB is 3,103 million; legal representative: Fan Jun; enterprise Address: 22nd Floor, Block A, Huachuang Guanli Center, No. 219, Shunhai Road, Lixia District, Jinan City, Shandong Province.

1.2 The Company's business nature and main operation activities, like its industry, primary product or service, customers' nature, trading strategy and supervisory environment etc.

The company belongs to the commercial service industry, and its main service is to invest in the chemical, pharmaceutical and environmental protection industries (industry) with its own funds; Management operation and consulting. (Projects that are subject to approval in accordance with the law can be operated only after being approved by relevant departments).

1.3 Name of parent company and group headquarters

The parent company is HUALU HOLDINGS CO.,LTD., the actual controller of the company is the State-owned Assets Supervision and Administration Commission of Shandong Provincial People's Government.

2. Basis of preparation of financial statements

On the basis of going concern and transactions and events actually occurred, the Company prepares its financial statements with the following accounting policies and accounting estimates in accordance with the Accounting Standards for Business Enterprises – basic Standards, specific accounting standards and other relevant provisions (hereinafter collectively known as "Accounting Standards for Business Enterprises" or "CAS")

3. Declaration on compliance with the Accounting Standards for Business

Enterprises

The financial statements have been prepared in compliance with the Accounting Standards for Business Enterprises to truly and completely reflect the Company's financial position as of 31 December 2020 and its operating results, cash flows and other relevant information for the year ended 31 December 2020.

4. Significant accounting policies and accounting estimates

4.1 Accounting period

The financial year of the Company is from January 1 to December 31 of each calendar year.

4.2 Functional currency

The Company's functional currency is Chinese Renminbi (hereafter referred to as "RMB").

4.3 Accounting basis and pricing principles

The Company's accounting is based on the accrual basis. Except for the financial assets / liabilities that are measured at fair value and whose changes are included in the current profit or loss, derivative financial instruments, available-for-sale financial assets and cash-settled share-based payments are measured on value measurement, the rest are based on historical cost. If the asset is impaired, the corresponding impairment provision shall be made in accordance with the relevant regulations.

4.4 Business combination

4.4.1 Business combinations involving enterprises under common control

In a business combination involving enterprises under common control, if the acquirer pays for the business combination in cash, by transferring of non-cash assets or assuming liabilities, the initial investment cost is the holding share of the acquiree's equity in the ultimate controlling party's consolidated financial statements measured at the carrying amounts at the acquisition date. If the acquirer issues equity instruments for the business combination, the acquirer measures the share capital by the par value of the shares issued. The difference between the original investment cost and the carrying amount (or the total par value of shares issued) will be adjusted to the capital reserve. If the capital reserve is insufficient to absorb the difference, the remaining amount shall be deducted from the retained earnings.

4.4.2 Business combinations involving enterprises not under uncommon control

In a business combination involving enterprises not under common control, the combination costs are the aggregate of the fair values of the assets paid, the liabilities incurred or assumed and the equity instruments issued by the acquirer in exchange for control over the acquiree at the acquisition date. At the acquisition date, the acquired assets, liabilities and contingent liabilities of the acquiree that meet the recognition criteria are measured at their fair value. The Company recognises the difference of the combination costs in excess of its interest portion in the fair value of the net identifiable assets acquired from the acquiree as goodwill. The Company recognises the difference of the combination costs less than its interest portion in the fair value of the net identifiable assets acquired from the acquiree in the non-operating income for current period after reassessment.

4.5 Preparation of consolidated financial statements

4.5.1 The scope of consolidated financial statements

The Company incorporates all its subsidiaries (including individual entities under its control) into the scope of the consolidated financial statements, including the enterprises controlled by the Company, divisible part in the investees and structured entities.

4.5.2 Uniform accounting policies, balance sheet date and accounting period

If the subsidiaries adopt different accounting policies or accounting periods compared with those of the Company, the Company makes necessary adjustments on the subsidiaries' financial statements according to its accounting policies or accounting period when the consolidated financial statements are prepared.

4.5.3 The elimination in the preparation of consolidated financial statements

The consolidated financial statements are prepared based on the individual financial statements of the Company and its subsidiaries, after elimination of the transactions incurred among the Company and the subsidiaries. The portion of a subsidiary's equity that is not attributable to the Company is treated as minority interests and presented in the consolidated balance sheet within equity. The equity investment of the Company held by one subsidiary is treated as the Company's treasury shares and a deduction of the shareholders' equity which is presented as "less: treasury shares" in the consolidated balance sheet within equity.

4.5.4 The accounting treatment for obtaining subsidiaries through a business combination

Where a subsidiary or business has been acquired through a business combination involving enterprises under common control in the reporting period, the obtained subsidiary or business is deemed to be included in the consolidated financial statements from the date they are controlled by the ultimate controlling party. Their assets, liabilities, operating results and cash flows are included in the consolidated financial statements from the beginning of the accounting period in which the acquisition occurred. Where a subsidiary or business has been acquired through a business combination not involving enterprises under common control, their individual financial statements are adjusted based on the fair value of identifiable net assets at the acquisition date when preparing the consolidated financial statements.

4.5.5 The accounting treatment for disposal of equity investment in a subsidiary

In the consolidated financial statements, when the Company partly disposes its investment in a subsidiary without losing its control on the subsidiary, the difference between the consideration received and its corresponding portion of the net asset continually calculated from the purchase date or combination date should be adjusted to the capital reserve and if the capital reserve is insufficient to absorb the difference, the remaining amount will be deducted from the retained earnings.

If the Company loses its control on a investee because of disposing some portion of its equity investment in the investee, when it prepares its consolidated financial statements, the remaining balance of its equity investment will be remeasured at the fair value of the date at which it loses its control. The difference between the sum of the consideration received and the fair value of the remaining equity investment, and its corresponding interest portion of the net asset continually calculated from the purchase date or the combination date should be recorded in the investment income of the current period, and be deducted to goodwill simultaneously. Other comprehensive income (OCI) etc. relating to the investment in the former subsidiary will be transferred to the investment income in the same period in which it loses its control.

4.6 Joint arrangement classification and accounting treatments

4.6.1 The classification of joint arrangement

Joint arrangements are classified as joint operations or joint ventures. A joint arrangement will be classified as joint operation when the joint arrangement achieves not through an individual entity. Individual entity is an entity with individual identifiable finance structure, including single legal

entity and entity unqualified as legal entity but qualified as lawful entity. A joint arrangement is usually be classified as joint venture when the joint arrangement achieves through incorporating an individual entity. When changes arising from relevant events or environment cause changes of the cooperative parties' rights and obligations in the joint arrangements, the cooperative parties shall reassess the classification of the joint arrangements.

4.6.2 The accounting treatment of joint operations

The Company acted as a party participating in joint operations, recognises the following items relating to its interests in the joint operations and accounts for them in accordance with related requirements of Accounting Standards for Business Enterprises: (a) Its solely-held assets and solely-assumed liabilities, and its share of any assets and liabilities held jointly; (b) Its revenue from the sale of its share of the output arising from the joint operation; (c) Its share of the revenue from the sale of the output by the joint operation; (d) Its own expenses and its share of any expenses incurred jointly.

The Company acted as a party involving in joint operations without common control power, accounts for its investments referring to the treatment method of joint operation participants if it is entitled to relevant assets and undertake relevant liabilities of the joint operations, otherwise, it accounts for its investments according to related requirements of Accounting Standards for Business Enterprises.

4.6.3 The accounting treatment of joint ventures

The Company accounts for its investments in accordance with Accounting Standards for Business Enterprises No.2 - Long-term Equity Investment if it is one of the participating parties with common control power in joint ventures. And the Company accounts for its investments according to its influence extent on the joint ventures if it is not one of the participating parties with common control power involved in the joint ventures.

4.7 Cash and cash equivalents

The cash in the Company's statement of cash flows is cash on hand and deposits that can be readily drawn on demand. Cash equivalents in the statement of cash flows are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

4.8 Foreign currency transactions and translation of financial statements denominated in foreign currency

4.8.1 Translation of foreign currency transactions

The Company records foreign currency transactions in RMB for accounting purpose using the spot exchange rate prevailing at the date when the transactions occurs. At the balance sheet date, monetary items denominated in foreign currency are translated to RMB by adopting the prevailing exchange rate on that date. Foreign exchange difference between the prevailing exchange rate on that date and the prevailing exchange rate on initial recognition or on the previous balance sheet date are recognised in profit or loss for the current period, except the foreign exchange arising from specific loan denominated in foreign currency qualified as capital expenditure and included in the cost of related assets. Non-monetary items denominated in foreign currency that are measured at historical cost are still translated at amount in functional currency exchanged at the prevailing exchange rate at the transaction date. Non-monetary items denominated in foreign currency that are measured at fair value are translated using the exchange rate at the date when fair value was determined and the difference between the translated functional currency amount and the prior translated amount on initial recognition or on the previous balance sheet date are recorded in profit or loss for the current period or other comprehensive income.

4.8.2 The translation of financial statements denominated in foreign currency

If the Company's controlled subsidiaries, joint ventures and associates etc. adopt different reporting currency, their financial statements denominated in foreign currency shall be translated to financial statements in RMB when preparing consolidated financial statements. The assets and liabilities are translated to RMB amounts using the spot exchange rate at the balance sheet date. Items of the equity, except for "retained earnings ", are translated at the spot exchange rate at the dates when such items occurred. The revenue and expenditures in the statement of income are translated using the spot exchange rate at the transaction date. The difference arising from foreign currency financial statements translation is presented in other comprehensive income at the consolidated balance sheet within equity. Items of the statement of cash flows are translated using the spot exchange rate when they incurred. Effect arising from changes of exchange rates on cash and cash equivalents is presented separately in the statement of cash flows. When disposing of foreign operations, exchange

differences of foreign currency financial statements attributable to the foreign operations are transferred to profit or loss for the current period entirely or in proportion with the disposal portion of the foreign operations.

4.9 Financial instruments

4.9.1 Classification and confirmation of financial instruments

Financial instruments are classified as financial assets or financial liabilities and equity instruments. When the Company becomes a party of the financial instrument contract, it is recognized as a financial asset or financial liability, or equity instrument.

Financial assets are initially classified as: financial assets measured at fair value and whose changes are included in current profit or loss, held-to-maturity investments, receivables, and available-for-sale financial assets. The classification of financial assets except the receivables depends on the intention and ability of the Company and its subsidiaries to hold financial assets. Financial liabilities are initially classified as: financial liabilities measured at fair value and whose changes are included in the current profit or loss and other financial liabilities.

Financial assets measured at fair value and whose changes are included in current profit or loss include financial trading assets held for short-term sales and financial assets designated as measured at fair value and whose changes are included in current profit or loss at initial recognition; Receivables refer to non-derivative financial assets with no quoted price in the active market, fixed or determinable recovery amount; Available-for-sale financial assets include non-derivative financial assets designated as available-for-sale at initial recognition and not classified as other financial assets; Held-to-maturity investments are non-derivative financial assets with fixed maturity dates, fixed or determinable recoveries, and management 's clear intention and ability to hold to maturity.

4.9.2 Measurement of financial instruments

The initial recognition of the company's financial instruments is measured at fair value. Subsequent measurements are classified as: Financial assets measured at fair value with changes included in current profit or loss, available-for-sale financial assets, and financial liabilities measured at fair value with changes included in current profit or loss measured at fair value; Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost; Investments in equity instruments that have no quotation in an active market and whose fair value

cannot be reliably measured, and those that are linked to the equity instrument and must be settled by delivery of the equity instrument derivative financial assets or derivative financial liabilities are measured at cost. Gains or losses arising from changes in fair value in the subsequent measurement of the Company's financial assets or financial liabilities, except for those related to hedging, are handled as follows: a) Financial assets or financial liabilities measured at fair value with changes included in the current profit or loss. Gains or losses resulting from changes in fair value are included in changes in fair value. b) Changes in the fair value of available-for-sale financial assets are included in other comprehensive income.

4.9.3 Measurement method of financial instruments' fair value

For financial instruments that active markets exist, the Company uses the quoted prices in the active markets to determine their fair value. If there is no active market for the financial instruments, the Company uses valuation techniques to determine their fair value. The valuation techniques mainly include market approach, income approach and cost approach.

4.9.4 The recognition basis and measurement method of financial assets and liabilities

When almost all risks and rewards in the ownership of financial assets are transferred, or there is neither transfer nor retention of almost all risks and rewards in the ownership of financial assets, but the control of the financial assets is abandoned, the recognition of the financial asset shall be terminated. If the financial asset meets the conditions for termination of recognition, the difference between the carrying value of the transferred financial asset and the sum of the consideration received as a result of the transfer and the cumulative amount of changes in fair value that were directly included in other comprehensive income is included in the current profit or loss. If the partial transfer meets the conditions for termination confirmation, the entire carrying value of the transferred financial assets shall be allocated between the termination confirmation part and the unfinished confirmation part according to their respective relative fair values.

When the present obligation specified in the contract is extinguished, the Company derecognises a financial liability (or a part of a financial liability).

4.9.5 Impairment of financial assets

When a financial asset measured at amortized cost is impaired, an impairment provision is made

based on the difference between the expected future cash flow (excluding future credit losses that have not yet occurred) and the carrying value. If there is objective evidence that the value of the financial asset has been restored, and it is objectively related to the events that occurred after the loss was confirmed, the originally recognized impairment loss is reversed and included in the current profit or loss.

When there is objective evidence that the available-for-sale financial asset is impaired, the accumulated losses due to the decline in fair value that were originally directly included in shareholders' equity are transferred out and included in the impairment loss. For available-for-sale debt instrument investments that have confirmed impairment losses, if the fair value rises after the period and is objectively related to events that occurred after the confirmation of the original impairment loss, the originally recognized impairment loss is reversed and included in the current profit or loss. For available-for-sale equity instrument investments that have been recognized for impairment losses, the increase in fair value after the period is directly included in shareholders' equity.

For equity instrument investments, the Company judges the specific quantitative standards for the "serious" or "non-temporary" decline in its fair value, its cost calculation method and the method for determining the fair value at the end of the period, and the bases for determining the period of continued decline are as follows:

The specific quantitative standard for the "serious" decline in fair value	At the end of the period, the decrease in fair value relative to cost has reached or exceeded 50%.
The specific quantification standard of "non-temporary" decline in fair value	It has fallen for 6 consecutive months.
Cost calculation method	At the time of acquisition, the sum of the payment consideration (deducting the cash dividend declared but not yet paid or the bond interest that has reached the interest payment period but not yet received) and related transaction costs are taken as the investment cost.
The method for determining the fair value at the end of the period	For financial instruments in an active market, the fair value is determined by the quotation in the active market; if there is no financial instrument in an active market, the fair value is determined by valuation.
Basis for determining the period of continued decline	Continuous declines or rebounds and rises less than 20% during the duration of the downward trend, and the duration of the rebound does not exceed 6 months are regarded as continuous declines.

4.10 Receivables

The Company's receivables mainly include notes receivable and accounts receivable, long-term receivables and other receivables. If there exists objective evidence on the balance sheet date that it

is impaired, the Company recognizes the impairment loss based on the difference between its carrying value and the present value of expected future cash flows.

4.10.1 Receivables with individually significant amount and individual provision for bad debt

Judgment basis or amount standard for individually significant amount	Amounts of more than 1 million yuan (inclusive).
Provision method for receivables with individually significant amount and individual provision for bad debt	The assessment for impairment is separately, and the provision for bad debts is made at the difference between its carrying amount and the present value of estimated future cash flows.

4.10.2 Receivables withdrawing bad debt provision by combination

Basis for determining the portfolios	Method of calculation	Basis of the combination
Associated parties' portfolios	No provision for bad debts	Group of related parties included in the consolidation scope
Risk-free portfolio	No provision for bad debts	According to the nature of the business, it is determined that there is no credit risk, which mainly includes the receivables from government, employees' reserve funds, security deposits and deposits
Aging portfolios	Aging analysis	Including accounts receivable other than the above combination, the company makes the best estimate of the proportion of accounts receivable based on past historical experience, and classifies the credit risk portfolio with reference to the aging of the accounts receivable
Balance percentage method combination	Percentage of balance	Ending balance of accounts receivable

4.10.2.1 In the portfolios, the aging analysis method is used to accrue bad debt provision as follows:

I. Pharmaceutical

Aging	Proportion of provision for account receivable (%)	Proportion of provision for other receivables (%)
Within 1 year	0.50	0.50
1-2 years	20.00	20.00
2-3 years	60.00	60.00
More than 3 years	100.00	100.00

II. Other

Aging	Proportion of provision for account receivable (%)	Proportion of provision for other receivables (%)
Within 1 year	1.00	1.00
1-2 years	20.00	20.00
2-3 years	40.00	40.00
More than 3 years	80.00	80.00

4.10.2.2 Withdrawing bad debt reserves by balance percentage method

Combination name	Proportion of provision for account receivable (%)	Proportion of provision for other receivables (%)
Coal chemical industry	6.00	6.00

4.10.3 Receivables with individually insignificant amount but with individual provision for bad debt

Reasons for individual provision for bad debts	Accounts receivable with an age of more than 3 years and there is objective evidence that they have been impaired.
Provision methods	For the accounts receivable with objective evidence that may be impaired, the impairment test shall be conducted separately, and the provision for bad debts shall be made based on the difference between the present value of its future cash flow and its carrying value.

4.11 Inventories

4.11.1 Categories of inventories

Inventories are the finished goods or commodities that the Company holds to sell, the work in progress in production process, and the material and goods consumed during the production process or service rendering process in daily operation. Inventories include raw materials, revolving materials (packaging materials and low-value consumables etc.), consigned processing materials, work in progress, self-manufactured semifinished product, and finished goods (commodities) etc.

4.11.2 Measurement of inventories upon delivery

Weighted average method is used to measure the actual costs of inventories upon delivery.

4.11.3 Provision for diminution in value of inventories

At each balance sheet date, inventories are measured at the lower of cost and net realisable value. When the cost of inventory exceeds its net realizable value, provision for diminution in value of inventories is recognised. The Company usually recognises provision for diminution in value of inventories on the basis of a single inventory item. For the inventory items of large quantity and low price, the Company recognises provision for diminution in value of inventories based on inventory categories.

4.11.4 Inventory count system

The Company adopts the perpetual inventory system.

4.11.5 Amortization methods of low-value consumables and packaging materials

Low-value consumables and packaging materials are amortized by the once-off amortization method

4.12 Long-term equity investment

4.12.1 Determination of initial investment cost

Long-term equity investment acquired through a business combination: For a business combination involving enterprises under common control, the initial investment cost of a long-term equity investment is the holding share of the acquiree's equity in the ultimate controlling party's consolidated financial statements measured at the carrying amounts at the acquisition date. For a business combination not involving enterprises under common control, the initial investment cost of a long-term equity investment is the cost of acquisition determined at the date of acquisition. For a long-term equity investment acquired in cash, the initial investment cost is the amount of cash paid. For a long-term equity investment acquired by issuing equity securities, the initial investment cost is the fair value of the equity securities issued. For a long-term equity investment acquired by debt restructuring, the initial investment cost is determined according to related requirements of Accounting Standards for Business Enterprises No. 12- Debt Restructuring. For a long-term equity investment acquired by exchange of non-cash assets, the initial investment cost is determined according to related requirements of Accounting Standards for Business Enterprises No. 7- Exchange of Non-monetary Assets .

4.12.2 Subsequent measurement and recognition of profit or loss

Where the Company is able to exercise control over an investee, the long-term equity investment is accounted for using the cost method. Where the Company has investment in associates and joint ventures, the long-term equity investment is accounted for using the equity method. Where portion of the long-term equity investment in an associate is indirectly held through venture capital organizations, mutual funds, trust companies or similar entities including investment-linked insurance funds, regardless whether these entities can exercise significant influence on the investments, the Company treats the investment portion according to Accounting Standards for Business Enterprises No. 22- Financial Instrument Recognition and Measurement and accounts for the remaining portion using the equity method.

4.12.3 Basis for recognition of joint control or significant influence over an investee

Joint control of an investee is that the decision of activities that can significantly affect the arrangement's return must require the unanimous consent of the parties sharing control, including sale and purchase of goods or services, financial assets management, purchase and disposal of assets, research and development activity and financing activities etc. The Company holding of 20%-50%

voting capital of the investee presents it can exercise significant influence over the investee. The Company usually can exercise significant influence over the investee even its voting capital less than 20% if it can meet one of the following situations: a) Appointing representatives in the board of directors or similar governing body of the investee; b) Participating in the strategy and policy decision process; c) Delegating management personnel; d) The investee relying on the Company's technique or technical material; e) Significant transactions occur between the Company and the investee.

4.13 Investment property

Measured by cost value model:

Investment property refers to land use rights and buildings held to earn rent or capital appreciation, or both, including leased land use rights, land use rights held and ready to be transferred after appreciation, and leased buildings. In addition, for vacant buildings held by the company for operating leases, if the board of directors makes a written resolution stating that they will be used for operating leases and the holding intention will no longer change in the short term, they are also listed as investment property.

The company's investment property is valued at its cost. The cost of outsourcing investment property includes the purchase price, relevant taxes and other expenses directly attributable to the asset; the cost of self-built investment property is determined by the construction of investment property. The composition of the necessary expenditures incurred before the asset reaches the expected usable state.

The company adopts the cost model for subsequent measurement of investment property, and depreciates or amortizes buildings and land use rights based on their estimated service life and net residual value rate. The estimated service life, net residual value rate and annual depreciation (amortization) rate of investment property are listed as follows:

Category	Depreciation period (years)	Residual rate (%)	Annual depreciation rate (%)
Land use right	40-50	0.00	2.00-2.50
Buildings	20-30	5.00	3.17-4.75

When the use of investment property is changed to self-use, the company will convert the investment property into fixed assets or intangible assets from the date of change. When the purpose of self-use real estate is changed to earning rent or capital appreciation, the company will convert fixed assets or

intangible assets into investment property from the date of change. When a conversion occurs, the book value before the conversion is used as the entry value after the conversion.

On the balance sheet date, the company estimates the recoverable amount of investment property with signs of impairment. If the recoverable amount is lower than its book value, the corresponding impairment loss is recognized. Once the impairment loss of investment property is confirmed, it will not be reversed.

When an investment property is disposed of or is permanently withdrawn from use and it is expected that no economic benefits can be obtained from its disposal, the confirmation of the investment property shall be terminated. The amount of disposal income from the sale, transfer, scrapping or destruction of investment property after deducting its book value and relevant taxes shall be included in the current profit and loss.

4.14 Fixed assets

4.14.1 Recognition criteria for fixed assets

Fixed assets refer to tangible assets held for the purpose of producing commodities, services rendering, renting or business administration with useful lives exceeding one accounting year. Fixed assets can be recognised when the following criteria are met: a) It is probable that the economic benefits relating to the fixed assets will flow into the Company; and b) The costs of the fixed assets can be measured reliably.

4.14.2 Classification and depreciation method of fixed assets

The categories of fixed assets mainly include: Land assets, buildings, machinery & equipment, electronic equipment and transportation vehicles. The Company adopts the straight line method for depreciation. The useful life and residual value of an asset is assessed based on its nature and the manner of use. At the end of each financial year, the useful lives, residual values and the depreciation method are reviewed, and adjusted if there are variances with the original estimates. Other than fully depreciated assets which are still in use and land individually measured and recorded, depreciation is provided for all fixed assets.

Category	Depreciation period (years)	Residual rate (%)	Annual depreciation rate (%)
Land assets	No depreciation		
Buildings	20-50	5.00	1.90-4.75
Machinery & equipments	5-14	5.00	6.79-19.00

Category	Depreciation period (years)	Residual rate (%)	Annual depreciation rate (%)
Electronic equipments	3-5	5.00	19.00-31.67
Transportation vehicles	4-8	5.00	11.88-23.75
Others	3-5	5.00	19.00-31.67

4.14.3 Identification basis and pricing method of fixed assets leased by financing

Financing leased fixed assets is a lease that substantially transfers all risks and rewards related to asset ownership. The initial valuation of finance leased fixed assets is the lower of the fair value of the leased asset and the current value of the minimum lease payment on the beginning of the lease period; the subsequent valuation of the finance leased fixed assets adopts the depreciation policy consistent with its own fixed assets provision for depreciation and impairment.

4.15 Construction in progress

The construction in progress of the Company includes self-construction and sub-contracting construction. Construction in progress is transferred to fixed assets when it has reached the working condition for its intended use. The recognition criteria of intended use include any of the followings:

a) The tangible work of fixed assets (including installation) have been entirely or substantively completed; b) Trial production or trial operation has occurred whose outcome indicates the asset can be operated properly or manufacture quality product steadily; c) No expenditure or insignificant expenditure occur subsequently for the constructed asset; d) The constructed asset has achieved or substantively achieved the requirement of design or contract.

4.16 Borrowing costs

4.16.1 Recognition criteria for capitalization of borrowing costs

Borrowing costs are capitalized when they are directly attributable to the acquisition, construction or production of a qualifying asset and included in the cost of related assets. Other borrowing costs are recognised as expenses and recorded in profit or loss for the current period when incurred. Qualifying assets that meet conditions for capitalization are fixed assets, investment property, inventory or other assets that take a substantial period of time for construction or production in order to get ready for their intended use or sale.

4.16.2 Calculation of capitalization cost

Capitalization period refers to the period from commencement of capitalization of borrowing costs to its termination. The period during which capitalization is suspended is excluded. Capitalization of

borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is suspended abnormally and when the suspension is for a continuous period of more than 3 months.

For designated borrowings, the amount of interest to be capitalized is the actual interest expense incurred on that borrowing less any bank interest earned from unused funds of the designated borrowings or any investment income on the temporary investment of those funds. For funds borrowed for general purpose, the amount of interest to be capitalized on such borrowings is calculated by applying a capitalization rate to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of designated borrowings. Capitalization rate is determined by calculating weighted average interest rate of general borrowings. If there is any premium or discount of the borrowings, the interest cost shall be adjusted in every accounting period by the amortized amount of premium or discount calculating by effective interest method.

Effective interest method is the method to calculate the amortization amount of premium or discount or interest expenses by the effective interest rate of the borrowings. The effective interest rate is the interest rate to discount the future cash flow of the borrowing during its expected duration to the present carrying amount of the borrowing.

4.17 Intangible assets

4.17.1 The measurement of intangible assets

The intangible assets shall be initially measured according to its cost. Acquisition costs of intangible assets include purchase price and relevant expenditures. The invested cost of intangible assets contributed by investors shall be determined according to the conventional value in the investment contract or agreement, except for those of unfair value in the contract or agreement. If the conventional value in the investment contract or agreement is unfair, the costs of intangible assets shall be their fair value. The costs of internally generated intangible assets include the total development expenditures to bring the asset to its intended use.

The subsequent measurements for intangible assets are as follows: a) The intangible assets with definite useful life are amortized by straight line method and reviewed the useful life and amortization method at the end of each year. Any discrepancy between the review and initial

estimates shall be adjusted accordingly. b) The intangible assets with indefinite useful life are not amortized, and reviewed for the useful life at the end of each year. If there are objective evidence indicating their useful life is definite, the Company shall estimate the useful life of the intangible assets and amortize them by straight line method.

The amortization methods of intangible assets with limited service life are as follows:

Category	Useful years	Amortization methods
Software	5	Straight-line
Land use rights	45-50	Straight-line
Patent	5-10	Straight-line
Others	5-10	Straight-line

4.17.2 The assessment basis for indefinite useful life

Intangible assets without foreseeable period to bring economic benefits to the Company or with uncertain useful life are classified as intangible assets of indefinite life. The judgment basis for indefinite life includes: a) The legal rights are derived from contractual rights or other legal rights, however there is no explicit useful life indicated in the contracts or regulations; b) Although considering the industry practice or demonstration from related professionals comprehensively, the benefit period of the intangible assets still can't be decided.

At the end of each year, the Company reviews the intangible assets with indefinite useful life mainly using bottom-to-top approach. The related departments who use the intangible assets will perform a basic review and evaluate whether there are changes on the basis to determine indefinite useful life.

4.17.3 The specific criteria for research phase and development phase of internally generated projects, and the specific criteria for capitalization of expenditure incurred during development phase

Expenditures for the research phase of internal research and development projects are included in the current profit and loss when incurred; expenditures for the development phase meet the conditions for recognition as intangible assets and are transferred to intangible assets. If the following conditions are met at the same time, it is recognized as an intangible asset: a) It is technically feasible to complete the intangible asset so that it can be used or sold; b) There is the intention to complete the intangible asset and use or sell it; c) The ways in which intangible assets generate economic benefits include the ability to prove that the products produced by the intangible assets

exist in the market or the intangible assets themselves exist in the market. If the intangible assets will be used internally, they can prove their usefulness; d) There are sufficient technology and finance resources and other resource support to complete the development of the intangible asset and the ability to use or sell the intangible asset; e) The expenditure attributable to the development stage of the intangible asset can be reliably measured.

4.18 Impairment of long-term assets

At each balance sheet date, if there are impairment indications for the long-term assets including long-term equity investments, investment property subsequently measured at cost model, fixed assets, construction in progress, productive biological assets measured at cost, oil and gas assets, and intangible assets etc., the Company performs impairment test. If the outcome of impairment test indicates the recoverable amount of the asset is lower than its carrying amount, the Company recognises the provision for impairment based on the amount of the shortfall.

The recoverable amount of an asset is determined by the higher of the net amount after deducting the disposal costs from the asset's fair value and the present value of the asset's estimated future cash flow. The provision for impairment of asset is estimated and recognised on individual basis. If it is not possible to estimate the recoverable amount of the individual asset, the Company determines the recoverable amount of the asset group to which the asset belongs. The asset group is the minimum portfolio of assets that could generate cash inflow independently.

Impairment tests are conducted for goodwill presented in the financial statements separately at least at the end of every accounting year regardless whether there are impairment indications or not. The carrying amount of goodwill arising from business combinations is allocated to relevant asset groups or asset group portfolio. The related impairment loss is recognised if the impairment test indicates the recoverable amount of the asset groups or asset group portfolio embodied the goodwill is lower than their carrying amounts. The amount of impairment loss is firstly deducted from the carrying amount of goodwill embodied in the asset groups or asset group portfolio, then be deducted from the carrying amounts of other assets' based on the proportions of their carrying amounts in the asset group or asset groups portfolio.

The impairment losses of assets will not be reversed in subsequent periods once they are recognised.

4.19 Long-term deferred expenses

Long-term deferred expenses refer to expenses that have been paid but their benefit period is more than one year (excluding one year). Long-term deferred expenses will be amortized in the benefit periods. If one long-term deferred expense can't benefit the Company in the subsequent periods, the remaining balance of the long-term deferred expense shall be recognised as expense in profit or loss for the current period.

4.20 Employee benefits

Employee benefits refer to all forms of consideration or compensation given by the Company in exchange for service rendered by employees or for the termination of employment relationship. Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits.

4.20.1 Short-time employee benefits

In the accounting period in which employees have rendered services, the Company recognizes the employee benefits as liability, and charges to profit or loss for the current period, or includes in the cost of relevant assets in accordance with other accounting standards. Welfare benefit are charged to profit or loss for the current period or included in the cost of relevant assets when incurred. Welfare benefit in non-monetary forms is measured at fair value. In the accounting period in which employees have rendered services, the Company recognizes the social security contributions as liability according to regulations such as medical insurance, work injury insurance and maternity insurance as well as housing funds, and charges to profit or loss for the current period or includes in the cost of relevant assets.

4.20.2 Post-employment benefits

During the accounting period in which employees provide the service, the Company calculates the defined contribution plans payable according to the basis and percentage required by local government, recognised as the liability and charges to profit or loss for current period or includes in the cost of related assets. The Company attributes the obligation incurred by defined benefits plans using the projected accumulated benefit unit credit method to periods in which the employees rendered services and charges the obligation to profit or loss for the current period or includes in the cost of related assets.

4.20.3 Termination benefits

Termination benefits provided by the Company to employees are recognised as an employee benefit liability and charged to profit or loss for the current period at the earlier of the following dates: a) The Company cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment proposal; and b) When the Company recognizes costs or expenses related to the restructuring that involves the payment of termination benefits.

4.20.4 Other long-term employee benefits

If other long-term employee benefits provided by the Company to the employees meet the conditions for classifying as a defined contributions plan, those benefits are accounted for in accordance with the above requirements relating to defined contribution plan. Besides, net obligations or net assets of other long-term employee benefits are recognised and measured in accordance with the above requirements relating to defined benefits plan.

4.21 Provisions

A provision relating to contingency is recognised when: a) The obligation is a present obligation of the Company; b) It is probable that an outflow of economic benefits will be required to settle the obligation; c) The amount of the obligation can be measured reliably. Provisions are initially measured at the best estimate of the payment to settle the associated obligations. If there is a continuous range for the necessary expenses and probabilities of occurrence of all the outcomes within this range are equal, the best estimate is determined at the average amount of upper and lower limits within the range. If the contingency involves two or more items, the best estimate is determined according to all the possible outcomes with their relevant probabilities.

The Company reviews the carrying amounts of provisions at each balance sheet date, and if there are conclusive evidences that indicate the carrying amounts of provisions can't reflect the present best estimate of the payment, the carrying amounts of provisions will be adjusted to the present best estimate of the payment.

4.22 Share-based payment

The share-based payment can be distinguished into equity-settled and cash-settled share-based payment. Equity-settled share-based payment in exchange for services rendered by employees is measured at fair value of the equity instruments granted to the employees. If there exists an active market for options and other equity instruments granted by the Company, their fair value is

determined on the price quotes in the active market. If there does not exist an active market, the fair value shall be determined by valuation techniques, including referring to the recent market prices in an arm's length transaction between the knowledgeable and willing parties, the fair value of other financial instruments with the same substance, the discount cash flow method and option price model.

At each balance sheet date in the vesting period, the Company revises the number of equity instruments that will ultimately vest based on the best estimate of the latest number of eligible employees, the fulfillment of performance conditions and other subsequent information, and recognises the expenses in each accounting period accordingly. The share-based payment can be allocated among the accounting periods based on the vesting period's proportion of the whole vesting period in each accounting period if the share-based payment will be recognised in more than one accounting period.

4.23 Revenues

Sales of goods: When the following conditions are all satisfied, the revenue of sales of goods is recognized according to the amount of the contract or agreement price received or receivable from the buyer: a) The main risks and rewards are transferred to the buyer; b) Neither retains the continuing management rights normally associated with ownership, nor implements effective control over the goods sold; c) The amount of revenue can be reliably measured; d) Related economic benefits are likely to flow to the Company; e) The related costs that have occurred or will occur can be measured reliably.

Rendering of services: If the results of the service transactions can be reliably estimated on the balance sheet date, the revenue from the services shall be confirmed by the method of percentage of completion. The Company determines the completion percentage according to the proportion of actual costs to the total estimated cost. If the results of the service transaction provided on the balance sheet date cannot be reliably estimated, the following cases are dealt with: a) If the services cost incurred is expected to be compensated, the amount of the service cost is confirmed as the service revenue, and the service cost is carried forward at the same amount; b) If the service cost incurred is not expected to be compensated, the labor service cost incurred is included in the current profit or loss, and the service revenue is not recognized.

Revenue arising from use rights of other assets: The Company recognizes the transfer of asset use right revenue when the economic benefits related to the transfer of asset use right are likely to flow in and the amount of revenue can be measured reliably.

Asset transfer with repurchase conditions: When the Company sells products or transfers other assets, it signs a repurchase agreement for the sold products or transfer assets with the purchaser, and determines whether the sales of goods meet the income recognition conditions according to the terms of the agreement. If the after-sales repurchase is a financing transaction, the company does not recognize sales revenue when delivering products or assets. The difference between the repurchase price and the sales price shall be accrued on schedule during the repurchase period and included in the financial expenses.

4.24 Government grants

4.24.1 Category and accounting treatment of government grants

Government grants are the monetary assets and non-monetary assets received from the government without consideration to be paid which are not including the capital injected by the government acted as an owner role. Government grants in the form of monetary assets are measured for the received or receivable amount, while government grants in the form of non-monetary assets are measured at fair value. When the fair value of non-monetary assets can't be obtained reliably, the government grants are measured at nominal amount.

Government grants related to the Company's routine operation will be recorded in other income based on the nature of its economic substance and government grants not related to the Company's routine operation will be recorded in non-operating income or expenses.

If the government documents explicitly state that the government grants will be used to establish or form long-term assets, the government grants will be classified as government grants related to assets. If there is no explicit subsidy object in the government document, the portion related to long-term assets will be classified as government grants related to assets and the rest portion will be classified as government grants related to income. If the category of a government grant can't be distinguished reasonably, all the government grant will be classified as government grants related to income. Government grants related to assets are recognised as deferred income which are amortized in profit or loss for each period over the related assets' estimated useful period on a systematic basis.

Except those grants which are classified as government grants related to assets, other government grants are classified as government grants related to income. If the grant related to income is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and amortized in profit or loss over the periods in which the related costs are recognised. If the grant related to income is a compensation for related expenses or losses already incurred, the grant is recognised directly in profit or loss for the current period.

When a bank receives the discount interest fund from the financial sector and then provides a loan to the Company with preferential interest rate, the Company accounts for the loan at the actual received amount and related interest expenses will be calculated based on the principal and the preferential interest rate. When the Company receives the discount interest fund from the financial sector directly, the discount interest fund will be deducted from related borrowing cost.

4.24.2 The recognition timing for government grants

The government grants will be recognised when the Company meets the accompanying conditions of the government grants which are entitled to be received. The receivable government grants will be recognised when there are conclusive evidence to indicate the Company could meet all related requirements of the government grants and the Company expects to receive the government grants in the future. Other government grants will be recognised when the grant fund is received.

4.25 Deferred tax asset and deferred tax liability

4.25.1 Temporary differences arising from the difference between the carrying amount of an asset or liability (asset or liability not recognised in balance sheet but the tax base is ascertained by the current tax laws and regulation, the tax base is the temporary difference) and its tax base are recognised as deferred tax calculating by the effective tax rate in the expected period to receive the asset or discharge the liability.

4.25.2 Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized and should be recognised for deductible loss or tax reduction that could be carried forward in subsequent periods to the extent that it is probable that taxable income will be available against which deductible loss or tax reduction can be utilized. If it is probable that sufficient taxable profits will not be available in future periods to allow the benefit of the deferred tax asset to be

utilized, the carrying amount of the deferred tax asset is reduced.

4.25.3 The taxable temporary differences associated with investments in subsidiaries and associates shall be recognised deferred tax liability; except the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The deductible temporary differences associated with investments in subsidiaries, associates, the corresponding deferred tax asset is recognised when it is probable that the temporary difference will reverse in the foreseeable future and it is probable that taxable profits will be available in the future against which the temporary difference can be utilized.

4.26 Leases

The leases are classified as financial leases and operating leases. A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a financial lease. The specific basis for determination is to satisfy one or more of the following conditions: When the lease term expires, the ownership of the leased asset is transferred to the lessee; The lessee has the option to purchase the leased asset, and the purchase price concluded is expected to be much lower than the fair value of the leased asset when the option is exercised, so it can be reasonably determined that the lessee will exercise this option on the lease start date; Even if the ownership of the asset is not transferred, the lease period accounts for the majority of the useful life of the leased asset; The present value of the minimum lease payment is almost equivalent to the fair value of the leased asset on the lease start date; The leased asset is of a special nature, and only the lessee can use it without major modification. Leases that do not satisfy the above conditions are recognized as operating leases.

The accounting treatment of the Company's leases is handled in accordance with the "Accounting Standards for Business Enterprises-Leasing".

4.27 Held-for-sale

Non-current assets or disposal groups are classified as held-for-sale assets when all the following conditions are met: a) the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups); b) the sale must be highly probable, i.e. the Company has signed an irrevocable transfer agreement with the transferee and the transfer is expected to be completed within one year. If related regulations require pre-approval for the sale, the sale transaction has been approved.

When non-current asset (or disposal group) classified as held for sale is initially measured or remeasured at each balance sheet date, if the book value of the non-current asset (or disposal group) is higher than its fair value, the difference will be deducted from the book value and recognised as impairment provision of held for sale in profit or loss of current period.

Non-current asset (or disposal group) classified as held-for-sale asset will be presented as held-for-sale assets and the liabilities in the disposal group will be presented as held-for-sale liabilities in the balance sheet.

4.28 Discontinued operations

A discontinued operation is a clearly distinguished component of an entity ,that either has been disposed of, or is classified as held for sale, and meets any of the following criteria:

- (a) represents a separate major line of business or geographical area of operations,
- (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or,
- (c) is a subsidiary acquired exclusively with a view to resale.

5. Changes of significant accounting policies and accounting estimates

5.1 The changes of accounting policies and reason for change

None.

5.2 Significant changes in accounting estimates

None.

5.3 Correction of prior accounting errors

None.

6. Taxes

6.1 Main taxes categories and tax rates

Tax category	Tax base	Tax rate
Value added tax	Domestic sales; provide processing, repair and repair services; import goods; provide tangible movable property leasing services	16%、13%
	Sell or import fertilizers	10%、9%

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Tax category	Tax base	Tax rate
	Provide real estate leasing services ; sell real estate	10%、 9%
	Other taxable sales services	6%
	Simple tax calculation method	5%、 3%
Urban maintenance and construction tax	Turnover tax payable	7%
Educational surtax	Turnover tax payable	3%
Local educational surtax	Turnover tax payable	2%
Enterprise income tax	Taxable income	8.84%、 15%、 16.5%、 19%、 20%、 21%、 25%

Note: On March 21, 2019, the Ministry of Finance issued the "Announcement on Deepening the VAT Reform Policies". From April 1, 2019, VAT taxpayers have VAT taxable sales or imported goods applied with the 16% tax rate adjusted to 13% and if the 10% tax rate was originally applied, the tax rate is adjusted to 9%..

Income tax rates for different taxpayers:

Name of tax enterprise	Tax rate of income tax
China Shandong group limited	16.5%
Shandong Xinhua Pharmaceutical Co., Ltd.	15%
Shandong Zibo Xinda Pharmaceutical Co., Ltd.	15%
Shandong Xinhua Pharmaceutical (Europe) Co. LTD	25%、 19%
Shandong Xinhua Pharmaceutical (USA) Co. LTD	Federal tax 21%, State tax 8.84%
Shandong Lukang Pharmaceutical Co., Ltd.	15%
Shandong Lukang Shelile Pharmaceutical Co., Ltd.	15%
Shandong Lukang Biomanufacturing Co., Ltd.	15%
Shandong Lukang Group Saite Co., Ltd.	15%
Shandong Lukang International Trading Co., Ltd.	20%
Shandong Lukang Biotechnology Development Co. LTD	20%
Shandong Lukang Hecheng Pharmaceutical Co., Ltd.	20%
Shandong Lukang Biological chemicals Management Co. LTD	20%
Shandong Lukang Electromechanical Engineering Co., LTD	20%
Shandong Lukang Zhonghe Environment Protection Technology Co., Ltd.	15%
Dezhou Minxin Service Co., LTD	20%
Shandong Hualu-Hengsheng Chemical Co., Ltd	15%
Shandong Academy of Environmental Science Co., Ltd	15%
Shandong Huanke Environmental Engineering Co., Ltd.	15%
Linyi Kechuang Water Treatment Co., Ltd.	20%
ZhongLu Environmental Engineering Assessment Center of Shandong Province Co., Ltd.	20%
Shandong Boer Radiation Environment Technology Co., Ltd.	20%
Linyi Kechuang Water Treatment Co., Ltd.	20%
Shandong Huatong Chemical Co. LTD	20%

Name of tax enterprise	Tax rate of income tax
Shandong Hualu International Commerce Centre Co., Ltd.	20%
Shandong Hualu International Advertising Co., Ltd.	20%

6.2 Significant tax incentives and approval documents

Note 1: The subsidiary Shandong Xinhua Pharmaceutical Co., Ltd. obtained the high-tech enterprise certificate numbered GR201737001056 on December 28, 2017, approved by Shandong Provincial Science and Technology Department, Shandong Provincial Department of Finance and State Administration of Taxation Shandong Provincial Taxation Bureau, valid for 3 years. During the reporting period, corporate income tax was implemented at a preferential tax rate of 15%.

Note 2: The subsidiary Shandong Lukang Pharmaceutical Co., Ltd. obtained the high-tech enterprise certificate numbered GR201837002466 on November 30, 2018, approved by Shandong Provincial Science and Technology Department, Shandong Provincial Department of Finance and State Administration of Taxation Shandong Provincial Taxation Bureau, valid for 3 years. During the reporting period, corporate income tax was implemented at a preferential tax rate of 15%.

Note 3: The subsidiary Shandong Lukang Zhonghe Environment Protection Technology Co., Ltd. obtained the high-tech enterprise certificate numbered GR201837000342 on August 16, 2018, approved by Shandong Provincial Science and Technology Department, Shandong Provincial Department of Finance and State Administration of Taxation Shandong Provincial Taxation Bureau, valid for 3 years. During the reporting period, corporate income tax was implemented at a preferential tax rate of 15%.

Note 4: The subsidiary Shandong Academy of Environmental Science Co., Ltd. obtained the high-tech enterprise certificate numbered GR201837000388 on November 30, 2018, approved by Shandong Provincial Science and Technology Department, Shandong Provincial Department of Finance and State Administration of Taxation Shandong Provincial Taxation Bureau, valid for 3 years. During the reporting period, corporate income tax was implemented at a preferential tax rate of 15%.

7. Business combination and consolidated financial statements

7.1 Sub-enterprises

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No.	Name of Subsidiaries	Level	Registration place	Business Nature	Paid-up capital ('10 thousand yuan)	Holding proportion (%)
1	China Shandong Group Co., Ltd.	2	Jinan	Trade	11,112.00	100.00
2	China Shandong group limited	2	Hong Kong	Trade	25,424.97	100.00
3	Shandong Hualu-Hengsheng Group Co.,Ltd	2	Dezhou	Chemical	10,117.06	100.00
4	Shandong Xinhua PharmaceuticalCo.,Ltd.	2	Zibo	Pharmaceutical	62,185.94	32.94
5	Shandong Lukang Pharmaceutical Co.,Ltd.	2	Jining	Pharmaceutical	88,022.97	21.12
6	Shandong Lukang Zhonghe Environment Protection Technology Co., Ltd.	2	Jining	Environmental Protection	5,000.00	60.00
7	Huaru Investment Development Co., Ltd.	2	Jinan	Investment Management	30,000.00	100.00
8	Shandong Academy of Environmental Science Co.,Ltd	2	Jinan	Environmental Protection	9,804.00	100.00

Note: The Group has 46 third-level subsidiaries and 5 fourth-level subsidiaries.

7.2 The original subsidiaries or structured entities that are no longer included in the scope of consolidation in current period

Name of Subsidiaries	Registration place	Business Nature	Shareholding ratio of parent company (%)	Reasons for not being included in the scope of consolidation	Net assets on disposal day (ten thousand yuan)	Net profit from the beginning of the period to the disposal day (ten thousand yuan)
Shandong Academy of Environmental Science and Technology Co., LTD	Jinan	Environmental impact assessment, consultation	100.00	Absorbed and merged by the parent company	1,150.99	3,074.61
Hualu Development Co. LTD	Jinan	Trade agent	100.00	Absorbed and merged by the parent company	292.89	18.59
Qingdao Dongxin Industrial Co	Qingdao	Commodity circulation	100.00	Others	379.95	
Shandong Lugang Financial Leasing Co.,Ltd.	Qingdao	Finance lease	100.00	Absorbed and merged by the parent company	8,457.91	-1,977.40

7.3 Entities newly included in the scope of consolidation in the current period

Name of Subsidiaries	Level	Types	Registration place	Principal place of business	Business nature	Registered capital (ten thousand yuan)	Shareholding ratio (%)	Enjoying rights (%)	Way of obtaining
Shandong Hualu-Hengsheng (Jingzhou) Co., Ltd	4	Domestic non-financial subsidiaries	Jingzhou	Jingzhou	Production and sales of chemical products	300,000.00	70.00	70.00	Investment establishment
Shandong Xinhua Health Technology Co.,Ltd	3	Domestic non-financial subsidiaries	Zibo	Zibo	Technology promotion and application service industry	10,000.00	49.00	49.00	Investment establishment

Hengsheng Group: Shandong Hualu Hengsheng Chemical Co., Ltd. (hereinafter referred to as "Hengsheng Co., Ltd.") newly established a holding subsidiary Hualu Hengsheng (Jingzhou) Co., Ltd. this year, which was incorporated into the scope of consolidation of Shandong Hualu Hengsheng Chemical from the date of establishment.

Xinhua Pharmaceutical: the holding subsidiary Shandong Xinhua Health Technology Co., Ltd. was established with 100% equity investment of Zibo Xinhua Pharmacy Chain Co., Ltd. this year,, and Zibo Xinhua Pharmacy Chain Co., Ltd. was changed to a subsidiary of Shandong Xinhua Health Technology Co., Ltd.

8. Notes to the consolidated financial statements

8.1 Cash at bank and on hand

Item	Balance as at 31/12/2020	Balance as at 1/1/2020
Cash on hand	245,404.81	357,451.35
Cash at bank	4,369,916,377.19	3,123,579,563.08
Other monetary funds	385,384,121.13	539,954,401.34
Total	4,755,545,903.13	3,663,891,415.77
Including: the total balance deposited overseas	58,876,163.28	127,109,069.93

The details of restricted monetary funds are as follows:

Item	Balance as at 31/12/2020	Balance as at 1/1/2020
The bank acceptance deposit	289,359,993.63	419,571,117.50
Performance bond	11,065,604.48	21,186,530.19
The letter of credit deposit	200,000.00	11,067,055.58
Foreign exchange margin	3,000,000.00	50,000.00
Loans margin deposit	2,699,659.53	10,302,149.14
Deposited investment funds		30,070,553.86
Frozen funds in bank deposits	8,007,451.83	1,270,006.00
Regulated advance receipt for the sale of real estate	41,320,658.61	26,703,017.16
Total	355,653,368.08	520,220,429.43

8.2 Financial assets measured at fair value through profit or loss for the current period

Item	Balance as at 31/12/2020	Balance as at 1/1/2020
Financial assets held for trading	83,416,674.72	1,151,280.00
Including: Equity instrument investment	83,416,674.72	1,151,280.00
Total	83,416,674.72	1,151,280.00

8.3 Notes receivable

Item	Balance as at 31/12/2020			Balance as at 31/12/2019		
	Balance	Allowance for credit losses	Carrying amount	Balance	Allowance for credit losses	Carrying amount
Bank acceptance bills	904,730,022.75		904,730,022.75	1,330,794,829.85		1,330,794,829.85
Trade acceptance bills	158,289.60	4,748.69	153,540.91	30,000.00		30,000.00
Total	904,888,312.35	4,748.69	904,883,563.66	1,330,824,829.85		1,330,824,829.85

8.4 Accounts receivable

8.4.1 Accounts receivable by category

Item	As at 31/12/2020			
	Balance		Allowance for credit losses	
	Amount	PCT (%)	Amount	ECL rate (%)
Account receivable of individually significant amount and with allowance for credit losses made on an individual basis	229,787,792.08	13.71	202,182,675.40	87.99
Account receivable withdrawing bad debt provision according to credit risk characteristic combination	1,427,314,995.99	85.18	252,911,577.67	17.72
Account receivable of individually insignificant amount and with allowance for credit losses made on an individual basis	18,561,906.91	1.11	18,561,906.91	100.00
Total	1,675,664,694.98	100.00	473,656,159.98	

Item	As at 1/1/2020			
	Balance		Allowance for credit losses	
	Amount	PCT (%)	Amount	ECL rate (%)
Account receivable of individually significant amount and with allowance for credit losses made on an individual basis	290,623,932.60	19.39	251,721,137.51	86.61
Account receivable withdrawing bad debt provision according to credit risk characteristic combination	1,194,263,188.43	79.67	236,836,230.43	19.83
Account receivable of individually insignificant amount and with allowance for credit losses made on an individual basis	14,022,892.61	0.94	10,322,844.61	73.61
Total	1,498,910,013.64	100.00	498,880,212.55	

8.4.1.1 Account receivable of individually significant amount and with allowance for credit losses made on an individual basis

Company name	Balance as at 31/12/2020	Balance of allowance for credit losses as at 31/12/2020	Aging	ECL rate(%)	Allowance reason
BIOASIALIMITED	57,639,741.82	40,347,819.27	More than 3 years	70.00	Expected to not be fully collectible
LABIOFAMS.ACUBA	28,549,323.59	19,984,526.51	More than 3 years	70.00	Expected to not be fully collectible
WEIFANG CHINA SHOW TEXTILES CO.,LTD.	25,874,754.84	25,874,754.84	More than 3 years	100.00	At the prosecution stage, it may be uncollectible
Shandong Quanlin Group Thermal Power Co. LTD	14,417,747.53	14,417,747.53	More than 3 years	100.00	Expected to be uncollectible
Shaanxi Lukang Pharmaceutical Co., LTD.	5,013,885.55	5,013,885.55	More than 3 years	100.00	Expected to be uncollectible
Zhanjiang Mazhang Ruiping Pharmaceutical Co. LTD	3,862,140.80	3,862,140.80	More than 3 years	100.00	Expected to be uncollectible
Lukang Feed branch factory	3,736,688.52	3,736,688.52	More than 3 years	100.00	Expected to be uncollectible
China Economic and trade Co., LTD	2,929,708.60	2,929,708.60	More than 3 years	100.00	For historical reasons
Anhui Province Taihe County Pharmaceutical Company pharmaceutical supply station	2,595,127.20	2,595,127.20	More than 3 years	100.00	Expected to be uncollectible
Jinan Medical procurement and supply station of Shandong Province	2,519,913.40	2,519,913.40	More than 3 years	100.00	Expected to be uncollectible
Shandong Ninghua Environmental Protection Building Materials Co., LTD	2,324,333.93	2,324,333.93	More than 3 years	100.00	The customer is bankrupt and it is uncollectible

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Company name	Balance as at 31/12/2020	Balance of allowance for credit losses as at 31/12/2020	Aging	ECL rate(%)	Allowance reason
Shandong Jiuda Pharmaceutical Co. LTD	2,255,677.20	2,255,677.20	More than 3 years	100.00	Expected to be uncollectible
Shandong Rui Traditional Chinese Medicine Co. LTD	2,248,893.40	2,248,893.40	More than 3 years	100.00	Expected to be uncollectible
Shandong Yikang Pharmaceutical Co. LTD	2,100,397.26	2,100,397.26	More than 3 years	100.00	Expected to be uncollectible
Shandong Jinyuyuan Co., LTD	1,873,260.00	1,873,260.00	More than 3 years	100.00	Expected to be uncollectible
Shandong Ecord Technology Development Co., LTD	1,820,966.09	1,820,966.09	More than 3 years	100.00	Expected to be uncollectible
Tengzhou Minsheng Pharmaceutical Co. LTD	1,841,653.00	1,841,653.00	More than 3 years	100.00	Expected to be uncollectible
Dezhou Lukang Pharmaceutical Management Co. LTD	1,814,782.77	1,814,782.77	More than 3 years	100.00	Expected to be uncollectible
Zhangqiu Xiuhui town people's government	1,780,374.14	1,780,374.14	More than 3 years	100.00	Expected to be uncollectible
Lukang Three Leaf Company	1,759,164.28	1,759,164.28	More than 3 years	100.00	Expected to be uncollectible
Shandong Sanzheng Pharmaceutical Co. LTD	1,273,098.00	1,273,098.00	More than 3 years	100.00	Expected to be uncollectible
Chengdu Jinniu District Pharmaceutical Corporation procurement and supply station	1,267,640.00	1,267,640.00	More than 3 years	100.00	Expected to be uncollectible
Jinan Biochemical Medicine Corporation	1,227,238.08	1,227,238.08	More than 3 years	100.00	Expected to be uncollectible
Shandong Province Heze medical station new special medicine	1,179,916.60	1,179,916.60	More than 3 years	100.00	Expected to be uncollectible
Hunan Yinhai Pharmaceutical Co. LTD	1,079,342.00	1,079,342.00	More than 3 years	100.00	Expected to be uncollectible
Jinan Yongning Pharmaceutical Management Co. LTD	1,052,973.39	1,052,973.39	More than 3 years	100.00	Expected to be uncollectible
Hainan Pharmaceutical Corporation Drug Wholesale Department	1,017,240.00	1,017,240.00	More than 3 years	100.00	Expected to be uncollectible
Others	54,731,810.09	52,983,413.04	More than 3 years	96.81	Expected to not be fully collectible
Total	229,787,792.08	202,182,675.40	—	—	—

8.4.1.2 Account receivable withdrawing bad debt provision according to credit risk characteristic combination

Group 1: Accounts receivable due from aging analysis :

Aging	As at 31/12/2020			As at 1/1/2020		
	Balance		Allowance for credit losses	Balance		Allowance for credit losses
	Amount	PCT(%)		Amount	PCT(%)	
Within 1 year	1,115,773,121.47	79.54	19,762,785.60	828,907,833.83	71.60	2,708,823.51
1-2 years	34,312,459.82	2.45	9,735,242.45	191,590,035.70	16.55	131,623,621.83
2-3 years	151,996,637.83	10.83	128,519,554.83	63,876,148.67	5.52	30,247,228.03
More than 3 years	100,752,856.39	7.18	93,425,199.56	73,257,452.55	6.33	70,058,654.00
Total	1,402,835,075.51	100.00	251,442,782.44	1,157,631,470.75	100.00	234,638,327.37

Group2: Accounts receivable due from the balance percentage method :

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Combination name	As at 31/12/2020			As at 1/1/2020		
	Balance	ECL rate(%)	Allowance for credit losses	Balance	ECL rate(%)	Allowance for credit losses
Coal chemical industry	24,479,920.48	6.00	1,468,795.23	36,631,717.68	6.00	2,197,903.06
Total	24,479,920.48	6.00	1,468,795.23	36,631,717.68	6.00	2,197,903.06

8.4.1.3 Account receivable of individually insignificant amount and with allowance for credit losses made on an individual basis

Company name	Balance as at 31/12/2020	Balance of allowance for credit losses as at 31/12/2020	Aging	ECL rate(%)	Allowance reason
Heze Coal Administration Bureau	650,000.00	650,000.00	More than 3 years	100.00	uncollectible
Zhucheng Huaxin Casting Co. LTD	497,000.00	497,000.00	More than 3 years	100.00	uncollectible
Shandong Chenming Paper Holdings Limited	478,000.00	478,000.00	More than 3 years	100.00	uncollectible
Linyi Pipeline Gas Distribution Co. LTD	408,000.00	408,000.00	More than 3 years	100.00	uncollectible
Shandong new Julong Energy Co. LTD	400,000.00	400,000.00	More than 3 years	100.00	uncollectible
Weishan Island Tourism development Co. LTD	385,000.00	385,000.00	More than 3 years	100.00	uncollectible
Yangshuo County Gaotian Town people's government	373,996.61	373,996.61	More than 3 years	100.00	uncollectible
Shandong Chenming Paper Group Qihe Board paper Co. LTD	367,509.55	367,509.55	More than 3 years	100.00	uncollectible
Zaozhuang Ecological environment Bureau Tengzhou Branch	300,121.56	300,121.56	More than 3 years	100.00	uncollectible
Others	14,702,279.19	14,702,279.19	More than 3 years	100.00	uncollectible
Total	18,561,906.91	18,561,906.91	—	—	—

8.4.2 Accounts receivable due from the top five debtors of the Company are as follows:

Company name	Balance as at 31/12/2020	Percentage in total accounts receivable (%)	Balance of allowance for credit losses as at 31/12/2020
Zibo Yuchuan Construction Investment Co., LTD	50,299,153.66	3.00	502,991.54
Shandong Xinkangqi Pharmaceutical Co. LTD	40,405,087.51	2.41	40,405,087.51
Fujian Zhibao Trading Co., LTD	40,000,000.00	2.39	40,000,000.00
Fujian Rongding Industrial Co., LTD	40,000,000.00	2.39	40,000,000.00
FUZHOU JIEWANG TRADING CO., LTD.	39,200,000.00	2.34	39,200,000.00
Total	209,904,241.17	12.53	160,108,079.05

8.5 Prepayments

8.5.1 Aging analysis of prepayments

Aging	As at 31/12/2020			As at 1/1/2020		
	Balance		Allowance for credit losses	Balance		Allowance for credit losses
	Amount	PCT(%)		Amount	PCT(%)	
Within 1 year	324,406,478.37	81.84		171,123,515.45	67.55	2,408.69
1-2 years	7,175,677.36	1.81	716.53	11,597,567.81	4.58	
2-3 years	1,295,663.10	0.33		6,291,940.30	2.48	
More than 3 years	63,519,512.11	16.02	59,264,249.49	64,333,838.01	25.39	59,233,409.09
Total	396,397,330.94	100.00	59,264,966.02	253,346,861.57	100.00	59,235,817.78

The prepayments with aging more than 1 year

Creditor name	Debtor name	Balance as at 31/12/2020	Aging	Reasons for outstanding balance
China Shandong Group Co., Ltd.	Shandong Sedan Chair Gao Trading Co., LTD	40,330,807.72	More than 3 years	Involved in appeal
China Shandong Group Co., Ltd.	Huanyuan County Tongjin Mining Co. LTD	8,098,012.62	More than 3 years	Involved in appeal
China Shandong Group Co., Ltd.	Shandong Shunhe Economic and trade Co. LTD	5,558,195.18	More than 3 years	Involved in appeal
Total	—	53,987,015.52	—	—

8.5.2 The top five prepayments are as follows:

Company name	Balance as at 31/12/2020	Percentage in total prepayment(%)	Balance of allowance for credit losses as at 31/12/2020
Shandong Sedan Chair Gao Trading Co., LTD	40,330,807.72	10.17	40,330,807.72
Tianjin Bohua Petrochemical Co., Ltd	40,011,830.50	10.09	
Dezhou Branch of Hebei Hebei Railway Group Co. LTD	30,812,930.72	7.77	
Yangquan Coal Group Xiyang Coal Sales Co. LTD	14,772,269.38	3.73	
Tianjin Bohai Petrochemical Co., Ltd	13,267,249.27	3.35	
Total	139,195,087.59	35.11	40,330,807.72

8.6 Other receivables

Category	Balance as at 31/12/2020	Balance as at 1/1/2020
Interest receivable	3,227,087.50	3,093,149.49
Dividends receivable		29,660.75
Other receivables	127,350,258.94	838,398,108.29
Total	130,577,346.44	841,520,918.53

8.6.1 Interest receivable

Category	Balance as at 31/12/2020	Balance as at 1/1/2020
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Category	Balance as at 31/12/2020	Balance as at 1/1/2020
Fixed-term deposits		25,000.00
Bond investments	3,227,087.50	3,068,149.49
Total	3,227,087.50	3,093,149.49

8.6.2 Other receivables

Item	As at 31/12/2020			
	Balance		Allowance for credit losses	
	Amount	PCT (%)	Amount	ECL rate (%)
Other receivable of individually significant amount and with allowance for credit losses made on an individual basis	32,195,368.21	11.86	25,594,299.76	79.50
Other receivable withdrawing bad debt provision according to credit risk characteristic combination	235,542,259.43	86.77	114,793,068.94	48.74
Other receivable of individually insignificant amount and with allowance for credit losses made on an individual basis	3,725,773.76	1.37	3,725,773.76	100.00
Total	271,463,401.40	100.00	144,113,142.46	

Item	As at 1/1/2020			
	Balance		Allowance for credit losses	
	Amount	PCT (%)	Amount	ECL rate (%)
Other receivable of individually significant amount and with allowance for credit losses made on an individual basis	254,329,103.95	21.22	229,076,048.15	90.07
Other receivable withdrawing bad debt provision according to credit risk characteristic combination	929,503,428.34	77.55	116,358,375.85	12.52
Other receivable of individually insignificant amount and with allowance for credit losses made on an individual basis	14,703,184.38	1.23	14,703,184.38	100.00
Total	1,198,535,716.67	100.00	360,137,608.38	

8.6.2.1 Other receivable of individually significant amount and with allowance for credit losses made on an individual basis

Debtor name	Balance as at 31/12/2020	Balance of allowance for credit losses as at 31/12/2020	Aging	ECL rate(%)	Allowance reason
People's Court of Quyang County, Hebei Province	9,900,000.00	9,900,000.00	More than 3 years	100.00	Expected to be uncollectible
Guizhou Crown Energy Investment Co. LTD	8,379,217.99	1,778,149.54	Within 1 year	21.22	Expected to not be fully collectible
Shandong Yikang Pharmaceutical Co. LTD	7,640,000.00	7,640,000.00	More than 3 years	100.00	Expected to be uncollectible
Xiaoyi Blue Sea coal Industry Co. LTD	2,076,395.79	2,076,395.79	More than 3 years	100.00	Expected to be uncollectible
Shandong Xinqu International Logistics Co., LTD	1,143,776.35	1,143,776.35	More than 3 years	100.00	Expected to be uncollectible
Other	3,055,978.08	3,055,978.08	More than 3 years	100.00	Expected to be uncollectible
Total	32,195,368.21	25,594,299.76	—	—	—

8.6.2.2 Other receivable withdrawing bad debt provision according to credit risk characteristic

combination

Group 1: Other receivable due from aging analysis :

Aging	As at 31/12/2020			As at 1/1/2020		
	Balance		Allowance for credit losses Amount	Balance		Allowance for credit losses Amount
	Amount	PCT(%)		Amount	PCT(%)	
Within 1 year	22,544,224.73	14.23	1,152,442.07	26,195,170.02	16.61	826,148.45
1-2 years	19,157,406.37	12.10	1,075,428.47	12,253,554.04	7.77	1,308,436.42
2-3 years	2,979,794.95	1.88	1,722,041.83	2,722,413.43	1.73	1,463,491.32
More than 3 years	113,682,775.49	71.79	110,840,026.89	116,522,247.79	73.89	112,759,099.66
Total	158,364,201.54	100.00	114,789,939.26	157,693,385.28	100.00	116,357,175.85

Group2: Other receivable due from balance percentage method:

Combination name	As at 31/12/2020			As at 1/1/2020		
	Balance	ECL rate(%)	Allowance for credit losses	Balance	ECL rate(%)	Allowance for credit losses
Coal chemical industry	52,161.32	6.00	3,129.68	20,000.00	6.00	1,200.00
Total	52,161.32	6.00	3,129.68	20,000.00	6.00	1,200.00

Group3: Other receivable due from Otheother combination methods :

Combination name	As at 31/12/2020			As at 1/1/2020		
	Balance	PCT(%)	Allowance for credit losses	Balance	PCT(%)	Allowance for credit losses
Related party combination	99,850.60	0.13		69,114,697.26	8.96	
Risk-free combinatio	77,026,045.97	99.87		702,675,345.80	91.04	
Total	77,125,896.57	100.00		771,790,043.06	100.00	

8.6.2.3 Other receivable of individually insignificant amount and with allowance for credit losses

made on an individual basis

Debtor name	Balance	Balance of allowance for credit losses as at 31/12/2020	Aging	ECL rate(%)	Allowance reason
Hangzhou Steam Turbine Machinery Equipment Co.,Ltd	860,741.40	860,741.40	More than 3 years	100.00	Expected to be uncollectible
Dezhou Zhongran City Gas Development Co. LTD	743,918.10	743,918.10	More than 3 years	100.00	Expected to be uncollectible
Northern Communications	237,220.30	237,220.30	More than 3 years	100.00	Expected to be uncollectible
Shanxi coal JiZhou yinhai fertilizer co., LTD	180,723.30	180,723.30	More than 3 years	100.00	Expected to be uncollectible
Other	1,703,170.66	1,703,170.66	More than 3 years	100.00	Expected to be uncollectible

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Debtor name	Balance	Balance of allowance for credit losses as at 31/12/2020	Aging	ECL rate(%)	Allowance reason
Total	3,725,773.76	3,725,773.76	—	—	—

8.6.2.4 Other receivables due from the top five debtors are as follows:

Debtor name	Nature of balance	Balance as at 31/12/2020	Aging	Percentage in total other receivables(%)	Balance of allowance for credit losses as at 31/12/2020
Ping An International Financial Leasing Co., Ltd.	Guaranteed deposit	10,000,000.00	2-3 years	3.68	
People's Court of Quyang County, Hebei Province	Court deduction	9,900,000.00	More than 3 years	3.65	9,900,000.00
Pingan Dianchuang International Finance Lease Co., LTD	Guaranteed deposit	5,000,000.00	1-2 years	1.84	
Dezhou People's Government	loans	5,000,000.00	More than 3 years	1.84	4,000,000.00
Yucheng Chemical Plant	Winter Reserve Fund	4,153,372.26	More than 3 years	1.53	3,322,697.81
Total	—	34,053,372.26	—	12.54	17,222,697.81

8.7 Inventories

Category	As at 31/12/2020			As at 1/1/2020		
	Book balance	Provision for diminution in value	Carrying amount	Book balance	Provision for diminution in value	Carrying amount
Raw materials	482,056,174.91	13,481,558.66	468,574,616.25	602,278,569.23	15,416,792.46	586,861,776.77
Self-manufactured semfinished product and work in progress	446,270,385.74	27,887,916.79	418,382,468.95	337,724,058.96	31,587,694.17	306,136,364.79
Finished goods	1,301,013,079.91	54,385,322.46	1,246,627,757.45	1,308,427,636.13	86,474,655.07	1,221,952,981.06
Revolving materials	15,778,281.24	389,816.88	15,388,464.36	17,911,282.92	1,402,845.60	16,508,437.32
Project construction (completed but unsettled payment)	42,367,631.17		42,367,631.17	64,092,647.65		64,092,647.65
Others	215,647,317.71	390,826.65	215,256,491.06	267,406,925.25	2,162,806.30	265,244,118.95
Total	2,503,132,870.68	96,535,441.44	2,406,597,429.24	2,597,841,120.14	137,044,793.60	2,460,796,326.54

8.8 Non-current assets due within one year

Item	Balance as at 31/12/2020	Balance as at 1/1/2020
Finance lease payments due within one year	87,605,581.71	470,047,409.09
Long-term deferred expenses that will be amortized within one year		183,333.19

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Item	Balance as at 31/12/2020	Balance as at 1/1/2020
Total	87,605,581.71	470,230,742.28

8.9 Other current assets

Item	Balance as at 31/12/2020	Balance as at 1/1/2020
Advanced payment of taxes	51,412,565.04	49,476,759.81
To be deducted Vat input tax	343,050,508.80	143,507,144.69
Structured deposits	1,004,139,827.38	1,403,487,336.76
Others	1,443,216.01	
Total	1,400,046,117.23	1,596,471,241.26

8.10 Available-for-sale financial assets

Item	As at 31/12/2020			As at 1/1/2020		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Available-for-sale equity instruments	1,625,875,161.42	5,700,000.00	1,620,175,161.42	907,629,175.69	25,322,934.27	882,306,241.42
Including:						
Measured at fair value	258,822,016.00		258,822,016.00	242,953,096.00		242,953,096.00
Measured at cost	1,367,053,145.42	5,700,000.00	1,361,353,145.42	664,676,079.69	25,322,934.27	639,353,145.42
Total	1,625,875,161.42	5,700,000.00	1,620,175,161.42	907,629,175.69	25,322,934.27	882,306,241.42

8.10.1 Available-for-sale financial assets measured at fair value

Category of available-for-sale financial assets	Available-for-sale equity instrument	Total
Cost of equity instrument/ amortized cost of debt instrument	21,225,318.00	21,225,318.00
Fair value	258,822,016.00	258,822,016.00
Accumulated change amount of fair value in other comprehensive income	237,596,698.00	237,596,698.00

8.11 Held to maturity investment

Item	As at 31/12/2020			As at 1/1/2020		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Shandong Sea Group dollar bonds				48,506,299.19		48,506,299.19
Wendeng Weihai dollar bonds				35,100,000.00		35,100,000.00
Shan Steel Group dollar bonds	65,520,000.00		65,520,000.00	49,140,000.00		49,140,000.00
Lushang Group dollar bonds	46,084,139.14		46,084,139.14	35,438,646.58		35,438,646.58

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Item	As at 31/12/2020			As at 1/1/2020		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Bank of Qingdao Preference Shares	45,640,062.07		45,640,062.07	48,593,876.48		48,593,876.48
Yankuang Group dollar bonds	36,530,258.44		36,530,258.44			
Guotaizulin dollar bonds	32,760,000.00		32,760,000.00			
Lixia Jinan dollar bonds	45,864,000.00		45,864,000.00			
Zhongtai International dollar bonds	45,864,000.00		45,864,000.00			
Total	318,262,459.65		318,262,459.65	216,778,822.25		216,778,822.25

8.12 Long-term receivables

Item	As at 31/12/2020			As at 1/1/2020		
	Balance	Allowance for credit losses	Carrying amount	Balance	Allowance for credit losses	Carrying amount
Finance Leases	255,735,266.09	182,454,405.39	73,280,860.70	327,107,164.40	84,332,178.39	242,774,986.01
Including: Unrealized finance income	50,701,695.08	-	50,701,695.08	49,934,764.80		49,934,764.80
Others	124,226,326.73		124,226,326.73	447,408,914.78		447,408,914.78
Total	379,961,592.82	182,454,405.39	197,507,187.43	774,516,079.18	84,332,178.39	690,183,900.79

8.13 Long-term equity investment

Item	As at 1/1/2020	Additions	Reductions	As at 31/12/2020
Investment to joint associates	53,532,491.71	1,093,370.05	4,500,000.00	50,125,861.76
Subtotal	53,532,491.71	1,093,370.05	4,500,000.00	50,125,861.76
Less: provision for impairment of long-term equity investment	3,882,999.22			3,882,999.22
Total	49,649,492.49	1,093,370.05	4,500,000.00	46,242,862.54

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Investee	Cost of investment	Balance as at 1/1/2020	Movement during the financial year							Balance as at 31/12/2020	Provision for impairment as at 31/12/2020
			Addition of investment	Reduction of investment	Investment income/loss recognised under the equity method	Adjustment of OCI	Changes of other equity	Cash dividend or profit announced to be issued	Provision for impairment	Others	
Associates											
Hualu Yellow River Delta (Ningxia) Equity Investment Fund (limited Partnership)	4,725,000.00	4,760,124.06			-6,577.82						
Cansheng Pharmaceutical (Zibo) Co., Ltd.	63,129,358.99	44,467,708.55			-2,978,392.25						
Lukang America Pharmaceuticals Ltd	3,882,999.22	3,882,999.22									
Shandong Huachuang Real Estate Co. LTD	4,500,000.00	421,659.88		4,500,000.00	4,078,340.12						3,882,999.22
Total	76,237,358.21	53,532,491.71		4,500,000.00	1,093,370.05					50,125,861.76	3,882,999.22

8.14 Investment property

Item	Balance as at 1/1/2020	Additions	Reductions	Balance as at 31/12/2020
I. Cost	511,918,788.65	172,826,812.70	87,714,997.68	597,030,603.67
Including: Buildings	491,567,897.47	172,826,812.70	78,938,876.68	585,455,833.49
Land use rights	20,350,891.18		8,776,121.00	11,574,770.18
II. Accumulated depreciation or amortization	186,310,984.64	29,461,115.06	14,803,428.20	200,968,671.50
Including: Buildings	181,416,235.81	28,999,310.88	12,828,756.20	197,586,790.49
Land use rights	4,894,748.83	461,804.18	1,974,672.00	3,381,881.01
III. Provision for impairment	-			-
Including: Buildings				
Land use rights				
IV. Carrying amount	325,607,804.01	—	—	396,061,932.17
Including: Buildings	310,151,661.66	—	—	387,869,043.00
Land use rights	15,456,142.35	—	—	8,192,889.17

8.15 Fixed assets

Category	Balance as at 31/12/2020	Balance as at 1/1/2020
Fixed assets	18,174,635,357.31	17,645,948,810.06
Disposal of fixed assets		8,174,491.47
Total	18,174,635,357.31	17,654,123,301.53

8.15.1 Movement of fixed assets

Item	Balance as at 1/1/2020	Additions	Reductions	Balance as at 31/12/2020
I. Cost	29,947,163,695.65	2,669,863,966.46	532,776,667.93	32,084,250,994.18
Including: Land assets	19,414,065.07	-	-	19,414,065.07
Buildings	6,028,814,303.07	922,120,525.88	235,000,328.68	6,715,934,500.27
Machinery & equipment	22,760,378,344.40	1,649,823,750.45	251,808,787.80	24,158,393,307.05
Transportation vehicles	177,751,895.02	14,960,114.34	36,626,440.81	156,085,568.55
Electronic equipment	935,051,180.34	81,521,281.93	9,163,907.06	1,007,408,555.21
Office equipment	7,848,492.81	394,945.10	177,203.58	8,066,234.33
Others	17,905,414.94	1,043,348.76	-	18,948,763.70
II. Accumulated depreciation	12,268,307,762.40	1,931,986,454.49	323,231,127.30	13,877,063,089.59
Including: Land assets	—	—	—	—
Buildings	1,553,459,146.63	271,850,903.60	65,460,589.36	1,759,849,460.87
Machinery & equipment	9,989,637,885.34	1,545,843,201.87	220,842,167.73	11,314,638,919.48
Transportation vehicles	95,704,746.06	15,911,829.76	27,620,972.87	83,995,602.95
Electronic equipment	612,501,847.12	96,939,935.60	9,094,621.94	700,347,160.78

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Item	Balance as at 1/1/2020	Additions	Reductions	Balance as at 31/12/2020
Office equipment	5,652,103.56	642,464.71	169,601.01	6,124,967.26
Others	11,352,033.69	798,118.95	43,174.39	12,106,978.25
III. Provision for impairment	32,907,123.19		354,575.91	32,552,547.28
Including: Land assets	—	—	—	—
Buildings	4,241,190.11		95,195.50	4,145,994.61
Machinery & equipment	28,628,186.43		258,359.36	28,369,827.07
Transportation vehicles				
Electronic equipment	37,746.65		1,021.05	36,725.60
Office equipment				
Others				
IV. Carrying amount	17,645,948,810.06	—	—	18,174,635,357.31
Including: Land assets	19,414,065.07	—	—	19,414,065.07
Buildings	4,471,113,966.33	—	—	4,951,939,044.79
Machinery & equipment	12,742,112,272.63	—	—	12,815,384,560.50
Transportation vehicles	82,047,148.96	—	—	72,089,965.60
Electronic equipment	322,511,586.57	—	—	307,024,668.83
Office equipment	2,196,389.25	—	—	1,941,267.07
Others	6,553,381.25	—	—	6,841,785.45

8.15.2 Disposal of fixed assets

Item	Balance as at 31/12/2020	Balance as at 1/1/2020	Reasons for transfer to cleanup
Buildings		510,765.93	
Machinery & equipment		7,660,490.18	
Electronic equipment		3,070.36	
Others		165.00	
Total		8,174,491.47	

8.16 Construction in process

Category	As at 31/12/2020			As at 1/1/2020		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Projects constructed in process	4,063,377,030.82	1,368,000.00	4,062,009,030.82	1,558,074,632.63	1,368,000.00	1,556,706,632.63
Construction materials	98,603,833.66		98,603,833.66	56,246,591.21		56,246,591.21
Total	4,161,980,864.48	1,368,000.00	4,160,612,864.48	1,614,321,223.84	1,368,000.00	1,612,953,223.84

8.16.1 Movement of significant construction in progress

Project name	Budget	As at 1/1/2020	Additions	Transfer to fixed assets	Other reductions	As at 31/12/2020
High-end pharmaceutical preparation project		81,532,011.37	49,958,677.51	130,480,762.15		1,009,926.73
Biomedical Recycling Industrial Park Project		300,078,017.19	412,915,912.18	532,197,421.77		180,796,507.60
High-end biological veterinary drug project		223,511,693.39	249,168,128.41	472,679,821.80		
High-end new pharmaceutical preparation industrialization project injection workshop	212,340,000.00	12,253,088.39	89,456,473.63			101,709,562.02
Ibuprofen expansion and synthesis process capacity improvement project	98,230,000.00	744,956.81	56,501,670.22			57,246,627.03
Solid preparation international processing technology transformation project	174,290,000.00	65,384,358.38	17,809,838.96	32,062,378.07		51,131,819.27
Pharmaceutical Preparation Industry Base Phase II Project-Veterinary Drug Preparation Project	47,160,000.00	7,348,126.74	30,978,301.07	4,981,360.26		33,345,067.55
Wastewater Treatment (RTO) Project of the First Branch	16,000,000.00	3,011,348.35	10,297,597.71			13,308,946.06
Wastewater Treatment (RTO) Project of the Second Branch	17,000,000.00	2,520,686.28	8,453,365.25			10,974,051.53
Preparation Workshop II of Modern Medicine International Cooperation Center	350,890,000.00	187,756,062.01	103,348,451.12	291,104,513.13		
Refined Adipic Acid Quality Improvement Project	1,572,000,000.00	81,344,440.14	1,260,847,840.43			1,342,192,280.57
New amide and nylon material project (300,000 tons/year)	4,980,000,000.00	80,262,651.01	1,511,429,379.63			1,591,692,030.64
Total	7,467,910,000.00	1,045,747,440.06	3,801,165,636.12	1,463,506,257.18		3,383,406,819.00

8.16.2 Construction materials

Item	Balance as at 31/12/2020	Balance as at 1/1/2020
Special materials	636,245.85	3,194,914.73

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Item	Balance as at 31/12/2020	Balance as at 1/1/2020
Construction materials	97,967,587.81	53,051,676.48
Total	98,603,833.66	56,246,591.21

8.17 Intangible assets

Item	Balance as at 1/1/2020	Additions	Reductions	Balance as at 31/12/2020
I. Cost	2,341,943,071.52	265,140,757.73	33,850,638.66	2,573,233,190.59
Including: Software	39,660,547.29	2,970,589.60		42,631,136.89
Land use rights	2,135,238,759.44	248,123,768.98	857,955.47	2,382,504,572.95
Patent rights	3,891,279.37			3,891,279.37
Non-Patent techniques	121,466,325.19	14,046,399.15	32,992,683.19	102,520,041.15
Trademark rights	20,797,921.65			20,797,921.65
Franchise	18,273,315.34			18,273,315.34
Others	2,614,923.24			2,614,923.24
II. Accumulated depreciation	389,072,674.77	58,614,119.04	32,992,683.19	414,694,110.62
Including: Software	26,769,982.81	3,174,764.03		29,944,746.84
Land use rights	249,115,735.71	49,566,442.21		298,682,177.92
Patent rights	3,789,506.52	11,297.16		3,800,803.68
Non-Patent techniques	90,986,452.27	4,985,899.29	32,992,683.19	62,979,668.37
Trademark rights	13,520,396.26	266,282.55		13,786,678.81
Franchise	2,275,677.96	609,433.80		2,885,111.76
Others	2,614,923.24			2,614,923.24
III. Provision for impairment	13,462,860.89	149,349.71		13,612,210.60
Including: Software	15,107.90			15,107.90
Land use rights				
Patent rights				
Non-Patent techniques	7,084,841.34	149,349.71		7,234,191.05
Trademark rights	6,362,911.65			6,362,911.65
Franchise				
Others				
IV. Carrying amount	1,939,407,535.86	—	—	2,144,926,869.37
Including: Software	12,875,456.58	—	—	12,671,282.15
Land use rights	1,886,123,023.73	—	—	2,083,822,395.03
Patent rights	101,772.85	—	—	90,475.69
Non-Patent techniques	23,395,031.58	—	—	32,306,181.73
Trademark rights	914,613.74	—	—	648,331.19
Franchise	15,997,637.38	—	—	15,388,203.58
Others		—	—	

8.18 Development expenditures

Project	Balance as at 1/1/2020	Additions		Reductions			Balance as at 31/12/2020
		Internally development expenditures	Others	Recognised as intangible assets	Profit or loss	Others	
Febuxostat, Febuxostat tablets	750,000.00						750,000.00
Parecoxib sodium raw material and freeze-dried powder injection	4,763,973.54						4,763,973.54
Cefmenoxime hydrochloride raw materials and powder injections	1,600,000.00						1,600,000.00
Memantine Hydrochloride/Donepezil Sustained Release Capsules	1,800,000.00	339,622.64					2,139,622.64
Ticagrelor raw materials and tablets	5,075,471.60						5,075,471.60
Dapagliflozin raw materials and tablets	9,014,214.03						9,014,214.03
GF-Process Development	33,780,460.60	11,118,294.27		10,530,619.97			34,368,134.90
ST-Process Development	24,743,130.42	20,307,627.93		3,515,779.22	1,584,905.66		39,950,073.47
DD-Process Development	1,215,876.52				1,215,876.52		
Rosuvastatin calcium tablets	3,890,269.56	1,591,981.18					5,482,250.74
Celecoxib raw materials and capsules	1,260,000.00	305,660.37					1,565,660.37
Esomeprazole sodium and freeze-dried powder injection	1,929,056.60	1,283,962.26					3,213,018.86
Apixaban raw materials and tablets	1,215,000.00						1,215,000.00
Y-JYSTFTB project	1,380,000.00	224,150.94					1,604,150.94
CIGB-814 project	37,509,683.27						37,509,683.27
Aprepitant and capsules (specifications: 80mg, 125mg) commissioned to develop	2,520,000.00						2,520,000.00
R&D of Acarbose Tablets	6,056,603.58	1,915,471.64					7,972,075.22
CMS203 non-clinical safety evaluation study	814,150.96	971,966.98					1,786,117.94
Study on the Expression and Secretion Technology of Long-acting	200,000.00						200,000.00
TRN-157	7,333,004.50						7,333,004.50
Imatinib and tablets		1,140,000.00					1,140,000.00
Moxifloxacin Hydrochloride and Tablets		960,000.00					960,000.00
Gefitinib raw materials and tablets		1,060,000.00					1,060,000.00
Highly active Azotobacter chroococcus and Pseudomonas fluorescens products			2,702,517.45				2,702,517.45
Highly active Bacillus thuringiensis subsp.			5,127,362.55				5,127,362.55

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Project	Balance as at 1/1/2020	Additions		Reductions			Balance as at 31/12/2020
		Internally development expenditures	Others	Recognised as intangible assets	Profit or loss	Others	
Israel and Bacillus sphaericus products							
Total	146,850,895.18	41,218,738.21	7,829,880.00	14,046,399.19	2,800,782.18		179,052,332.02

8.19 Long-term deferred expenses

Item	Balance as at 1/1/2020	Additions	Amortization	Other reductions	Balance as at 31/12/2020
Financing service expense	7,541,333.47	400,000.00	3,726,333.41		4,215,000.06
Product certification expense	12,996.32		12,996.32		
Asset decoration expense	7,491,138.04	286,238.53	1,507,170.87		6,270,205.70
Zoucheng office building renovation	646,216.17	295,601.34	307,036.95		634,780.56
Environmental protection R&D base 3# workshop usage expense	13,902,439.04		365,853.67		13,536,585.37
Company qualification expense	623,699.19	482,187.84	437,936.01		667,951.02
Compensation expenses and water rights for agricultural irrigation facilities	53,333,333.48		9,999,999.96		43,333,333.52
Rent of dormitory building in Linyi Office of Market Development Center		33,280.00	24,960.00		8,320.00
Office rent of Linyi Office of Market Development Center		150,000.00	87,500.00		62,500.00
Laboratory upgrade project		68,000.00	68,000.00		
Right to use parking spaces on the ground		8,313,480.82	2,078,370.19		6,235,110.63
Advertising space usage rights expense		1,520,000.00			1,520,000.00
Renovation and renovation costs of the Pharmaceutical Innovation Park		1,500,000.00	6,291.67		1,493,708.33
Asset decoration expense		12,322,763.65	406,392.77		11,916,370.88
Total	83,551,155.71	25,371,552.18	19,028,841.82		89,893,866.07

8.20 Deferred tax assets and deferred tax liabilities

8.20.1 Deferred tax assets and deferred tax liabilities before offsetting

Item	As at 31/12/2020		As at 1/1/2020	
	Deferred tax assets or liabilities	Deductible or taxable temporary differences	Deferred tax assets or liabilities	Deductible or taxable temporary differences
Deferred tax assets:				
Provisions for impairment of assets	145,892,448.07	673,047,942.74	158,719,773.76	763,172,615.41
Start-up expense			3,675,029.53	24,500,196.88
Deductible loss	14,373,979.79	95,826,531.94	21,522,322.64	119,122,444.36
Accrued expenses	24,637,014.53	163,551,463.64	713,552.91	4,150,137.73

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Item	As at 31/12/2020		As at 1/1/2020	
	Deferred tax assets or liabilities	Deductible or taxable temporary differences	Deferred tax assets or liabilities	Deductible or taxable temporary differences
Unrealized internal profits from purchases and sales with subsidiaries	7,205,253.14	32,187,569.91	10,328,642.74	50,757,806.42
Changes in the fair value of financial assets that are measured at fair value and whose changes are included in the current profit and loss	396,894.68	1,240,875.90		
Deferred income	4,023,548.21	25,456,154.74		
Share-based payment	6,377,535.00	42,516,900.00		
Others	4,978,726.39	31,962,144.82	6,899,332.99	45,995,553.25
Sub-total	207,885,399.81	1,065,789,583.69	201,858,654.57	1,007,698,754.05
Deferred tax liabilities:				
Changes in fair value of the financial assets recognised in other comprehensive income	31,803,738.26	211,736,525.38	34,160,554.71	115,923,737.01
Depreciation of fixed assets	76,820,255.78	473,709,913.42	44,782,974.61	276,663,044.71
Sub-total	108,623,994.04	685,446,438.80	78,943,529.32	392,586,781.72

8.21 Other non-current assets

Item	Balance as at 31/12/2020	Balance as at 1/1/2020
Advance payment for outsourcing patent technology	15,913,207.59	
Prepayments for land, projects and equipments and other long-term assets	1,376,178,482.27	1,242,946,435.74
Advanced payment of taxes	604,745.48	1,840,536.78
Unrealized sale and leaseback gains and losses	8,469,014.32	11,426,380.96
Total	1,401,165,449.66	1,256,213,353.48

8.22 Short-term loans

Borrowing condition	Balance as at 31/12/2020	Balance as at 1/1/2020
Secured loans	10,569,200.00	209,891,000.00
Guarantee loans	1,059,293,302.39	906,200,000.00
Loans on credit	876,959,609.28	691,000,000.00
Total	1,946,822,111.67	1,807,091,000.00

8.23 Notes payable

Item	Balance as at 31/12/2020	Balance as at 1/1/2020
Bank acceptance notes	685,727,255.33	926,785,863.77
Total	685,727,255.33	926,785,863.77

8.24 Accounts payable

Item	Balance as at 31/12/2020	Balance as at 1/1/2020
Within 1 year (including 1 year)	2,689,040,580.66	1,817,789,843.61
1-2 years (including 2 year)	235,440,670.07	283,798,166.98
2-3 years (including 3 year)	32,338,685.11	39,239,402.77
More than 3 years	78,637,213.00	67,296,236.75
Total	3,035,457,148.84	2,208,123,650.11

8.24.1 Significant accounts payable with aging over 1 year

Creditor Name	Balance as at 31/12/2020	Reason for outstanding repayment
Shanxi Guoyang Xinneng Co., LTD	7,441,703.39	Historical reasons
Kunpeng Municipal Engineering Co., LTD	6,405,047.32	The settlement period has not expired
Dezhou Branch of Heilongjiang Thermal Power Third Engineering Company	5,688,014.98	Historical reasons
Shandong Hetai Municipal Engineering Co., LTD	4,420,000.00	The settlement period has not expired
Dezhou Thermal Power Company	2,940,000.00	Unsettlement
Total	26,894,765.69	—

8.25 Advances from customers

Item	Balance as at 31/12/2020	Balance as at 1/1/2020
Within 1 year (inclusive, the same below)	911,446,262.57	756,819,154.33
More than 1 years	200,793,781.93	227,442,505.85
Total	1,112,240,044.50	984,261,660.18

8.25.1 Significant advances from customers with aging over 1 year

Creditor Name	Balance as at 31/12/2020	Reasons for not carried forward
Hubei Metian Biotechnology Co., LTD	1,360,000.00	Unsettlement
Zhejiang University of Technology	1,341,900.00	Unsettlement
Open source Environmental Protection (Group) Co. LTD	1,000,000.00	Unsettlement
Total	3,701,900.00	—

8.26 Employee benefits payable

8.26.1 Employee benefits payable

Item	As at 1/1/2020	Accrued	Paid	As at 31/12/2020
I. Short-term employee benefits	242,784,167.19	2,343,944,394.85	2,278,923,563.64	307,804,998.40
II. Post-employment benefits—defined contribution plans	551,422.12	213,836,566.88	213,902,148.96	485,840.04

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Item	As at 1/1/2020	Accrued	Paid	As at 31/12/2020
III. Termination benefits		3,097,100.28	3,097,100.28	
IV. Other benefits due within one year		28,000.00	28,000.00	
V. Others				
Total	243,335,589.31	2,560,906,062.01	2,495,950,812.88	308,290,838.44

8.26.2 Details of the short-term employee benefits

Item	As at 1/1/2020	Accrued	Paid	As at 31/12/2020
Salaries, bonus, and allowances	112,498,964.36	1,914,803,861.21	1,857,496,800.74	169,806,024.83
Staff welfare	24,377,702.50	98,715,134.65	99,173,233.32	23,919,603.83
Social insurances	702,637.52	103,989,148.67	104,604,566.91	87,219.28
Including: Medical insurance	53,361.58	96,186,674.37	96,195,295.25	44,740.70
Work injury insurance	3,711.91	6,632,501.42	6,632,542.96	3,670.37
Maternity insurance	26,615.24	102,577.16	102,732.98	26,459.42
Others	618,948.79	1,067,395.72	1,673,995.72	12,348.79
Housing Fund	79,882.00	151,224,656.73	150,504,428.09	800,110.64
Union funds and employee education fee	105,012,980.81	50,749,093.40	42,734,034.39	113,028,039.82
Others	112,000.00	24,462,500.19	24,410,500.19	164,000.00
Total	242,784,167.19	2,343,944,394.85	2,278,923,563.64	307,804,998.40

8.26.3 Defined contribution plans

Item	As at 1/1/2020	Accrued	Paid	As at 31/12/2020
Primary endowment insurance	516,555.13	155,266,690.92	155,332,108.68	451,137.37
Unemployment insurance	7,042.42	7,536,105.96	7,536,263.11	6,885.27
Pension insurance	27,824.57	51,033,770.00	51,033,777.17	27,817.40
Total	551,422.12	213,836,566.88	213,902,148.96	485,840.04

8.27 Taxes and surcharges payable

Category	Balance as at 31/12/2020	Balance as at 1/1/2020
Value added tax	84,062,735.84	70,533,487.21
Resource tax	5,157,482.40	4,927,624.80
Enterprise income tax	110,963,742.01	116,168,403.57
Urban maintenance and construction tax	7,853,667.09	6,297,578.10
Estate tax	11,309,608.17	12,250,488.43
Land use tax	11,845,975.71	8,840,275.93
Individual income tax	20,546,757.85	13,140,790.85
Educational surtax	3,521,780.02	2,975,591.16
Local educational surtax	2,098,558.29	1,528,101.03

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Category	Balance as at 31/12/2020	Balance as at 1/1/2020
Water conservancy construction fund	551,343.79	452,405.01
Other taxes and surcharges	5,588,665.96	4,229,424.26
Total	263,500,317.13	241,344,170.35

8.28 Other payables

Category	Balance as at 31/12/2020	Balance as at 1/1/2020
Interest payable	25,108,966.47	46,797,799.42
Dividends payable	6,991,505.02	9,181,222.34
Other payables	935,497,835.77	933,404,145.41
Total	967,598,307.26	989,383,167.17

8.28.1 Interest payable

Category	Balance as at 31/12/2020	Balance as at 1/1/2020
Interest for long-term loans	14,749,959.51	1,382,162.03
Interest on corporate bonds	2,978,367.59	16,372,382.84
Interest payable for short-term loans	7,151,912.98	27,629,872.49
Others	228,726.39	1,413,382.06
Total	25,108,966.47	46,797,799.42

8.28.2 Dividends payable

Category	Balance as at 31/12/2020	Balance as at 1/1/2020
Dividends for common shares	6,991,505.02	9,181,222.34
Total	6,991,505.02	9,181,222.34

8.28.3 Other payables

8.28.3.1 Other payables by nature

Nature	Balance as at 31/12/2020	Balance as at 1/1/2020
Warranty	10,296.00	60,600.00
Deposit and guaranteed deposit	105,492,270.25	249,666,345.42
Collection	1,783,871.55	1,336,813.91
Borrowing from non-financial institutions	1,900,000.00	1,900,000.00
Accrued expenses	160,807,982.92	122,722,444.36
Current accountt	64,977,499.93	74,190,336.92
Restricted stock repurchase obligations	54,296,376.80	54,691,200.00
Payable for engineering equipment	365,478,173.25	257,147,251.13
Others	180,751,365.07	171,689,153.67
Total	935,497,835.77	933,404,145.41

8.28.3.2 Significant other payables aging over 1 year:

Creditor Name	Balance as at 31/12/2020	Reason for unsettled
Zibo Xiayu Environmental Protection Technology Co., LTD	5,742,500.00	Unsettlement
Shandong Minsheng Coal chemical Company	4,640,000.00	Unsettlement
Shandong Antai Construction Co., LTD	3,591,648.68	Unsettlement
3 leaf company	2,640,445.61	Unsettlement
Fite (China) Pharmaceutical Technology Co., LTD	1,215,991.39	Unsettlement
Total	17,830,585.68	—

8.29 Non-current liabilities due within one year

Item	Balance as at 31/12/2020	Balance as at 1/1/2020
Long-term loans due within one year	1,195,536,321.35	1,590,667,156.87
Long-term bonds due within one year		1,600,000,000.00
Long-term payables due within one year	126,562,620.99	87,699,409.35
Other non-current liabilities due within one year	1,557,200.49	588,504.00
Total	1,323,656,142.83	3,278,955,070.22

8.30 Other current liabilities

Item	Balance as at 31/12/2020	Balance as at 1/1/2020
Ultra-short-term financing bills	2,100,000,000.00	
Deferred income	6,408,982.05	4,980,873.51
Output tax to be transferred	42,455,367.93	
Total	2,148,864,349.98	4,980,873.51

8.31 Long-term loans

Borrowing condition	Balance as at 31/12/2020	Balance as at 1/1/2020
Secured loans	185,690,400.00	
Guarantee loans	1,552,540,735.32	1,573,617,961.43
Loans on credit	364,237,939.80	534,109,008.96
Total	2,102,469,075.12	2,107,726,970.39

8.32 Bonds payable

Item	Balance as at 31/12/2020	Balance as at 1/1/2020
Corporate bonds	1,000,000,000.00	
Total	1,000,000,000.00	

8.32.1 Movement of bonds payable (excluding other financial instruments like preference shares, perpetual loans etc.)

Bond name	Par value	Issue date	Bond period	Issue amount
20 Hualu 01	1,000,000,000.00	2020/3/27	3 年	1,000,000,000.00
Total	1,000,000,000.00			1,000,000,000.00

Movement of bonds payable (Continued)

Bond name	Balance as at 1/1/2020	Issue in current period	Interest accrued on par value	Amortization of premium or discount	Repayment	Balance as at 31/12/2020
20 Hualu 01		1,000,000,000.00				1,000,000,000.00
Total		1,000,000,000.00				1,000,000,000.00

8.33 Long term accounts payable

Nature	As at 31/12/2020	As at 1/1/2020
Long term payables	169,832,349.96	277,274,627.09
Special payables	19,595,934.54	347,884,599.96
Total	189,428,284.50	625,159,227.05

8.33.1 Long-term payables according to the nature of the payment

Item	As at 31/12/2020	As at 1/1/2020
Finance lease payable	25,805,521.17	105,130,175.63
Shandong Zhengfang Industrial Development Co. LTD	121,857,705.00	121,857,705.00
Sale and leaseback payment	22,169,123.79	50,286,746.46
Total	169,832,349.96	277,274,627.09

8.33.2 The ending balance of large-amount special payables

Item	Balance as at 1/1/2020	Accrued	Paid	Balance as at 1/1/2020
Ibuprofen continuous synthesis technology transformation project		12,500,000.00		12,500,000.00
RTO waste gas treatment project		2,077,000.00		2,077,000.00
Medical reserve funds	2,000,000.00			2,000,000.00
Injection, solid preparation project		1,810,000.00		1,810,000.00
Veterinary raw materials	600,000.00			600,000.00
Total	347,884,599.96	154,134,861.00	482,423,526.42	19,595,934.54

8.34 Provisions

Item	As at 31/12/2020	As at 1/1/2020
Guarantees for third parties	20,750,786.02	20,750,786.02

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Item	As at 31/12/2020	As at 1/1/2020
Restructuring obligations	29,059,145.18	24,500,196.88
Others	2,798,439.25	
Total	52,608,370.45	45,250,982.90

Note1: Explanation of external guarantee: In 1997, in accordance with the relevant merger policy requirements of the Zibo Municipal Government, Shandong Xinhua Pharmaceutical Group Co., Ltd. ("Xinhua Group"), the subsidiary company of the Company, successively merged three loss-making enterprises including Shandong Zibo Acid Plant, Zibo Dongfeng Chemical Plant, and Shandong Dongda Group, and had undertaken corresponding bank loan guarantee responsibilities for the aforementioned three enterprises. Among them, the Zibo Dongfeng Chemical Plant (later changed to Shandong Xinhua Dongfeng Chemical Company), which Xinhua Group merged on March 31, 2003, provided 4 bank loan guarantees and assumed joint guarantee responsibilities. The principal amount of the four borrowings was RMB 12.91 million. As of December 31, 2009, the accumulated interest owed was RMB 6,633,800, and the total principal and interest amounted to RMB 19,550,800. The above guarantee contracts have all expired, and the bank collects the arrears through notarized delivery every year, and requires the company to perform the guarantee responsibilities.

Note2: Description of the reorganization obligation: The Company's subsidiary, the Academy of Environmental Sciences, was originally an institution under the Shandong Provincial Environmental Protection Department. In 2016, according to the Shandong Provincial Environmental Protection Department's "Request for Adjustment of the Shandong Provincial Environmental Protection Research and Design Institute Transformation Plan" (Luhuanfa [2016] No. 44) and the Shandong Provincial People's Government "Approval of the Approval of the Transformation of Shandong Provincial Environmental Protection Research and Design Institute into a State-owned Enterprise" (Luzhengzi [2016] No. 90) documents, it began to be transformed into a state-owned enterprise. According to the number of retirees, internal retired persons, resignation and the number of persons who choose to enter the enterprise, the expected wages, social insurance premiums and economic compensations to be assumed are included in the estimated liabilities-restructuring obligation as the cost of the transformation of a public institution into a state-owned enterprise.

8.35 Deferred income

Item	As at 1/1/2020	Increase	Decrease	As at 31/12/2020
Government grants	234,526,045.03	71,538,651.63	36,880,335.15	269,184,361.51
Expansion fee	52,739,503.44	20,428,080.26	11,248,295.39	61,919,288.31
Total	287,265,548.47	91,966,731.89	48,128,630.54	331,103,649.82

8.35.1 Deferred income from government grants

Item	Related to assets/income	Balance as at 1/1/2020	Increase	Recorded in profit or loss for current period	Other movement	Balance as at 31/12/2020
"Three-supply and one industry" separation and transfer of subsidy funds	Related to income	157,320.00				157,320.00
Environmental protection equipment subsidy	Related to assets	5,532,523.83			-638,761.90	4,893,761.93
Technology Special Fund	Related to assets	1,057,254.45			-74,556.16	982,698.29

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Item	Related to assets/income	Balance as at 1/1/2020	Increase	Recorded in profit or loss for current period	Other movement	Balance as at 31/12/2020
Support enterprise development funds	Related to assets	31,415,710.31	7,995,300.00		-3,487,455.10	35,923,555.21
Special funds for the development of emerging industries and key industries	Related to assets	274,186.18			-50,000.00	224,186.18
Special funds for regional strategy promotion	Related to assets	2,321,647.15			-300,000.00	2,021,647.15
VOCs waste gas treatment project subsidy	Related to assets	2,340,535.71			-183,571.48	2,156,964.23
Special funds for the construction of scientific and technological innovation platforms	Related to assets	10,000,000.00	6,600,000.00	434,870.43	-1,304,611.43	14,860,518.14
Featured Fermentation Raw Material Medicine Construction Project	Related to assets		5,000,000.00	305,555.56	-333,333.33	4,361,111.11
Key Scientific and Technological Innovation Project Fund of Shandong Province Key R&D Program	Related to assets		3,406,863.00			3,406,863.00
Central Subsidy Funds for the Construction of Emergency Material Guarantee System	Related to assets		16,360,000.00	1,552,092.90		14,807,907.10
Technology Center Innovation Capacity Building Project	Related to assets	1,333,333.32		500,000.00		833,333.32
GMP transformation project of aspirin series products	Related to assets	3,549,583.33		1,217,000.00		2,332,583.33
Cultivation of Aspirin Famous and High-quality Medicine Varieties	Related to assets	5,487,500.00		1,575,000.00		3,912,500.00
Special funds for MVR energy-saving renovation	Related to assets	2,160,000.00		480,000.00		1,680,000.00
Comprehensive air pollution prevention and control project for the recovery of methylene chloride and other organic gases	Related to assets	31,752,250.00		3,561,000.00		28,191,250.00
Modern Medicine International Cooperation Center Project	Related to assets	66,885,850.00		7,475,200.00		59,410,650.00
Dongyuan 2000m3/day sewage treatment system new construction project	Related to assets	3,502,500.00		467,000.00		3,035,500.00
Modern Chemical Medicine Industrialization Center (II) Project	Related to assets	1,994,667.50		254,630.00		1,740,037.50
Xinhua Pharmaceutical E-commerce Health Innovation Industrial Park Project	Related to assets	927,333.34		107,000.00		820,333.34
Hormone series product technological transformation project	Related to assets	5,079,245.83		588,000.00		4,491,245.83
Research and industrialization project of polycarboxylic calcium and tablets	Related to assets	2,999,000.00		336,000.00		2,663,000.00
Aspirin Technical Transformation Project	Related to assets	3,400,000.00		400,000.00		3,000,000.00
High-tech Zone Medical and Health Industry	Related to assets	735,215.44		52,147.68		683,067.76

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Item	Related to assets/income	Balance as at 1/1/2020	Increase	Recorded in profit or loss for current period	Other movement	Balance as at 31/12/2020
Support Project						
Caffeine green key technology and continuous system construction project	Related to assets	1,600,000.00				1,600,000.00
Injection GMP transformation project (high-end new pharmaceutical preparation industrialization project)	Related to assets		19,419,000.00			19,419,000.00
Equipment government subsidies	Related to assets	5,618,766.68	2,000,000.00	571,400.00		7,047,366.68
Policy-based preferential loan interest discount	与收益相关		205,000.00		-153,750.00	51,250.00
Other deferred income	Related to assets	4,648,633.70		869,515.00		3,779,118.70
2019 Provincial Science and Technology Innovation Development Fund (Engineering Technology Research Center of Science and Technology Base)	Related to income	1,000,000.00				1,000,000.00
2019 Provincial Science and Technology Innovation Development Fund (Subsidy Funds for Small, Medium and Micro Enterprises Upgrade High-tech Enterprises)	Related to income		100,000.00	100,000.00		
"2+26" Urban Comprehensive Solution Research—Sub-project of Zibo City Air Pollution Comprehensive Solution	Related to income	246,889.50		-1,442.50	-248,332.00	
"2+26" Urban Comprehensive Solution Research-Dezhou City Air Pollution Comprehensive Solution Sub-project	Related to income	168,141.32		40,432.40	-126,012.32	1,696.60
"2+26" Urban Comprehensive Solution Research-Binzhou City Air Pollution Comprehensive Solution Sub-project	Related to income	190,139.40		1,094.50	-189,044.90	
"2+26" Urban Comprehensive Solution Research-Sub-project of Heze City Air Pollution Comprehensive Solution	Related to income	212,285.78		-5,175.00	-216,110.78	1,350.00
R&D and engineering demonstration of oily sludge radiant thermal cracking resource utilization technology	Related to income	2,240,000.00	870,000.00	116,638.29	-2,103,000.00	890,361.71
Evaluation of the Environmental Effects of Systematic Comprehensive Treatment of Multi-source Solid Waste in a Typical Big City around the Bohai Sea	Related to income		450,000.00	19,662.59		430,337.41
Source analysis of fine particles in autumn and	Related to income		225,000.00			225,000.00

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Item	Related to assets/income	Balance as at 1/1/2020	Increase	Recorded in profit or loss for current period	Other movement	Balance as at 31/12/2020
winter in Lixia District and research on pollution prevention and control countermeasures based on precision monitoring and navigation monitoring technology						
Subsidy funds for enterprise restructuring	Related to income	1,410,472.78	3,830,000.00	2,083,113.80		3,157,358.98
Government subsidies for the renovation of heating pipe networks in old communities	Related to assets	22,166,666.64	3,965,000.00	2,150,000.04		23,981,666.60
Special funds for oxo synthesis project	Related to assets	1,218,749.97		160,714.29		1,058,035.68
Special fund for flue gas desulfurization renovation project	Related to assets	1,285,714.30		142,857.14		1,142,857.16
Special funds for upgrading traditional industries and comprehensive utilization of cleaner production	Related to assets	3,271,071.43		276,428.57		2,994,642.86
Special Funds for Air Pollution Prevention and Control	Related to income	6,342,857.14		528,571.43		5,814,285.71
Total		234,526,045.03	70,426,163.00	26,359,307.12	-9,408,539.40	269,184,361.51

8.36 Other non-current liabilities

Item	As at 31/12/2020	As at 1/1/2020
Authorized reserve fund	3,561,500.00	3,561,500.00
Total	3,561,500.00	3,561,500.00

8.37 Share capital

Item	Balance as at 1/1/2020		Increase	Decrease	Balance as at 31/12/2020	
	Investment amount	Proportion (%)			Investment amount	Proportion (%)
State-owned Assets Supervision and Administration Commission of Shandong People's Government	1,835,700,000.00	59.16			1,835,700,000.00	59.16
Social Security Fund Council of Shandong Province	262,200,000.00	8.45			262,200,000.00	8.45
Shandong Finance investment Group Co. LTD	377,700,000.00	12.17			377,700,000.00	12.17
Shandong Development Investment Holding Group Co. LTD	103,000,000.00	3.32			103,000,000.00	3.32
Shandong Guohui Investment Co. LTD	524,400,000.00	16.90			524,400,000.00	16.90
Total	3,103,000,000.00	100.00			3,103,000,000.00	100.00

8.38 Capital reserve

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Category	Balance as at 1/1/2020	Increase	Decrease	Balance as at 31/12/2020
I . Capital premiums	998,173,482.01	277,013.40		998,450,495.41
II . Other capital reserve	37,004,168.02	107,678,707.18	560,602.44	144,122,272.76
Total	1,035,177,650.03	107,955,720.58	560,602.44	1,142,572,768.17

Note1: Lukang Medical: The increase of 2,198,459.45 in other capital reserves in the current period is the share-based payment expenses confirmed by Lukang Medical's implementation of equity incentives in the current period.

Note2: Xinhua Pharmaceutical: The increase in equity premium this year by RMB 227,013.40 was due to the acceptance of shareholder donations, and the increase of other capital reserves this year by RMB 4,002,330.79 was due to the provision of consideration for equity instruments in the waiting period in accordance with Xinhua Pharmaceutical's equity incentive plan.

Note3: Hengsheng Group: The increase of other capital reserves in the current period by 1,033,317.48 yuan is the amount that should be recognized in the incentive cost of the subsidiary company Shandong Hualu Hengsheng Chemical Co., Ltd. equity incentive plan in the current year, and the increase of 1,283,724.61 yuan in the current period is the special payable The amount transferred in.

Note4: Shandong Hualu: The decrease in other capital reserves was caused by the reduction of Shandong Hualu's subsidiary Hualu Development Co., Ltd. during the year.

Note5: Academy of Environmental Sciences: Other capital reserves increased by 99,117,881.05 yuan as the existing undistributed profit of 85,949,928.75 yuan and surplus reserves of 13,167,952.30 yuan adjusted to the capital reserve by the Academy of Environmental Sciences on April 30, 2016 as the base date for enterprise reform. To; other capital reserves increased by RMB 42,993.80 because Shandong Zhonglu Environmental Engineering Evaluation Center Co., Ltd., a subsidiary of the Academy of Environmental Sciences, transferred special payables of RMB 42,993.80 to the capital reserve account.

8.39 Other comprehensive income

Item	Balance as at 1/1/2020	Movement in the year					Balance as at 31/12/2020
		Amount before tax	Less: OCI in prior periods transfer in profit or loss for the current period	Less: income tax	Amount after tax attributable to the Company	Amount after tax attributable to minority interests	
OCI items which will be reclassified subsequently to profit or loss	76,605,578.34	-25,111,694.43		-997,812.00	-18,296,096.03	-5,817,786.40	58,309,482.31
Including: gains and losses from changes in fair value of available-for-sale financial assets	50,666,566.00	-6,652,080.00		-997,812.00	-1,862,515.88	-3,791,752.12	48,804,050.12
Translation differences from translation of foreign currency financial statements	25,939,012.34	-18,459,614.43			-16,433,580.15	-2,026,034.28	9,505,432.19
Total of OCI	76,605,578.34	-25,111,694.43		-997,812.00	-18,296,096.03	-5,817,786.40	58,309,482.31

8.40 Special reserve

Category	Balance as at 1/1/2020	Increase	Decrease	Balance as at 31/12/2020
Safety costs	2,032,262.16	45,112,417.49	44,312,671.20	2,832,008.45
Total	2,032,262.16	45,112,417.49	44,312,671.20	2,832,008.45

8.41 Surplus reserve

Category	Balance as at 1/1/2020	Increase	Decrease	Balance as at 31/12/2020
Statutory surplus reserve	20,125,750.41	27,475,005.50	13,167,952.30	34,432,803.61
Total	20,125,750.41	27,475,005.50	13,167,952.30	34,432,803.61

8.42 Retained earnings

Item	As at 31/12/2020	Appropriation proportion
Retained earnings as at 1/1/2020	4,331,682,605.96	
Add: Net profit attributable to the Company during the year	744,083,419.58	
Less: Appropriation of statutory surplus reserve	27,475,005.50	
Common share dividends payable	186,762,800.00	10%
Others	85,949,928.75	
Retained earnings as at 31/12/2020	4,775,578,291.29	

8.43 Operating income and operating costs

Item	Year ended 31/12/2020		Year ended 31/12/2019	
	Income	Costs	Income	Costs
I . Primary operating business	23,948,306,253.72	18,189,053,748.92	24,304,791,439.68	17,288,813,695.48
Chemical industry	9,317,283,933.97	7,405,484,432.31	10,347,647,222.15	7,641,770,759.33
fertilizer	3,358,125,181.42	2,467,034,885.06	3,671,692,511.18	2,439,566,653.98
preparation	5,703,844,986.81	4,077,785,147.92	5,501,736,781.79	3,716,117,992.04
Raw materials	3,440,537,269.05	2,529,107,106.27	3,081,327,295.30	2,068,191,100.25
Pharmaceutical intermediates and others	624,279,415.00	406,446,216.80	625,461,666.74	529,684,150.29
Technical Services	668,607,927.46	529,637,085.37	607,989,299.04	491,041,347.81
Thermoelectric	129,267,225.29	151,335,354.03	139,638,068.07	154,304,717.26
Finance lease income	31,577,454.31	18,800,982.67	82,197,840.20	64,350,568.73
Trade income	388,664,878.00	380,907,773.37	66,284,696.45	59,489,442.95
Others	286,117,982.41	222,514,765.12	180,816,058.76	124,296,962.84
II. Other operating business	397,827,271.32	362,800,997.90	405,686,528.10	331,583,289.76
Lease income	22,604,518.72	2,260,893.96	28,508,014.30	2,892,894.03

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Item	Year ended 31/12/2020		Year ended 31/12/2019	
	Income	Costs	Income	Costs
Others	375,222,752.60	360,540,103.94	377,178,513.80	328,690,395.73
Total	24,346,133,525.04	18,551,854,746.82	24,710,477,967.78	17,620,396,985.24

8.44 Taxes and surcharges

Item	Year ended 31/12/2020	Year ended 31/12/2019
Urban maintenance and construction tax	55,566,634.24	62,860,904.05
Educational surcharge	28,718,657.87	32,143,490.18
Local educational surtax	11,094,674.18	12,786,892.68
Water conservancy construction fund	3,969,546.04	4,505,292.62
Property tax	39,673,237.00	33,793,764.42
Land use tax	50,224,222.55	30,787,762.27
Vehicle and vessel use tax	175,738.40	160,547.47
Stamp duty	6,881,076.64	8,528,323.65
Others	12,503,837.45	9,095,709.40
Total	208,807,624.37	194,662,686.74

8.45 Selling and distribution expenses

Item	Year ended 31/12/2020	Year ended 31/12/2019
Transport expenses		380,616,640.53
loading expenses	1,124,538.86	539,014.73
Warehousing and storage expenses	9,747,514.61	10,154,215.52
advertising expenses	25,613,604.12	74,411,412.70
Sales service expenses	658,202,830.11	796,479,840.81
Employee benefits	249,300,149.03	259,473,558.72
Business expenses	104,998,717.15	81,249,678.64
Depreciation	8,485,354.70	7,691,057.86
Repair expenses	59,274.63	75,909.64
Others	88,472,786.82	106,475,368.38
Total	1,146,004,770.03	1,717,166,697.53

8.46 General and administrative expenses

Item	Year ended 31/12/2020	Year ended 31/12/2019
Employee benefits	410,726,016.94	412,476,751.09
Insurance expenses	169,514.12	185,930.38
Dpreciation	115,167,819.97	93,183,025.89

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Item	Year ended 31/12/2020	Year ended 31/12/2019
Repair expenses	13,039,445.71	14,895,218.26
Amortization of intangible assets	27,873,305.91	23,216,341.48
Business Hospitality expenses	11,306,088.09	11,196,922.45
Travel expenses	7,462,742.57	10,398,153.48
Office expenses	18,498,811.67	26,369,172.14
conference expenses	186,382.25	354,218.36
Litigation expenses	2,349,887.73	2,812,185.69
Hiring intermediary agency expenses	43,419,551.52	27,917,178.27
Consultation expenses	304,065.08	254,416.20
Board expenses	1,430.19	346,221.81
Rental expenses	58,977.74	5,340,190.32
Retirement expenses	8,383,405.29	6,498,448.12
Warehouse expenses	22,490,929.88	18,285,169.74
Share-based payment	17,418,491.26	8,364,700.00
Others	105,310,481.38	114,941,372.34
Total	804,167,347.30	777,035,616.02

8.47 Research and development expenses

Item	Year ended 31/12/2020	Year ended 31/12/2019
Employee benefits	174,643,146.82	149,590,042.59
Materials expenses	252,076,841.36	280,359,204.41
Power expenses	15,210,036.92	12,330,092.87
Depreciation and amortization	29,632,303.74	19,663,464.47
New product	83,134,332.92	52,514,679.62
New technology and new process	215,212,945.08	182,886,330.81
Commissioned external R&D expenses	1,160,735.85	479,878.65
Others	37,727,218.61	37,943,176.89
Total	808,797,561.30	735,766,870.31

8.48 Finance expenses

Item	Year ended 31/12/2020	Year ended 31/12/2019
Interest expense	250,045,484.68	305,454,224.93
Less: interest income	53,721,573.00	54,900,969.22
Losses from foreign exchange	45,109,582.34	-7,592,894.27
Less: Gains from foreign exchange	7,542,839.94	37,055,543.06
Finance charges	8,244,337.46	1,755,810.04
Others	1,410,844.77	9,434,213.08

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Item	Year ended 31/12/2020	Year ended 31/12/2019
Total	243,545,836.31	217,094,841.50

8.49 Other income

Item	Year ended 31/12/2020	Year ended 31/12/2019
Government grants	92,419,832.03	82,762,260.63
Total	92,419,832.03	82,762,260.63

Details of government grants:

Item	Year ended 31/12/2020	Year ended 31/12/2019
Tax refund	1,528,959.69	937,491.52
Special funds for the development of SMEs	110,000.00	
Welfare Enterprise Tax Rebate	11,542,560.00	12,504,440.00
Job stabilization subsidy	10,919,359.82	3,606,196.00
Graduate trainee subsidy funds	977,796.00	521,076.00
Foreign economic and trade development policy funds	644,900.00	134,600.00
Energy-saving special funds		1,910,000.00
Science and technology award funds	100,000.00	150,000.00
Patent subsidy	49,160.00	106,000.00
Talent special subsidy funds	8,660,000.00	3,950,000.00
High-tech enterprise rewards	200,000.00	100,000.00
Subsidies for the operation of automatic monitoring systems for key supervised enterprises		6,440.00
Corporate R&D Expense Subsidy	2,617,747.17	5,556,329.00
Technological innovation and new drug development		2,000,000.00
Deferred income amortization	25,690,744.71	22,363,737.97
Science and Technology Bureau Award	120,000.00	5,000.00
Business restructuring subsidy	2,083,113.80	2,419,527.22
Special subsidies for enterprises to go to the cloud		200,000.00
Economic support funds		482,700.00
Heating subsidy	9,744,100.00	5,723,700.00
Government subsidies for the renovation of heating pipe networks for residents in old communities	2,150,000.04	2,150,000.04
Special Funds for Air Pollution Prevention and Control	528,571.43	528,571.43
Export credit insurance subsidies	263,800.00	462,350.00
Value-added tax deduction	596,286.08	444,231.18
National League Special Project Subsidy		1,695,987.70
"2+26" Urban Comprehensive Solution Research Subsidy	34,909.40	278,839.90
Shandong Provincial Department of Science and Technology Financial Subsidy for Enterprise Research and Development in 2019		1,786,900.00
Foreign trade export incentives	62,000.00	900,000.00

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Item	Year ended 31/12/2020	Year ended 31/12/2019
Provincial engineering laboratory (engineering research center) award funds		300,000.00
Provincial Enterprise Technology Center Subsidy Fund of Zoucheng Industry and Information Technology Bureau	300,000.00	300,000.00
Subsidy funds for consistency evaluation of generic drugs	2,000,000.00	3,000,000.00
Nomination Award for the 6th Jinling Mayor Quality Award	100,000.00	
Major Special Funds for Rural Revitalization in 2019	2,000,000.00	
2019 Comprehensive Assessment and Commendation of Industrial Economic Development	100,000.00	
Tai'an City Enterprise Staff Vocational Skills Upgrading Training Subsidy	426,500.00	
The prevention and control of the park focuses on guaranteeing corporate loan interest subsidies	5,100.00	
VOCS Comprehensive Treatment Project Subsidy Fund	85,000.00	
Industrial enterprise structural adjustment subsidy funds	2,669,700.00	
Special funds for conversion of new and old kinetic energy	1,000,000.00	
Reward funds	654,900.00	
specific fund	184,900.00	
Value-added tax is collected and refunded	492,581.58	
Nansi Lake Project (Mu Jinbo)	1,027.03	
R&D and engineering demonstration of oily sludge radiant thermal cracking resource utilization technology	116,638.29	
Evaluation of the Environmental Effects of Systematic Comprehensive Treatment of Multi-source Solid Waste in a Typical Big City around the Bohai Sea	19,662.59	
High-salt and high-organic wastewater project	538,153.50	
2019 Jinan National Intellectual Property Advantage Demonstration and Intellectual Property Standardization Certification Enterprise Special Fund	20,000.00	
Funding subsidy	517,290.00	
Special funds for oxo synthesis project	160,714.29	
Special fund for flue gas desulfurization renovation project	142,857.14	
Special funds for upgrading traditional industries and comprehensive utilization of cleaner production	276,428.57	
Others	1,984,370.90	8,238,142.67
Total	92,419,832.03	82,762,260.63

8.50 Investment income

Category	Year ended 31/12/2020	Year ended 31/12/2019
Gain/(Loss) from long-term equity investments in equity method	-2,984,970.07	-5,787,236.18
Gain/(Loss) on disposal of long-term equity investment	1,036,397.24	13,479.88
Investment income obtained during the holding period of financial assets that are measured at fair value and whose changes are included in the current profit and loss	-357,376.86	46,740.00
Investment income from disposal of financial assets that are measured at fair value and whose changes are included in the current profit and loss	13,532.41	
Investment income from held-to-maturity investments during the holding period	18,466,376.14	8,430,945.43
Investment income from available-for-sale financial assets	10,774,797.14	9,183,408.63

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Category	Year ended 31/12/2020	Year ended 31/12/2019
Investment income from disposal of available-for-sale financial assets		92,044.42
Others	54,362,779.31	47,717,970.46
Total	81,311,535.31	59,697,352.64

8.51 Gains from fair value changes

Source of gains/(losses)/from changes in fair value	Year ended 31/12/2020	Year ended 31/12/2019
Financial assets measured at fair value through profit or loss for the current period	-20,221,354.83	13,590,656.76
Total	-20,221,354.83	13,590,656.76

8.52 Impairment on assets

Item	Year ended 31/12/2020	Year ended 31/12/2019
Allowance for credit losses	-126,570,923.17	-113,513,878.06
Provision for diminution in value of inventory	-77,268,960.29	-120,929,041.54
Impairment loss on fixed assets		-2,820,708.53
Impairment loss for intangible assets	-149,349.71	-187,868.69
Total	-203,989,233.17	-237,451,496.82

8.53 Gains from disposal of assets

Item	Year ended 31/12/2020	Year ended 31/12/2019	Amount to be included in non-recurring gain or loss for the year
Net income from disposal of fixed assets	204,552,329.73	8,889,664.95	204,552,329.73
Total	204,552,329.73	8,889,664.95	204,552,329.73

8.54 Non-operating income

Item	Year ended 31/12/2020	Year ended 31/12/2019	Amount to be included in non-recurring gain or loss for the year
Unpayable payable account	586,951.66	47,800,011.58	586,951.66
Confiscation income	657,927.00	440,845.00	657,927.00
Government subsidies not related to the daily activities of the company	1,362,550.46	7,821,480.00	1,362,550.46
Non-current assets damage and retirement gains	10,197,890.81	764,688.76	10,197,890.81
Compensation income	350,181.26	136,598.68	350,181.26
Liquidated damages	2,000,000.00		2,000,000.00
Others	3,239,365.86	9,530,014.57	3,239,365.86
Total	18,394,867.05	66,493,638.59	18,394,867.05

Details of government grants:

Item	Year ended 31/12/2020	Year ended 31/12/2019
Three supplies and one industry	660,550.46	6,540,380.00
Science and Technology Bureau Knowledge Economy Award		582,000.00
State grants	682,000.00	
Science and Technology Bureau Innovation Award	20,000.00	
Others		699,100.00
Total	1,362,550.46	7,821,480.00

8.55 Non-operating expenses

Item	Year ended 31/12/2020	Year ended 31/12/2019	Amount to be included in non-recurring gain or loss for the year
Donation	7,073,417.00	619,879.97	7,073,417.00
Liquidated damages, compensation, late fees and fines	4,298,886.30	1,869,264.32	4,298,886.30
Losses on damage or abandonment of non-current assets	16,594,937.06	4,495,319.15	16,594,937.06
Relocation expenses	1,305,778.03	4,080,076.33	1,305,778.03
Others	7,108,502.10	4,927,534.62	7,108,502.10
Total	36,381,520.49	15,992,074.39	36,381,520.49

8.56 Income tax expenses

8.56.1 Details of income tax expenses

Item	Year ended 31/12/2020	Year ended 31/12/2019
Current income tax expense calculated according to tax laws	413,343,059.84	528,705,912.82
Deferred income tax	10,064,233.51	-25,871,872.60
Others	4,193,293.55	5,294,074.27
Total	427,600,586.90	508,128,114.49

8.56.2 Reconciliation between income tax expenses and accounting profit is as follows:

Item	Year ended 31/12/2020
Profit before tax	2,719,042,094.54
Income tax expenses calculated at statutory/applicable tax rates	679,760,523.64
Effect of different tax rate of subsidiaries	-253,594,887.82
Effect of adjustment for income tax in prior year	29,827,419.83
Effect of income not subject to income tax	-4,889,267.11
Effect of expenses nondeductible for tax purposes	22,647,468.88
Effect of utilization of deductible temporary differences or deductible losses in prior years which haven't been recognised deferred tax assets	-6,912,731.79

Notes to the Financial Statement
For the year ended December 31, 2020
HUALU HOLDINGS CO., LTD.

Item	Year ended 31/12/2020
Effect of unrecognised deductible temporary differences and deductible losses in current period	7,038,085.64
Extra deduction	-44,539,108.59
Income tax credit for environmental protection and energy saving equipment	-237,707.96
Others	-1,499,207.82
Income tax expenses	427,600,586.90

8.57 Notes to statement of cash flows

8.57.1 Supplement to statement of cash flows

Item	Year ended 31/12/2020	Year ended 31/12/2019
Net profit adjusted to cash flows from operating activities	—	—
Net profit	2,291,441,507.64	2,918,216,158.31
Add: provision for asset impairment	203,989,233.17	237,451,496.82
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of productive biological assets and depreciation of investment property	1,931,986,454.49	1,809,071,293.00
Amortization of intangible assets	58,614,119.04	33,681,021.36
Amortization of long-term deferred expenses	19,028,841.82	26,480,907.04
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	-204,552,329.73	2,794,195.03
Losses on write-down of fixed assets ("-" for gains)	16,594,937.06	3,687,752.19
Losses from changes in fair value ("-" for gains)	20,221,354.83	-13,590,656.76
Financial expenses ("-" for income)	233,890,654.08	325,993,032.90
Investments losses ("-" for gains)	-81,311,535.31	-59,697,352.64
Decreases in the deferred tax assets ("-" for increases)	-6,026,745.24	-58,306,411.99
Increases in the deferred tax liabilities ("-" for decreases)	32,037,281.17	38,360,289.40
Decreases in inventories ("-" for increases)	94,708,249.46	-46,250,452.69
Decreases in operating receivables ("-" for increases)	-1,248,161,050.59	2,162,511,712.30
Increases in operating payables ("-" for decreases)	1,052,697,150.28	-1,792,024,954.04
Others	6,950,270.78	-203,075,880.68
Net cash flows from operating activities	4,422,108,392.95	5,385,302,149.55
Significant investing and financing activities not involving cash inflow and outflow	—	—
Conversion of debt into capital		
Convertible corporate bonds maturing within one year		
Fixed assets acquired under financial lease		
Net change in cash and cash equivalents	—	—
Cash as at 31/12/2020	4,399,892,535.05	3,298,408,595.78
Less: cash as at 1/1/2020	3,188,408,595.78	4,488,185,634.90
Add: cash equivalents as at 31/12/2020		

Notes to the Financial Statement
For the year ended December 31, 2020
HUALU HOLDINGS CO., LTD.

Item	Year ended 31/12/2020	Year ended 31/12/2019
Less: cash equivalents as at 1/1/2020	110,000,000.00	
Net increase in cash and cash equivalents	1,101,483,939.27	-1,189,777,039.12

8.57.2 Cash and cash equivalents

Item	Balance as at 31/12/2020	Balance as at 1/1/2020
I . Cash	4,399,892,535.05	3,188,408,595.78
Including: cash on hand	245,404.81	356,716.81
Unrestricted bank deposits	4,361,908,925.36	3,123,579,563.08
Unrestricted other cash and cash equivalents	37,738,204.88	64,472,315.89
II . Cash equivalents		110,000,000.00
III. Cash and cash equivalents as at 31/12/2020	4,399,892,535.05	3,298,408,595.78

8.58 Monetary items denominated in foreign currency

Item	Balance in foreign currency as at 31/12/2020	Exchange rate	Balance translated into RMB as at 31/12/2020
Cash at hand and in banks	—	—	—
Including: USD	9,108,842.73	6.5296	59,477,032.88
GBP	802,947.12	8.3172	6,678,296.73
HKD	2,318,611.59	0.8400	1,947,656.47
EUR	23,544.37	8.0250	188,943.57
JPY	1,217.00	0.0632	76.96
Accounts receivable	—	—	—
Including: USD	51,104,324.48	6.5282	333,618,887.70
GBP	7,346,118.69	8.3101	61,047,062.04
Other receivables			
Including: USD	55,000.00	6.5249	358,869.50
Short-term loans	—	—	—
Including: USD	9,317,124.00	6.5249	60,793,302.39
Accounts payable			
Including: USD	1,707,822.60	6.5485	11,183,698.65
Other payables			
Including: USD	2,277,279.55	6.5514	14,919,464.78

8.59 Ownership or using rights of assets subject to restriction

Item	Carrying amount as at 31/12/2020	Restriction reason
Cash at bank and on hand	355,653,368.08	Bank acceptance bill deposits, foreign exchange business deposits, loan deposits, bill deposits, performance deposits, frozen, regulated pre-collected housing payments, etc.
Note receivable	105,211,319.78	Mortgage for Bank acceptance bills

Fixed assets	197,390,868.66	Mortgage loan
Intangible assets	13,691,427.29	Mortgage loan
Total	671,946,983.81	—

9. Commitments and contingencies

None.

10. Post balance sheet events

10.1 Xinhua Pharmaceutical

10.1.1 Profit distribution

According to the resolution of its board meeting held on March 30, 2021, the board of directors proposed to distribute cash dividends of RMB 1.50 (including tax) to all shareholders for every 10 shares, and neither bonus shares nor capitalization of public reserves. The proposal must be Approved by the annual general meeting.

Due to the completion of the first exercise period of Xinhua Pharmaceutical's stock option incentive plan in 2018, 5.5080 million new shares were added.

10.2 Hengsheng Group

10.2.1 On March 25, 2017, Shandong Hualu Hengsheng Chemical Co., Ltd., a subsidiary of Hengsheng Group, issued the "Announcement on Litigation Involved" (No. Lin 2017-004). On March 28, 2017, Hengsheng Co., Ltd. released "Supplementary Announcement Concerning Litigation" (No. Lin 2017-005), in order to protect its own legal rights and interests, Hengsheng shares actively respond to the lawsuit in accordance with the law. As of March 27, 2021, the case has entered the second instance and is currently under trial. Whether this matter will affect the profit and loss of Hengsheng shares is still unpredictable.

10.2.2 On March 25, 2021, Hengsheng shares held the twelfth meeting of the seventh board of directors and passed the 2020 profit distribution plan: It plans to use the existing share capital of 1,626,659,750 shares as the base, and distribute a cash dividend of 3.00 to all shareholders for every 10 shares. RMB (including tax, total dividend of RMB 487,997,925.00) and 3 bonus shares; the undistributed profit balance after this distribution will be carried forward to subsequent years; the capital reserve will not be converted into share capital this year. The aforementioned profit distribution and bonus share plans must be implemented after the approval of the 2020 annual

general meeting of shareholders of Hengsheng Co., Ltd.

Except for the above-mentioned post-balance sheet events, the Company has no other major undisclosed post-balance sheet events that should be disclosed.

11. Related parties and transactions

11.1 The parent company of the Company

The actual controller of the company is the State-owned Assets Supervision and Administration Commission of Shandong Provincial People's Government.

11.2 Subsidiaries of the Company

Details of subsidiaries refer to Note 7 Interest in other entities.

11.3 Joint ventures and associates of the Company

Details of Significant joint ventures and associates of the Company refer to Note 7 Interest in other entities. Information of other joint ventures and associates having transactions with the Company in current period or having outstanding balances carried forward from prior periods are as follows:

11.4 Other related parties

Entity name	Relationship
Cansheng Pharmaceutical (Zibo) Co., Ltd.	Joint stock company
Perrigo Company	Subsidiary shareholder
Shandong Huanke Kechuang Environmental Protection Technology Co. LTD	Joint stock company

11.5 Transactions with related parties

11.5.1 Purchase of goods/receipt of services and sales of goods/rendering of services

Name	Contents	Year ended 31/12/2020	Year ended 31/12/2019
Purchase of goods/receipt of services:			
Cansheng Pharmaceutical (Zibo) Co., Ltd.	Procurement of preparation raw materials	12,272,455.74	17,602,695.71
Sales of goods/rendering of services:			
Cansheng Pharmaceutical (Zibo) Co., Ltd.	Providing services	405,042.68	183,845.91
Cansheng Pharmaceutical (Zibo) Co., Ltd.	Sales motivation	8,535,367.68	11,761,881.37
Perrigo Company	Sales of raw materials	214,114,718.52	243,928,087.54
Perrigo Company	Sales of preparation products	8,316,828.70	

11.5.2 Guarantee activities with related parties

Notes to the Financial Statement
For the year ended December 31 2020
HUALU HOLDINGS CO.,LTD.

Guarantor	Guarantee	Amount of guarantee as at 31/12/2020	Amount of guarantee as at 31/12/2019
HUALU HOLDINGS CO.,LTD.	Shandong Lukang Pharmaceutical Co.,Ltd.	738,900,000.00	653,400,000.00
HUALU HOLDINGS CO.,LTD.	Shandong Xinhua Pharmaceutical Co.,Ltd.	228,500,000.00	
HUALU HOLDINGS CO.,LTD.	China Shandong Group Co., Ltd.	45,785,000.00	47,500,000.00
Shandong Hualu-Hengsheng Group Co.,Ltd	Shandong Hualu-Hengsheng Chemical Co.,Ltd	1,859,608,300.00	2,273,439,300.00
HUALU HOLDINGS CO.,LTD.	Hualu International Financial Leasing Co.,Ltd.		130,000,000.00
HUALU HOLDINGS CO.,LTD.	China Shandong group limited	260,996,000.00	139,524,000.00
Shandong Lukang Pharmaceutical Co.,Ltd.	Shandong Lukang Shelile Pharmaceutical Co., Ltd.	56,500,000.00	300,408,900.00
China Shandong Group Co., Ltd.	Shandong Hualu-Hengsheng Chemical Co.,Ltd		1,211,800.00
Shandong Lukang Shelile Pharmaceutical Co., Ltd.	Shandong Lukang Pharmaceutical Co.,Ltd.		301,000,000.00
Hualu International Financial Leasing Co.,Ltd.	Shandong Lugang Financial Leasing Co.,Ltd.		18,650,000.00
Shandong Lugang Financial Leasing Co.,Ltd.	Hualu International Financial Leasing Co.,Ltd.		27,190,000.00
China Shandong group limited	Well bring Ltd.	49,140,000.00	
Shandong Lukang Pharmaceutical Co.,Ltd.	Qinghai Lukang Dadi Pharmaceutical Co., Ltd.	15,000,000.00	

11.6 Receivables due from and payables due to related parties

11.6.1 Receivables due from related parties

Account name	Related party	As at 31/12/2020		As at 1/1/2020	
		Balance	Allowance for credit losses	Balance	Allowance for credit losses
Accounts receivable	Perrigo Company	28,498,901.58	142,494.51	20,132,764.80	100,663.82
Accounts receivable	Cansheng Pharmaceutical (Zibo) Co., Ltd.	73,001.20	365.01	10,701.82	53.51
Other receivables	Shandong Huanke Kechuang Environmental Protection Technology Co. LTD	99,850.60		99,850.60	

11.6.2 Payables due to related parties

Account name	Related party	Balance as at 31/12/2020	Balance as at 1/1/2020
Accounts payable	Cansheng Pharmaceutical (Zibo) Co., Ltd.	3,068,443.87	1,341,087.43
Advances from customers	Perrigo Company		394,457.02

12. Notes to the financial statements of the Company

12.1 Other receivables

Item	Balance as at 31/12/2020	Balance as at 1/1/2020
Other receivables	1,304,256,512.13	922,568,400.69
Total	1,304,256,512.13	922,568,400.69

12.1.1 Other receivables

Notes to the Financial Statement
For the year ended December 31 2020
HUALU HOLDINGS CO.,LTD.

Item	As at 31/12/2020			
	Balance		Allowance for credit losses	
	Amount	PCT (%)	Amount	ECL rate (%)
Other receivable of individually significant amount and with allowance for credit losses made on an individual basis				
Other receivable withdrawing bad debt provision according to credit risk characteristic combination	1,387,477,408.44	100.00	83,220,896.31	6.00
Other receivable of individually insignificant amount and with allowance for credit losses made on an individual basis				
Total	1,387,477,408.44	100.00	83,220,896.31	6.00

Item	As at 1/1/2020			
	Balance		Allowance for credit losses	
	Amount	PCT (%)	Amount	ECL rate (%)
Other receivable of individually significant amount and with allowance for credit losses made on an individual basis				
Other receivable withdrawing bad debt provision according to credit risk characteristic combination	1,006,284,807.34	100.00	83,716,406.65	8.32
Other receivable of individually insignificant amount and with allowance for credit losses made on an individual basis				
Total	1,006,284,807.34	100.00	83,716,406.65	8.32

12.1.1.1 Other receivable withdrawing bad debt provision according to credit risk characteristic combination

Group 1: Other receivable due from aging analysis :

Aging	As at 31/12/2020			As at 1/1/2020		
	Balance		Allowance for credit losses Amount	Balance		Balance Amount
	Amount	PCT(%)		Amount	PCT(%)	
Within 1 year	625,458.87	0.74	6,254.59	575,178.06	0.68	5,361.68
1-2 years				49,847.15	0.06	9,969.43
2-3 years	38,199.33	0.05	15,279.73			
More than 3 years	83,319,511.99	99.21	83,199,361.99	83,822,385.54	99.26	83,701,075.54
Total	83,983,170.19	100.00	83,220,896.31	84,447,410.75	100.00	83,716,406.65

Group2: Other receivable due from other combination methods

Combination name	As at 31/12/2020			As at 1/1/2020		
	Amount	ECL rate(%)	Allowance for credit losses Amount	Amount	ECL rate(%)	Allowance for credit losses Amount
Related party Combination	1,278,954,264.09			207,283,495.59		
Risk-free Combination	24,539,974.16			714,553,901.00		
Total	1,303,494,238.25			921,837,396.59		

12.1.1.2 Other receivables due from the top five debtors are as follows:

Debtor name	Nature of balance	Balance as at 31/12/2020	Aging	Percentage in total other receivables(%)	Balance of allowance for credit losses as at 31/12/2020
Hualu International Financial Leasing Co., Ltd.	Current account	601,915,176.27	1-2 years	43.38	
Shandong Lukang Pharmaceutical Co., Ltd.	Current account	350,722,427.93	Within 1 year	25.28	
China Shandong Group Co., Ltd.	Current account	150,134,214.92	Within 1 year	10.82	
China Shandong group limited	Current account	114,362,444.97	Within 1 year	8.24	
Huaru Investment Development Co., Ltd.	Current account	60,000,000.00	Within 1 year	4.32	
Total	—	1,277,134,264.09	—	92.04	

12.2 Long-term equity investments

Item	As at 1/1/2020	Additions	Reductions	As at 31/12/2020
Investment to subsidiaries	2,248,599,757.21		81,592,657.28	2,167,007,099.93
Investment to joint associates	3,882,999.22			3,882,999.22
Subtotal	2,252,482,756.43		81,592,657.28	2,170,890,099.15
Less: provision for impairment of long-term equity investment	26,018,701.49		22,135,702.27	3,882,999.22
Total	2,226,464,054.94		59,456,955.01	2,167,007,099.93

12.2.2.1 Investment to subsidiaries and associates

Investee	Investment cost	Balance as at 1/1/2020	Movement during the financial year								Balance as at 31/12/2020	Provision for impairment as at 31/12/2020
			Addition of investment	Reduction of investment	Investment income/loss recognised under the equity method	Adjustment of OCI	Changes of other equity	Cash dividend or profit announced to be issued	Provision for impairment	Others		
I. Subsidiaries	2,248,599,757.21	2,248,599,757.21		81,592,657.28							2,167,007,099.93	
China Shandong group limited	324,472,003.22	324,472,003.22									324,472,003.22	
Hualu International Financial Leasing Co.,Ltd.	29,002,324.00	29,002,324.00									29,002,324.00	
China Shandong Group Co., Ltd.	113,808,531.27	113,808,531.27									113,808,531.27	
Shandong Hualu-Hengsheng Group Co.,Ltd	698,181,499.35	698,181,499.35									698,181,499.35	
Shandong Xinhua Pharmaceutical Co.,Ltd.	228,418,428.12	228,418,428.12									228,418,428.12	
Shandong Xinhua Wanbo Chemical Industry Co., Ltd.	22,135,702.27	22,135,702.27		22,135,702.27							-	
Shandong Lukang Pharmaceutical Co.,Ltd.	296,241,732.23	296,241,732.23									296,241,732.23	
Shandong Lukang Zhonghe Environment Protection Technology Co., Ltd.	61,872,300.00	61,872,300.00									61,872,300.00	
Shandong Lukang Biological Pesticides Co., Ltd.	2,438,738.64	2,438,738.64		2,438,738.64							-	
Huaru Investment Development Co., Ltd.	300,000,000.00	300,000,000.00									300,000,000.00	
Shandong Academy of Environmental Science	162,028,498.11	162,028,498.11		57,018,216.37							105,010,281.74	

Notes to the Financial Statement
For the year ended December 31 2020
HUALU HOLDINGS CO.,LTD.

Investee	Investment cost	Balance as at 1/1/2020	Movement during the financial year								Balance as at 31/12/2020	Provision for impairment as at 31/12/2020
			Addition of investment	Reduction of investment	Investment income/loss recognised under the equity method	Adjustment of OCI	Changes of other equity	Cash dividend or profit announced to be issued	Provision for impairment	Others		
Co.,Ltd												
Zhongke Hualu Soil Remediation Engineering Co., Ltd.	10,000,000.00	10,000,000.00									10,000,000.00	
II. Investment to joint associates	3,882,999.22	3,882,999.22									3,882,999.22	3,882,999.22
Lukang America Pharmaceuticals Ltd	3,882,999.22	3,882,999.22									3,882,999.22	3,882,999.22
Total	2,252,482,756.43	2,252,482,756.43	-	81,592,657.28	-	-	-	-	-	-	2,170,890,099.15	3,882,999.22

12.3 Operating income and operating costs

Item	Year ended 31/12/2020		Year ended 31/12/2019	
	Income	Cost	Income	Cost
Other operating business	18,723,213.64	943,396.23	13,436,182.43	
Lease income	4,515,787.81		558,824.31	
Others	14,207,425.83	943,396.23	12,877,358.12	
Total	18,723,213.64	943,396.23	13,436,182.43	

12.4 Investment income

Category	Year ended 31/12/2020	Year ended 31/12/2019
Gain/(Loss) on disposal of long term equity investment	26,856,760.08	35,748,188.69
Investment income from disposal of available-for-sale financial assets		36,212.04
Receive cash dividends from subsidiaries	284,149,038.94	126,206,305.20
Other	1,950,339.25	
Total	312,956,138.27	161,990,705.93

12.5 Notes to statement of cash flows

12.5.1 Supplement to statement of cash flows

Item	Year ended 31/12/2020	Year ended 31/12/2019
Net profit adjusted to cash flows from operating activities	—	—
Net profit	274,750,055.00	193,725,571.89
Add: provision for asset impairment	1,447,610.17	-7,157,595.34
Credit impairment losses		
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of productive biological assets and depreciation of investment property	1,686,996.25	1,470,863.29
Amortization of intangible assets	287,739.88	196,108.74
Amortization of long-term deferred expenses	243,902.43	
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	-24,049.54	-1,182,299.08
Losses on write-down of fixed assets ("-" for gains)		
Losses from changes in fair value ("-" for gains)		
Financial expenses ("-" for income)	8,362,575.36	9,880,000.00
Investments losses ("-" for gains)	-312,956,138.27	-161,990,705.93
Decreases in the deferred tax assets ("-" for increases)	4,952,897.62	36,523.90
Increases in the deferred tax liabilities ("-" for decreases)		
Decreases in inventories ("-" for increases)		
Decreases in operating receivables ("-" for increases)	196,007,661.84	35,166,763.33

Notes to the Financial Statement
For the year ended December 31 2020
HUALU HOLDINGS CO.,LTD.

Item	Year ended 31/12/2020	Year ended 31/12/2019
Increases in operating payables ("-" for decreases)	-17,106,490.24	-78,537,836.09
Others		
Net cash flows from operating activities	157,652,760.50	-8,392,605.29
Significant investing and financing activities not involving cash inflow and outflow		
Conversion of debt into capital		
Convertible corporate bonds maturing within one year		
Fixed assets acquired under financial lease		
Net change in cash and cash equivalents		
Cash as at 31/12/2020	948,994,548.44	204,226,193.68
Less: cash as at 1/1/2020	204,226,193.68	228,829,889.14
Add: cash equivalents as at 31/12/2020		
Less: cash equivalents as at 1/1/2020		
Net increase in cash and cash equivalents	744,768,354.76	-24,603,695.46

13. Other significant events

None.

14. Approval of financial statements

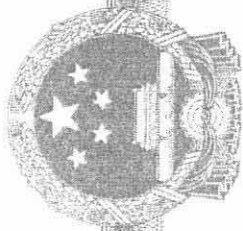
The financial statements have been approved by the board of directors of the Company.

HUALU HOLDINGS CO.,LTD.

September 28, 2021

The notes to the financial statements from page 17 to page 92 were approved by the following representatives:

Legal representative	Person in charge of accounting function	Person in charge of accounting department
Signature: _____	Signature: _____	Signature: _____
Date: _____	Date: _____	Date: _____



营业执照

(副本)(6-1)

统一社会信用代码

91110108590611484C



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“国家企业信用
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管信息

名称 大信会计师事务所（特殊普通合伙）

类型 特殊普通合伙企业

执行事务合伙人 胡咏华, 吴卫星

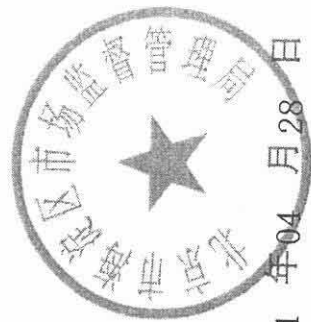
经营范围

审查企业会计报表、出具审计报告；验证企业资本，出具验资报告；办理企业合并、分立、清算事宜中的审计业务，出具有关报告、税务咨询、企业管理咨询、会计培训；法律、法规规定的其他业务。（市场主体依法自主选择经营项目，开展经营活动；依法须经批准的项目，经相关部门批准后依批准的内容开展经营活动；不得从事国家和本市产业政策禁止和限制类项目的经营活动。）

成立日期 2012年03月06日

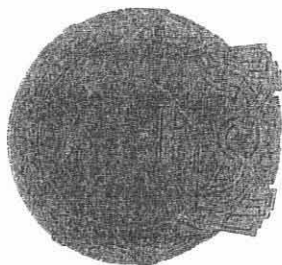
合伙期限 2012年03月06日 至 2112年03月05日

主要经营场所 北京市海淀区知春路1号学院国际大厦1504室



登记机关

2021年04月28日



证书序号: 0014492

说明

- 1、《会计师事务所执业证书》是证明持有人经财政部门依法审批，准予执行注册会计师法定业务的凭证。
- 2、《会计师事务所执业证书》记载事项发生变动的，应当向财政部门申请换发。
- 3、《会计师事务所执业证书》不得伪造、涂改、出租、出借、转让。
- 4、会计师事务所终止或执业许可注销的，应当向财政部门交回《会计师事务所执业证书》。

会计师事务所 执业证书

名称: 大信会计师事务所(特殊普通合伙)

首席合伙人: 胡咏华

主任会计师:

经营场所: 北京市海淀区知春路一号学院国际大厦1504室

组织形式: 特殊普通合伙

执业证书编号: 11010141

批准执业文号: 京财会许可[2011]0073号

批准执业日期: 2011年09月09日



发证机关:

北京市财政局

二〇二〇年十二月四日

中华人民共和国财政部制



姓名	田城
Sex	男
出生日期	1977-07-25
工作单位	大信会计师事务所(特殊普通合伙)山东分所
身份证号码	370221770725081
Identity card No.	



证书编号: 110001670112
No. of Certificate

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

发证日期: 2006 年 06 月 05 日
Date of Issuance

年度检验
Annual Renewal

登记
Registration

2019 年
注册会计师
年检合格专用章

本证书经检验合格, 继续有效一年。
This certificate is
this renewal.

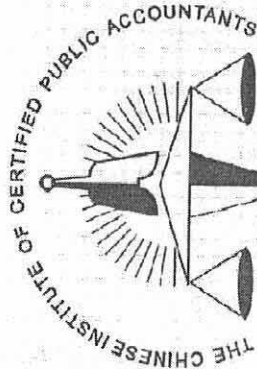
Annual Renewal Registration

2018 年
注册会计师
年检合格专用章

本证书经检验合格, 继续有效一年。

山东省注册会计师协会
2020 年
注册会计师
年检合格专用章

2020 年 月 日



姓名	张珂心
Full name	
性别	男
Sex	
出生日期	1988-02-16
Date of birth	
工作单位	山东舜天信诚会计师事务所有限公司
Working unit	
身份证号码	371426198802165613
Identity card No.	

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

本证书经检验合格，继续有效一年。
This certificate is valid for another year after

年度检验登记 2018年
注册会计师协会
Annual Renewal Registration
注册会计师
年检合格专用章

本证书经检验合格，继续有效一年。
This certificate is valid for another year after

年度检验登记 2020年
注册会计师协会
Annual Renewal Registration
注册会计师
年检合格专用章

证书编号: 370100412700
No. of Certificate
批准注册协会: 山东省注册会计师协会
Authorized Institute of CPAs
发证日期: 2016 年 04 月 12 日
Date of Issuance

**HUALU HOLDINGS
CO.,LTD.**

Auditor's Report

DAXIN SHEN ZI [2021] No. 3-00456

WUYIGE CERTIFIED PUBLIC ACCOUNTANTS LLP.



大信会计师事务所
北京市海淀区知春路 1 号
学院国际大厦 15 层
邮编 100083

WUYIGE Certified Public Accountants.LLP
15/F, Xueyuan International Tower
No. 1 Zhichun Road, Haidian Dist.
Beijing, China, 100083

电话 Telephone: +86 (10) 82330558
传真 Fax: +86 (10) 82327668
网址 Internet: www.daxincpa.com.cn

Auditor's Report

DAXIN SHEN ZI [2021] No. 3-00456

To HUALU HOLDINGS CO.,LTD.:

I. Opinion

We have audited the financial statements of HUALU HOLDINGS CO.,LTD. (hereafter referred to as “the Company”), which comprise the consolidated and the Company's balance sheets as at December 31, 2019, the consolidated and the Company's statements of income, the consolidated and the Company's statements of cash flows and the consolidated and the Company's statements of changes in equity for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2019, and of its financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

II. Basis for Opinion

We conducted our audit in accordance with Chinese Certified Public Accountants Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics for Chinese Certified Public Accountants and have fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. Other Information



大信会计师事务所
北京市海淀区知春路1号
学院国际大厦15层
邮编 100083

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Beijing, China, 100083

电话 Telephone: +86 (10) 82330558
传真 Fax: +86 (10) 82327668
网址 Internet: www.daxincpa.com.cn

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Accounting Standards for Business Enterprises, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

V. Auditor's Responsibilities for the Audit of the Financial Statements



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网址 Internet: www.daxincpa.com.cn

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- A. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- B. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- C. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- D. Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's



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report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

E. Evaluate the overall presentation, structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

F. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

WUYIGE CERTIFIED PUBLIC ACCOUNTANTS LLP.

Certified Public Accountant of China

(Engagement partner)

Certified Public Accountant of China

Beijing • China

Date: September 28, 2021



Consolidated Balance Sheet

Prepared by: HUALU HOLDINGS CO.,LTD.

31/12/2019

Unit: RMB Yuan

Item	Note	As at 31/12/2019	As at 31/12/2018
Current assets:			
Cash at bank and on hand		3,663,891,415.77	4,905,997,054.03
Settlement provisions			
Loans to others			
Financial assets held for trading			
Financial assets measured at fair value through profit or loss for the current period		1,151,280.00	1,047,960.00
Derivative financial assets			
Notes receivable		1,330,824,829.85	1,446,177,335.51
Accounts receivable		1,000,029,801.09	1,134,746,864.79
Receivables for financing			
Prepayments		194,111,043.79	294,565,593.94
Premiums receivable			
Reinsurance receivables			
Reinsurance contract reserve			
Other receivables		841,520,918.53	888,000,968.57
Resale of financial assets			
Inventories		2,460,796,326.54	2,494,142,333.57
Including: Raw materials		586,861,776.77	532,809,234.48
Stock goods (Finished goods)		1,221,962,981.06	1,399,004,766.68
Contract assets			
Held-for-sale assets			
Non-current assets due within one year		470,230,742.28	999,219,436.87
Other current assets		1,596,471,241.26	1,588,174,693.89
Total current assets		11,559,027,599.11	13,752,072,241.17
Non-current assets:			
Loans and advances			
Debt investments			
Available-for-sale financial assets		882,306,241.42	212,171,678.92
Other debt investments			
Held-to-maturity investments		216,778,822.25	146,640,000.00
Long-term receivables		690,183,900.79	915,500,435.62
Long-term equity investments		49,649,492.49	69,976,934.80
Other equity instrument investments			
Other non-current financial assets			
Investment property		325,607,804.01	318,979,288.48
Fixed assets		17,654,123,301.53	18,282,327,121.15
Construction in process		1,612,953,223.84	849,960,841.83
Productive biological assets			
Oil and gas assets			
Right-of-use assets			
Intangible assets		1,939,407,535.86	1,313,978,991.38
Development expenditures		146,850,895.18	70,167,751.14
Goodwill			
Long-term deferred expenses		83,551,155.71	95,217,880.63
Deferred tax assets		201,858,654.57	143,552,242.58
Other non-current assets		1,256,213,353.48	726,615,062.39
Including: Special reserve materials			
Total non-current assets		25,059,484,381.13	23,145,088,228.92
Total of assets		36,618,511,980.24	36,897,160,470.09

Legal representative: Legal: Person in charge of accounting function: Person in charge of accounting department:

Consolidated Balance Sheet (Continued)

Prepared by: HUALU HOLDINGS CO.,LTD.

31/12/2019

Unit: RMB Yuan

Item	Note	As at 31/12/2019	As at 31/12/2018
Current liabilities:			
Short-term loans		1,807,091,000.00	1,469,993,400.00
Borrowings from central banks			
Borrowing money			
Trading financial liabilities			
Financial liabilities measured at fair value through profit or loss for the current period			
Derivative financial liabilities			
Notes payable		926,785,863.77	839,336,932.70
Accounts payable		2,208,123,650.11	2,900,615,831.88
Advances from customers		984,261,660.18	888,943,399.64
Contract liabilities			
Employee benefits payable		243,335,589.31	232,122,764.62
Including: Salary payable		105,089,544.42	112,498,964.36
Welfare payable		24,377,702.50	25,428,065.73
Taxes and surcharges payable		241,344,170.35	392,105,747.49
Including: Tax payable		236,388,073.15	386,768,685.34
Other payables		989,383,167.17	1,018,136,900.57
Handling fees and commissions payable			
Reinsurance account payable			
Held-for-sale liabilities			
Non-current liabilities due within one year		3,278,955,070.22	2,814,058,779.74
Other current liabilities		4,980,873.51	10,082,605.40
Total current liabilities		10,684,261,044.62	10,565,396,362.04
Non-current liabilities:			
Insurance contract reserve			
Long-term loans		2,107,726,970.39	3,944,178,376.26
Bonds payable			1,600,000,000.00
Including: Preference shares			
Perpetual loans			
Lease liabilities			
Long-term accounts payables		625,159,227.05	498,794,438.37
Long-term employee benefits payable			
Provisions		45,250,982.90	45,250,982.90
Deferred income		287,265,548.47	285,672,596.30
Deferred tax liabilities		78,943,529.32	40,583,239.92
Other non-current liabilities		3,561,500.00	13,465,032.11
Including: Special reserve funds		3,561,500.00	3,561,500.00
Total non-current liabilities		3,147,907,758.13	6,427,944,665.86
Total liabilities		13,832,168,802.75	16,993,341,027.90
Shareholders' equity:			
Paid-in capital		3,103,000,000.00	3,000,000,000.00
State-owned		2,097,900,000.00	2,622,300,000.00
State-owned corporate capital		1,005,100,000.00	377,700,000.00
Collective capital			
Private capital			
Foreign Capital			
Less: Investment returned			
Net paid-in capital		3,103,000,000.00	3,000,000,000.00
Other equity instruments			
Including: Preference shares			
Perpetual loans			
Capital reserve		1,035,177,650.03	792,652,507.82
Less: treasury shares			
Other comprehensive income		76,605,578.34	91,351,946.66
Including: Translation differences from translation of foreign currency financial statements			
Special reserve		2,032,262.16	1,757,562.47
Surplus reserve		20,125,750.41	976,466.87
Including: Statutory surplus reserve		20,125,750.41	976,466.87
Discretionary reserve			
Reserve Fund			
Enterprise expansion funds			
Profit return for investment			
General Risk Preparation			
Retained earnings		4,331,682,605.96	3,399,967,750.62
Equity attributable to parent company		8,568,623,846.90	7,286,706,234.44
Minority interests		14,217,719,330.59	12,617,113,207.75
Total equity		22,786,343,177.49	19,903,819,442.19
Total liabilities and equity		36,618,511,980.24	36,897,160,470.09

Legal representativeLegal: Person in charge of accounting function: Person in charge of accounting department:

Balance Sheet

Prepared by: HUALU HOLDINGS CO.,LTD.

31/12/2019

Unit: RMB Yuan

Item	Note	As at 31/12/2019	As at 31/12/2018
Current assets:			
Cash at bank and on hand		204,226,193.68	228,829,889.14
Settlement provisions			
Loans to others			
Financial assets held for trading			
Financial assets measured at fair value through profit or loss for the current period			
Derivative financial assets			
Notes receivable		90,000.00	
Accounts receivable			
Receivables for financing			
Prepayments			
Premiums receivable			
Reinsurance receivables			
Reinsurance contract reserve			
Other receivables		922,568,400.69	913,337,095.37
Resale of financial assets			
Inventories			
Including: Raw materials			
Stock goods (Finished goods)			
Contract assets			
Held-for-sale assets			
Non-current assets due within one year			
Other current assets		1,336,035.01	2,938,738.79
Total current assets		1,128,220,629.38	1,145,105,723.30
Non-current assets:			
Loans and advances			
Debt investments			
Available-for-sale financial assets		622,153,145.42	40,510.92
Other debt investments			
Held-to-maturity investments			
Long-term receivables		1,200,000,000.00	1,200,000,000.00
Long-term equity investments		2,226,464,054.94	2,767,168,147.28
Other equity instrument investments			
Other non-current financial assets			
Investment property			
Fixed assets		21,095,421.30	22,063,677.05
Construction in process			
Productive biological assets			
Oil and gas assets			
Right-of-use assets			
Intangible assets		3,622,790.81	2,570,166.72
Development expenditures			
Goodwill			
Long-term deferred expenses		4,952,897.62	4,989,421.52
Deferred tax assets			
Other non-current assets			
Including: Special reserve materials			
Total non-current assets		4,078,288,310.09	3,996,831,923.49
Total of assets		5,206,508,939.47	5,141,937,646.79

Legal representativeLegal: Person in charge of accounting function: Person in charge of accounting department:

Balance Sheet (Continued)

Prepared by: HUALU HOLDINGS CO.,LTD.

31/12/2019

Unit: RMB Yuan

Item	Note	As at 31/12/2019	As at 31/12/2018
Current liabilities:			
Short-term loans			583,000.00
Borrowings from central banks			
Borrowing money			
Trading financial liabilities			
Financial liabilities measured at fair value through profit or loss for the current period			
Derivative financial liabilities			
Notes payable			
Accounts payable		1,625,770.74	1,625,770.74
Advances from customers			
Contract liabilities			
Employee benefits payable		36,808,507.38	44,115,436.60
Including: Salary payable		7,672,997.90	15,541,716.54
Welfare payable		23,570,885.12	23,570,328.12
Taxes and surcharges payable		1,328,611.84	222,026.68
Including: Tax payable		1,326,834.03	222,026.68
Other payables		98,576,008.14	118,746,904.12
Handling fees and commissions payable			
Reinsurance account payable			
Held-for-sale liabilities			
Non-current liabilities due within one year		1,600,000,000.00	
Other current liabilities			
Total current liabilities		1,738,338,898.10	165,293,138.14
Non-current liabilities:			
Insurance contract reserve			
Long-term loans			355,526,459.17
Bonds payable			1,600,000,000.00
Including: Preference shares			
Perpetual loans			
Lease liabilities			
Long-term accounts payables		2,600,000.00	2,600,000.00
Long-term employee benefits payable			
Provisions		20,750,786.02	20,750,786.02
Deferred income		33,120.00	
Deferred tax liabilities			
Other non-current liabilities			
Including: Special reserve funds			
Total non-current liabilities		23,383,906.02	1,978,877,245.19
Total liabilities		1,761,722,804.12	2,144,170,383.33
Shareholders' equity:			
Paid-in capital		3,103,000,000.00	3,000,000,000.00
State-owned		2,097,900,000.00	2,622,300,000.00
State-owned corporate capital		1,005,100,000.00	377,700,000.00
Collective capital			
Private capital			
Foreign Capital			
Less: Investment returned			
Net paid-in capital		3,103,000,000.00	3,000,000,000.00
Other equity instruments			
Including: Preference shares			
Perpetual loans			
Capital reserve		237,000,000.00	
Less: treasury shares			
Other comprehensive income			
Including: Translation differences from translation of foreign currency financial statements			
Special reserve			
Surplus reserve		19,149,283.54	
Including: Statutory surplus reserve			
Discretionary reserve			
Reserve Fund			
Enterprise expansion funds			
Profit return for investment			
General Risk Preparation			
Retained earnings		85,636,851.81	-2,232,736.54
Equity attributable to parent company		3,444,786,135.35	2,997,767,263.46
Minority interests		-	-
Total equity		3,444,786,135.35	2,997,767,263.46
Total liabilities and equity		5,206,508,939.47	5,141,937,646.79

Legal representative: Legal: Person in charge of accounting function: Person in charge of accounting department:

Consolidated Statement of Income

Prepared by: HUALU HOLDINGS CO., LTD.

For the year ended 31 December 2019

Unit: RMB Yuan

Item	Note	Year ended 31/12/2019	Year ended 31/12/2018	Item	Note	Year ended 31/12/2019	Year ended 31/12/2018
1. Total operating income				Less: Non-operating expenses		15,992,074.39	81,468,480.96
Including: Operating income		24,710,477,967.78	23,981,671,993.36	4. Profit before tax (" " for loss)		3,426,344,272.80	3,984,440,320.47
Interest income		24,710,477,967.78	23,981,671,993.36	Less: Income tax expenses		508,128,114.49	619,854,866.12
Premium earned				5. Net profit (" " for net loss)		2,918,216,158.31	3,364,585,454.35
Handling fee and commission income				Categorized by ownership			
2. Total operating cost				1. Net profit attributable to parent company		1,037,570,838.88	994,025,411.39
Including: Operating costs		21,202,123,097.34	19,736,364,850.77	2. Profit/loss attributable to minority shareholders		1,880,645,319.43	2,370,560,042.96
Interest expense		17,620,396,985.24	16,734,765,898.80	Categorized by going concern basis			
Handling charges and commission expenditures				1. Profit or loss from continuing operations		2,918,216,158.31	3,364,585,454.35
Refund of insurance				2. Profit or loss from discontinued operations			
Net compensation expenses				6. Net income of other comprehensive after tax			
Withdrawal of insurance liability reserve net				Total comprehensive income attributable to parent company		-33,228,778.42	37,261,913.56
Premium bonus expenditures				(1) Comprehensive income not to be reclassified to profit or loss		-14,746,368.32	22,035,420.59
Reinsurance expenses				1) Changes in remeasurement of defined benefit obligations		-	-
Taxes and surcharges		194,662,686.74	217,782,132.50	2) Other comprehensive income not to be reclassified to profit or loss in equity method			
Selling and distribution expenses		1,717,166,697.53	1,421,686,486.50	3) Fair value changes in other equity instrument investments			
General and administrative expenses		777,035,616.02	725,578,446.87	4) Fair value changes in the enterprise's own credit risk			
Research and development expenses		735,766,870.31	404,664,607.60	5) Others			
Finance expenses		217,094,841.50	231,887,278.50	(2) Comprehensive income to be reclassified to profit or loss		-14,746,368.32	22,035,420.59
Including: Interest expenses		305,454,224.93	315,586,285.86	1) Other comprehensive income to be reclassified to profit or loss in equity method			
Interest income		54,900,969.22	73,443,655.76	2) Gain or loss from fair value changes of other debt instruments			
Net loss on foreign exchange (" " for gains)		-44,648,437.33	-25,600,088.21	3) Gain or loss from fair value changes of available-for-sale financial assets			
Others				4) Reclassification of financial assets into other comprehensive income			
Add: Other income		82,762,260.63	81,916,697.44	5) Reclassification of held-to-maturity investments as available-for-sale financial assets			
Investment income (" " for loss)		59,697,352.64	36,467,749.70	6) Credit impairment provision of other debt investment			
Including: Investment income from associates and joint ventures		-2,355,147.75	3,122,598.48	7) Cash flow hedging reserve			
Income from derecognition of financial assets measured at amortised cost				8) Currency translation difference			
Gains from foreign exchange (" " for loss)				9) Others		3,174,108.26	22,538,970.27
Gains from net position hedging (" " for loss)				Net other comprehensive income attributable to minority shareholders after tax		-18,482,410.10	15,226,492.97
Gain from fair value changes (" " for loss)				7. Total comprehensive income		2,884,987,379.89	3,401,847,367.91
Credit impairment losses (" " for loss)				Total comprehensive income attributable to parent company		1,022,824,470.56	1,016,060,831.98
Impairment on assets (" " for loss)				8. Earnings per share			
Gains from disposal of assets (" " for loss)				Basic earnings per share		1,862,162,909.33	2,385,786,535.93
3. Operating profits (" " for loss)				Diluted earnings per share			-
Add: Non-operating income							
Including: Government grants		7,821,480.00	10,918,721.44				
Legal representative Legal:	Person in charge of accounting function:						

Statement of Income

Prepared by: HUALU HOLDINGS CO., LTD.

For the year ended 31 December 2019

Unit: RMB Yuan

Item	Note	Year ended 31/12/2019	Year ended 31/12/2018	Item	Note	Year ended 31/12/2019	Year ended 31/12/2018
1. Total operating income				Less: Non-operating expenses		1,547,350.13	37,858,737.32
Including: Operating income		13,436,182.43	7,887,955.77	4. Profit before tax ("-" for loss)		203,226,481.81	97,557,716.27
Interest income		13,436,182.43	7,887,955.77	Less: Income tax expenses		9,500,909.92	14,021,356.49
Premium earned				5. Net profit ("-" for net loss)		193,725,571.89	83,536,359.78
Handling fee and commission income				Categorized by ownership			
2. Total operating cost				1. Net profit attributable to parent company		193,725,571.89	83,536,359.78
Including: Operating costs		20,483,886.04	32,339,848.26	2. Profit/loss attributable to minority shareholders			
Interest expense			31,415.24	Categorized by going concern basis			
Handling charges and commission expenditures				1. Profit or loss from continuing operations		193,725,571.89	83,536,359.78
Refund of insurance				2. Profit or loss from discontinued operations			
Net compensation expenses				6. Net income of other comprehensive after tax			
Withdrawal of insurance liability reserve net				Total comprehensive income attributable to parent company		-	-
Premium bonus expenditures				(1) Comprehensive income not to be reclassified to profit or loss		-	-
Reinsurance expenses				1) Changes in remeasurement of defined benefit obligations			
Taxes and surcharges		2,686,865.40	262,555.84	2) Other comprehensive income not to be reclassified to profit or loss in equity method			
Selling and distribution expenses				3) Fair value changes in other equity instrument investments			
General and administrative expenses		48,357,105.46	40,115,581.63	4) Fair value changes in the enterprise's own credit risk			
Research and development expenses				5) Others			
Finance expenses		-30,560,044.82	-8,069,704.45	(2) Comprehensive income to be reclassified to profit or loss		-	-
Including: Interest expenses		9,880,000.00	8,821,621.91	1) Other comprehensive income to be reclassified to profit or loss in equity method			
Interest income		5,323,776.61	17,866,518.39	2) Gain or loss from fair value changes of other debt instruments			
Net loss on foreign exchange ("-" for gains)				3) Gain or loss from fair value changes of available-for-sale financial assets			
Others				4) Reclassification of financial assets into other comprehensive income			
Add: Other income				5) Reclassification of held-to-maturity investments as available-for-sale financial assets			
Investment income ("-" for loss)		161,990,705.93	524,799.44	6) Credit impairment provision of other debt investment			
Including: Investment income from associates and joint ventures				7) Cash flow hedging reserve			
Income from derecognition of financial assets measured at amortised cost				8) Currency translation difference			
Gains from foreign exchange ("-" for loss)				9) Others			
Gains from net position hedging ("-" for loss)				Net other comprehensive income attributable to minority shareholders after tax			
Gain from fair value changes ("-" for loss)				7. Total comprehensive income		193,725,571.89	83,536,359.78
Credit impairment losses ("-" for loss)				Total comprehensive income attributable to parent company		193,725,571.89	83,536,359.78
Impairment on assets ("-" for loss)				Basic earnings per share		-	-
Gains from disposal of assets ("-" for loss)				8. Earnings per share			
Gains from disposal of assets ("-" for loss)				Total comprehensive income attributable to minority shareholders			
3. Operating profits ("-" for loss)				Diluted earnings per share			
Add: Non-operating income							
Including: Government grants		6,564,280.00					

Legal representative Legal: Person in charge of accounting function: Person in charge of accounting department:

Consolidated Statement of Cash Flows

Prepared by: HUALU HOLDINGS CO.,LTD.

For the year ended 31 December 2019

Unit: RMB Yuan

Item	Note	Year ended 31/12/2019	Year ended 31/12/2018
1. Cash flows from operating activities			
Cash received from sales and services		23,296,282,017.90	22,076,160,921.98
Taxes and surcharges refunds		170,355,247.89	165,909,028.26
Cash received related to other operating activities		510,228,004.62	625,666,640.59
Total cash inflows from operating activities		23,976,865,270.41	22,867,736,590.83
Cash paid for goods and services		12,900,292,852.47	12,337,098,462.32
Cash paid to and for employees		2,316,543,734.44	2,103,244,716.25
Taxes and surcharges cash payments		1,609,146,007.79	1,333,992,027.82
Cash paid related to other operating activities		1,765,580,526.16	2,363,618,899.04
Total cash outflows from operating activities		18,591,563,120.86	18,137,954,105.43
Net cash flows from operating activities		5,385,302,149.55	4,729,782,485.40
2. Cash flows from investing activities:			
Cash received from withdraw of investments		5,293,953,131.49	1,219,175,696.13
Cash received from investment income		70,198,846.38	103,509,680.92
Net cash received from disposal of fixed assets,intangible assets and other long-term assets		268,095,608.69	165,211,420.09
Net cash received from disposal of subsidiaries and other business units			
Cash received related to other investing activities		4,092,660.00	7,774,527.08
Total cash inflows from investing activities		5,636,340,246.56	1,495,671,324.22
Cash paid for fixed assets,intangible assets and other long-term assets		3,054,748,265.91	2,588,972,610.82
Cash payments for investments		5,998,899,117.40	2,458,319,264.08
Net cash paid for acquiring subsidiaries and other business units			
Cash paid related to other investing activities		70,216,383.16	81,219,351.47
Total cash outflows from investing activities		9,123,863,766.47	5,128,511,226.37
Net cash flows from investing activities		-3,487,523,519.91	-3,632,839,902.15
3. Cash flows from financing activities:			
Cash received from investments		345,000,000.00	816,480,422.24
Including: cash received by subsidiaries from minority shareholders' investments		5,000,000.00	20,000,000.00
Cash received from borrowings		2,663,951,334.23	3,551,713,756.60
Cash received from issuing bonds			
Cash received related to other financing activities		50,000,000.00	83,140,000.00
Total cash inflows from financing activities		3,058,951,334.23	4,451,334,178.84
Cash repayments for debts		5,280,270,068.38	4,767,750,888.43
Cash payments for distribution of dividends, profit and interest expenses		714,782,331.24	768,133,836.66
Including: dividends or profit paid by subsidiaries to minority shareholders			
Cash paid related to other financing activities		166,353,843.93	190,680,464.36
Total cash outflows from financing activities		6,161,406,243.55	5,726,565,189.45
Net cash flows from financing activities		-3,102,454,909.32	-1,275,231,010.61
4. Effect of foreign exchange rate changes on cash and cash equivalents		14,899,240.56	27,442,607.25
5. Net increase in cash and cash equivalents		-1,189,777,039.12	-150,845,820.11
Add: beginning balance of cash and cash equivalents		4,488,185,634.90	4,639,031,455.01
6. Ending balance of cash and cash equivalents		3,298,408,595.78	4,488,185,634.90

Legal representativeLegal: Person in charge of accounting function: Person in charge of accounting department:

Statement of Cash Flows

Prepared by: HUALU HOLDINGS CO.,LTD.

For the year ended 31 December 2019

Unit: RMB Yuan

Item	Note	Year ended 31/12/2019	Year ended 31/12/2018
1. Cash flows from operating activities			
Cash received from sales and services		10,216,700.00	2,531,233.15
Taxes and surcharges refunds			
Cash received related to other operating activities		102,650,548.89	335,909,820.30
Total cash inflows from operating activities		112,867,248.89	338,441,053.45
Cash paid for goods and services		1,454,655.98	136,519.23
Cash paid to and for employees		31,694,942.35	19,144,048.54
Taxes and surcharges cash payments		13,209,060.74	26,909,731.54
Cash paid related to other operating activities		74,901,195.11	830,111,440.49
Total cash outflows from operating activities		121,259,854.18	876,301,739.80
Net cash flows from operating activities		-8,392,605.29	-537,860,686.35
2. Cash flows from investing activities:			
Cash received from withdraw of investments		551,624,117.17	86,342,556.69
Cash received from investment income		151,088,046.60	130,097,657.69
Net cash received from disposal of fixed assets,intangible assets and other long-term assets		486,430.57	
Net cash received from disposal of subsidiaries and other business units			
Cash received related to other investing activities			130,206.83
Total cash inflows from investing activities		703,198,594.34	216,570,421.21
Cash paid for fixed assets,intangible assets and other long-term assets		692,584.51	1,365,330.00
Cash payments for investments		622,130,400.00	210,000,200.00
Net cash paid for acquiring subsidiaries and other business units			
Cash paid related to other investing activities			
Total cash outflows from investing activities		622,822,984.51	211,365,530.00
Net cash flows from investing activities		80,375,609.83	5,204,891.21
3. Cash flows from financing activities:			
Cash received from investments		340,000,000.00	
Including: cash received by subsidiaries from minority shareholders' investments			
Cash received from borrowings			
Cash received from issuing bonds			
Cash received related to other financing activities			13,140,000.00
Total cash inflows from financing activities		340,000,000.00	13,140,000.00
Cash repayments for debts		340,000,000.00	
Cash payments for distribution of dividends, profit and interest expenses		96,586,700.00	32,903,000.00
Including: dividends or profit paid by subsidiaries to minority shareholders			
Cash paid related to other financing activities			13,140,000.00
Total cash outflows from financing activities		436,586,700.00	46,043,000.00
Net cash flows from financing activities		-96,586,700.00	-32,903,000.00
4. Effect of foreign exchange rate changes on cash and cash equivalents		-	
5. Net increase in cash and cash equivalents		-24,603,695.46	-565,558,795.14
Add: beginning balance of cash and cash equivalents		228,829,889.14	794,388,684.28
6. Ending balance of cash and cash equivalents		204,226,193.68	228,829,889.14

Legal representativeLegal: Person in charge of accounting function: Person in charge of accounting department:

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

Prepared by: HUALU HOLDINGS CO., LTD.

Unit: RMB Yuan

Item	Year 2019													Total equity
	Equity attributable to shareholders of parent company													
	Share capital	Other equity instruments			Capital reserve	Leisrtuary shares	Other comprehensive income	Special reserve	Surplus reserve	General Risk Preparation	Retained earnings	Sub-total	Minority interests	
		Preference shares	Perpetual loans	Others										
1. Ending balance of last year	3,000,000,000.00	-	-	-	792,652,507.82	-	91,351,946.66	1,757,562.47	976,466.87	-	3,399,967,750.62	7,286,706,234.44	12,617,113,207.75	19,903,819,442.19
Add: Impact from changes in accounting policies														
Impact from corrections of errors in prior period														
Others														
2. Beginning balance of current year	3,000,000,000.00	-	-	-	792,652,507.82	-	91,351,946.66	1,757,562.47	976,466.87	-	3,399,967,750.62	7,286,706,234.44	12,617,113,207.75	19,903,819,442.19
3. Movement for current year ("+" for decrease)	103,000,000.00	-	-	-	242,525,142.21	-	-14,746,368.32	274,699.69	19,149,283.54	-	931,714,855.34	1,281,917,612.46	1,600,606,122.84	2,882,525,735.30
(1) Total comprehensive income							-14,746,368.32				1,037,570,838.88	1,022,824,470.56	1,862,162,909.33	2,884,987,379.89
(2) Shareholder's contributions and withdrawals of capital	103,000,000.00	-	-	-	238,834,977.39	-	-	-	-	-	341,834,977.39	341,834,977.39	17,979,338.63	359,814,316.02
1) Common stock contributed by shareholders	103,000,000.00				237,000,000.00						5,000,000.00	340,000,000.00	5,000,000.00	345,000,000.00
2) Capital contributed by other equity instruments holders														
3) Share-based payment recorded in shareholder's equity														
4) Others					1,834,977.39						-19,892,488.07	-	-19,892,488.07	-19,892,488.07
(3) Special reserve	-	-	-	-	-	-	-	274,699.69	-	-	1,834,977.39	1,834,977.39	-13,423,073.30	46,294,900.00
1) Accrual of special reserve								40,673,433.83			274,699.69	274,699.69	155,253.43	-11,588,095.91
2) Utilization of special reserve								-40,398,734.14			-40,398,734.14	-40,398,734.14	52,616,286.83	429,953.12
(4) Profits distribution	-	-	-	-	3,690,164.82	-	-	-	19,149,283.54	-	-105,855,983.54	-83,016,535.18	-279,691,378.55	-52,186,333.71
1) Appropriation of surplus reserve									19,149,283.54		-105,855,983.54	-83,016,535.18	-279,691,378.55	-52,186,333.71
Including Statutory surplus reserve									19,149,283.54		-19,149,283.54	-	-	-362,707,913.73
Discretionary reserve														
Reserve Fund														
Enterprise expansion funds														
Profit return for investment														
General Risk Preparation														
Distribution to shareholders														
4) Others					3,690,164.82						-86,706,700.00	-86,706,700.00	-282,937,483.36	-369,644,183.36
(5) Internal transfer within shareholder's equity	-	-	-	-	-	-	-	-	-	-	3,690,164.82	3,690,164.82	-	6,936,269.63
1) Conversion of capital reserve into Paid-in capital														
2) Conversion of surplus reserve into Paid-in capital														
3) Recover of loss by surplus reserve														
4) Change of defined benefit obligations carried forward to retained earnings														
5) Other comprehensive income carried forward to retained earnings														
6) Others														
4. Ending balance of current year	3,103,000,000.00	-	-	-	1,035,177,650.03	-	76,605,578.34	2,032,262.16	20,125,750.41	-	4,331,682,605.96	8,568,623,846.90	14,217,719,330.59	22,786,343,177.49

Legal representative (Legal): Person in charge of accounting function: Person in charge of accounting department:

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

Prepared by: HUAILI HOLDINGS CO.,LTD.

Unit: RMB Yuan

Year 2018

Item	Share capital						Capital reserve	Less treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General Risk Preparation	Retained earnings	Sub-total	Minority interests	Total equity
	Share capital	Preference shares	Perpetual loans	Others												
1. Ending balance of last year	3,000,000,000.00					648,659,817.40			69,316,526.07	1,259,582.41	12,574,246.02		2,498,400,796.22	6,230,210,968.12	9,763,037,592.15	15,993,248,560.27
Add: Impact from changes in accounting policies																
Impact from corrections of errors in prior period																
Others																
2. Beginning balance of current year																
3. Movement for current year ("-" for decrease)																
(1) Total comprehensive income	3,000,000,000.00	-	-	-	-	648,659,817.40			69,316,526.07	1,259,582.41	12,574,246.02	-	2,498,400,796.22	6,230,210,968.12	9,763,037,592.15	15,993,248,560.27
(2) Shareholder's contributions and withdrawals of capital						143,992,690.42			22,035,420.59	497,980.06	-11,597,779.15	-	901,566,954.40	1,056,495,366.32	2,854,075,815.60	3,910,571,981.92
1) Common stock contributed by shareholders						143,992,690.42			22,035,420.59		-11,597,779.15	-	994,025,411.39	1,016,060,483.98	2,385,786,535.93	3,401,847,267.91
2) Capital contributed by other equity instrument holders													-38,111,851.27	94,283,660.00	718,359,606.02	812,642,666.02
3) Share-based payment recorded in shareholder's equity						521,549,243								521,549,243	736,776,244.67	741,992,237.50
4) Others																
(3) Special reserve						138,777,197.59					-11,597,779.15		-38,111,851.27	89,067,567.17	2,090,244.00	2,090,244.00
1) Accrual of special reserve										497,980.06				497,980.06		68,560,184.52
2) Utilization of special reserve										42,961,852.13				42,961,852.13		42,961,852.13
(4) Profit distribution										-42,463,872.07				-42,463,872.07		-42,463,872.07
1) Appropriation of surplus reserve including Statutory surplus reserve													-54,346,605.72	-54,346,605.72	-25,070,326.35	-304,416,932.07
2) Distribution to shareholders																
3) Discretionary reserve																
Reserve Fund																
Enterprise pension funds																
Profit return for investment																
2) General Risk Preparation																
3) Distribution to shareholders																
4) Others																
(5) Internal transfer within shareholder's equity																
1) Conversion of capital reserve into Paid-in capital																
2) Conversion of surplus reserve into Paid-in capital																
3) Recover of loss by surplus reserve																
4) Change of defined benefit obligations carried forward to retained earnings																
5) Other comprehensive income carried forward to retained earnings																
6) Others																
4. Ending balance of current year	3,000,000,000.00					792,652,507.82			91,351,946.66	1,757,562.47	976,466.87		3,399,967,750.62	7,286,706,234.44	12,617,132,077.5	19,903,819,442.19

Legal representative(s): Person in charge of accounting function: Person in charge of accounting department:

Statement of Changes in Equity

For the year ended 31 December 2019

Unit: RMB Yuan

Prepared by: HUALU HOLDINGS CO.,LTD.

Item	Year 2019												Minority interests	Total equity
	Share capital	Preference shares	Perpetual loans	Others	Capital reserve	Less treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General Risk Preparation	Retained earnings	Sub-total		
1. Ending balance of last year	3,000,000,000.00										-2,332,736.54	2,997,767,263.46	2,997,767,263.46	
Add: Impact from changes in accounting policies														
Impact from corrections of errors in prior period														
Others														
2. Beginning balance of current year	3,000,000,000.00										-2,332,736.54	2,997,767,263.46	2,997,767,263.46	
3. Movement for current year("+" for increase)	103,000,000.00				237,000,000.00				19,149,283.54		87,869,588.35	447,018,871.89	447,018,871.89	
(1) Total comprehensive income	103,000,000.00				237,000,000.00						193,725,571.89	193,725,571.89	193,725,571.89	
1) Common stock contributed by shareholders	103,000,000.00				237,000,000.00							340,000,000.00	340,000,000.00	
2) Capital contributed by other equity instrument's holders	103,000,000.00				237,000,000.00							340,000,000.00	340,000,000.00	
3) Share-based payment recorded in shareholder's equity												340,000,000.00	340,000,000.00	
4) Others														
(3) Special reserve														
1) Accrual of special reserve														
2) Utilization of special reserve														
(4) Profits distribution														
1) Appropriation of surplus reserve									19,149,283.54		-105,855,983.54	-86,706,700.00	-86,706,700.00	
Including: Statutory surplus reserve									19,149,283.54		-19,149,283.54			
Discretionary reserve														
Reserve Fund														
Enterprise expansion funds														
Profit return for investment														
2) General Risk Preparation														
3) Distribution to shareholders														
4) Others														
(5) Internal transfer within shareholder's equity														
1) Conversion of capital reserve into Paid-in capital														
2) Conversion of surplus reserve into Paid-in capital														
3) Recover of loss by surplus reserve														
4) Change of defined benefit obligations carried forward to retained earnings														
5) Other comprehensive income carried forward to retained earnings														
6) Others														
4. Ending balance of current year	3,103,000,000.00				237,000,000.00				19,149,283.54		85,636,851.81	3,444,786,135.35	3,444,786,135.35	

Legal representative Legal: Person in charge of accounting function: Person in charge of accounting department:

Statement of Changes in Equity

For the year ended 31 December 2019

Unit: RMB Yuan

Prepared by: HUALU HOLDINGS CO., LTD.

Year 2020														
Item	Share capital	Preference shares	Perpetual loans	Others	Capital reserve	Less treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General Risk Preparation	Retained earnings	Sub-total	Minority interests	Total equity
1. Ending balance of last year	3,000,000,000.00				677,845,354.12				11,532,482.21		33,193,941.78	3,722,571,778.11		3,722,571,778.11
Add: Impact from changes in accounting policies														
Impact from corrections of errors in prior period														
Others														
2. Beginning balance of current year	3,000,000,000.00				677,845,354.12				11,532,482.21		33,193,941.78	3,722,571,778.11		3,722,571,778.11
3. Movement for current year(" " for decrease)					-677,845,354.12				-11,532,482.21		-35,426,678.32	-724,804,514.65		-724,804,514.65
(1) Total comprehensive income											83,536,359.78	83,536,359.78		83,536,359.78
(2) Shareholder's contributions and withdrawals of capital					-677,845,354.12				-11,532,482.21		-77,059,038.10	-766,427,874.43		-766,427,874.43
1) Common stock contributed by shareholders														
2) Capital contributed by other equity instruments holders														
3) Share-based payment recorded in shareholder's equity														
4) Others					-677,845,354.12				-11,532,482.21		-77,059,038.10	-766,427,874.43		-766,427,874.43
(3) Special reserve														
1) Accrual of special reserve														
2) Utilization of special reserve														
(4) Profits distribution											-41,913,000.00	-41,913,000.00		-41,913,000.00
1) Appropriation of surplus reserve														
Including Statutory surplus reserve														
Discretionary reserve														
Reserve Fund														
Enterprise expansion funds														
Profit return for investment														
2) General Risk Preparation														
3) Distribution to shareholders											-41,913,000.00	-41,913,000.00		-41,913,000.00
4) Others														
(5) Internal transfer within shareholder's equity														
1) Conversion of capital reserve into Paid-in capital														
2) Conversion of surplus reserve into Paid-in capital														
3) Recover of loss by surplus reserve														
4) Change of defined benefit obligations carried forward to retained earnings														
5) Other comprehensive income carried forward to retained earnings														
6) Others														
Ending balance of current year	3,000,000,000.00										-2,232,736.54	2,997,767,263.46		2,997,767,263.46

Legal representative: Legal: Person in charge of accounting function: Person in charge of accounting department:

HUALU HOLDINGS CO.,LTD.

Notes to the Financial Statements

(All amounts in Chinese Renminbi Yuan unless otherwise stated)

1. Company profile

1.1 The Company's registered place, organization structure and the address of head quarter.

HUALU HOLDINGS CO.,LTD. (hereinafter referred to as "the company" or "company") was established on January 28, 2005, the company's unified social credit code is 913700007710397120; registered capital of RMB is 3,103 million; legal representative: Fan Jun; enterprise Address: 22nd Floor, Block A, Huachuang Guanli Center, No. 219, Shunhai Road, Lixia District, Jinan City, Shandong Province.

1.2 The Company's business nature and main operation activities, like its industry, primary product or service, customers' nature, trading strategy and supervisory environment etc.

The company belongs to the commercial service industry, and its main service is to invest in the chemical, pharmaceutical and environmental protection industries (industry) with its own funds; Management operation and consulting. (Projects that are subject to approval in accordance with the law can be operated only after being approved by relevant departments).

1.3 Name of parent company and group headquarters

The parent company is HUALU HOLDINGS CO.,LTD., the actual controller of the company is the State-owned Assets Supervision and Administration Commission of Shandong Provincial People's Government.

2. Basis of preparation of financial statements

On the basis of going concern and transactions and events actually occurred, the Company prepares its financial statements with the following accounting policies and accounting estimates in accordance with the Accounting Standards for Business Enterprises – basic Standards, specific accounting standards and other relevant provisions (hereinafter collectively known as "Accounting Standards for Business Enterprises" or "CAS")

3. Declaration on compliance with the Accounting Standards for Business

Enterprises

The financial statements have been prepared in compliance with the Accounting Standards for Business Enterprises to truly and completely reflect the Company's financial position as of 31 December 2020 and its operating results, cash flows and other relevant information for the year ended 31 December 2020.

4. Significant accounting policies and accounting estimates

4.1 Accounting period

The financial year of the Company is from January 1 to December 31 of each calendar year.

4.2 Functional currency

The Company's functional currency is Chinese Renminbi (hereafter referred to as "RMB").

4.3 Accounting basis and pricing principles

The Company's accounting is based on the accrual basis. Except for the financial assets / liabilities that are measured at fair value and whose changes are included in the current profit or loss, derivative financial instruments, available-for-sale financial assets and cash-settled share-based payments are measured on value measurement, the rest are based on historical cost. If the asset is impaired, the corresponding impairment provision shall be made in accordance with the relevant regulations.

4.4 Business combination

4.4.1 Business combinations involving enterprises under common control

In a business combination involving enterprises under common control, if the acquirer pays for the business combination in cash, by transferring of non-cash assets or assuming liabilities, the initial investment cost is the holding share of the acquiree's equity in the ultimate controlling party's consolidated financial statements measured at the carrying amounts at the acquisition date. If the acquirer issues equity instruments for the business combination, the acquirer measures the share capital by the par value of the shares issued. The difference between the original investment cost and the carrying amount (or the total par value of shares issued) will be adjusted to the capital reserve. If the capital reserve is insufficient to absorb the difference, the remaining amount shall be deducted from the retained earnings.

4.4.2 Business combinations involving enterprises not under uncommon control

In a business combination involving enterprises not under common control, the combination costs are the aggregate of the fair values of the assets paid, the liabilities incurred or assumed and the equity instruments issued by the acquirer in exchange for control over the acquiree at the acquisition date. At the acquisition date, the acquired assets, liabilities and contingent liabilities of the acquiree that meet the recognition criteria are measured at their fair value. The Company recognises the difference of the combination costs in excess of its interest portion in the fair value of the net identifiable assets acquired from the acquiree as goodwill. The Company recognises the difference of the combination costs less than its interest portion in the fair value of the net identifiable assets acquired from the acquiree in the non-operating income for current period after reassessment.

4.5 Preparation of consolidated financial statements

4.5.1 The scope of consolidated financial statements

The Company incorporates all its subsidiaries (including individual entities under its control) into the scope of the consolidated financial statements, including the enterprises controlled by the Company, divisible part in the investees and structured entities.

4.5.2 Uniform accounting policies, balance sheet date and accounting period

If the subsidiaries adopt different accounting policies or accounting periods compared with those of the Company, the Company makes necessary adjustments on the subsidiaries' financial statements according to its accounting policies or accounting period when the consolidated financial statements are prepared.

4.5.3 The elimination in the preparation of consolidated financial statements

The consolidated financial statements are prepared based on the individual financial statements of the Company and its subsidiaries, after elimination of the transactions incurred among the Company and the subsidiaries. The portion of a subsidiary's equity that is not attributable to the Company is treated as minority interests and presented in the consolidated balance sheet within equity. The equity investment of the Company held by one subsidiary is treated as the Company's treasury shares and a deduction of the shareholders' equity which is presented as "less: treasury shares" in the consolidated balance sheet within equity.

4.5.4 The accounting treatment for obtaining subsidiaries through a business combination

Where a subsidiary or business has been acquired through a business combination involving enterprises under common control in the reporting period, the obtained subsidiary or business is deemed to be included in the consolidated financial statements from the date they are controlled by the ultimate controlling party. Their assets, liabilities, operating results and cash flows are included in the consolidated financial statements from the beginning of the accounting period in which the acquisition occurred. Where a subsidiary or business has been acquired through a business combination not involving enterprises under common control, their individual financial statements are adjusted based on the fair value of identifiable net assets at the acquisition date when preparing the consolidated financial statements.

4.5.5 The accounting treatment for disposal of equity investment in a subsidiary

In the consolidated financial statements, when the Company partly disposes its investment in a subsidiary without losing its control on the subsidiary, the difference between the consideration received and its corresponding portion of the net asset continually calculated from the purchase date or combination date should be adjusted to the capital reserve and if the capital reserve is insufficient to absorb the difference, the remaining amount will be deducted from the retained earnings.

If the Company loses its control on a investee because of disposing some portion of its equity investment in the investee, when it prepares its consolidated financial statements, the remaining balance of its equity investment will be remeasured at the fair value of the date at which it loses its control. The difference between the sum of the consideration received and the fair value of the remaining equity investment, and its corresponding interest portion of the net asset continually calculated from the purchase date or the combination date should be recorded in the investment income of the current period, and be deducted to goodwill simultaneously. Other comprehensive income (OCI) etc. relating to the investment in the former subsidiary will be transferred to the investment income in the same period in which it loses its control.

4.6 Joint arrangement classification and accounting treatments

4.6.1 The classification of joint arrangement

Joint arrangements are classified as joint operations or joint ventures. A joint arrangement will be classified as joint operation when the joint arrangement achieves not through an individual entity. Individual entity is an entity with individual identifiable finance structure, including single legal

entity and entity unqualified as legal entity but qualified as lawful entity. A joint arrangement is usually be classified as joint venture when the joint arrangement achieves through incorporating an individual entity. When changes arising from relevant events or environment cause changes of the cooperative parties' rights and obligations in the joint arrangements, the cooperative parties shall reassess the classification of the joint arrangements.

4.6.2 The accounting treatment of joint operations

The Company acted as a party participating in joint operations, recognises the following items relating to its interests in the joint operations and accounts for them in accordance with related requirements of Accounting Standards for Business Enterprises: (a) Its solely-held assets and solely-assumed liabilities, and its share of any assets and liabilities held jointly; (b) Its revenue from the sale of its share of the output arising from the joint operation; (c) Its share of the revenue from the sale of the output by the joint operation; (d) Its own expenses and its share of any expenses incurred jointly.

The Company acted as a party involving in joint operations without common control power, accounts for its investments referring to the treatment method of joint operation participants if it is entitled to relevant assets and undertake relevant liabilities of the joint operations, otherwise, it accounts for its investments according to related requirements of Accounting Standards for Business Enterprises.

4.6.3 The accounting treatment of joint ventures

The Company accounts for its investments in accordance with Accounting Standards for Business Enterprises No.2 - Long-term Equity Investment if it is one of the participating parties with common control power in joint ventures. And the Company accounts for its investments according to its influence extent on the joint ventures if it is not one of the participating parties with common control power involved in the joint ventures.

4.7 Cash and cash equivalents

The cash in the Company's statement of cash flows is cash on hand and deposits that can be readily drawn on demand. Cash equivalents in the statement of cash flows are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

4.8 Foreign currency transactions and translation of financial statements denominated in foreign currency

4.8.1 Translation of foreign currency transactions

The Company records foreign currency transactions in RMB for accounting purpose using the spot exchange rate prevailing at the date when the transactions occurs. At the balance sheet date, monetary items denominated in foreign currency are translated to RMB by adopting the prevailing exchange rate on that date. Foreign exchange difference between the prevailing exchange rate on that date and the prevailing exchange rate on initial recognition or on the previous balance sheet date are recognised in profit or loss for the current period, except the foreign exchange arising from specific loan denominated in foreign currency qualified as capital expenditure and included in the cost of related assets. Non-monetary items denominated in foreign currency that are measured at historical cost are still translated at amount in functional currency exchanged at the prevailing exchange rate at the transaction date. Non-monetary items denominated in foreign currency that are measured at fair value are translated using the exchange rate at the date when fair value was determined and the difference between the translated functional currency amount and the prior translated amount on initial recognition or on the previous balance sheet date are recorded in profit or loss for the current period or other comprehensive income.

4.8.2 The translation of financial statements denominated in foreign currency

If the Company's controlled subsidiaries, joint ventures and associates etc. adopt different reporting currency, their financial statements denominated in foreign currency shall be translated to financial statements in RMB when preparing consolidated financial statements. The assets and liabilities are translated to RMB amounts using the spot exchange rate at the balance sheet date. Items of the equity, except for "retained earnings ", are translated at the spot exchange rate at the dates when such items occurred. The revenue and expenditures in the statement of income are translated using the spot exchange rate at the transaction date. The difference arising from foreign currency financial statements translation is presented in other comprehensive income at the consolidated balance sheet within equity. Items of the statement of cash flows are translated using the spot exchange rate when they incurred. Effect arising from changes of exchange rates on cash and cash equivalents is presented separately in the statement of cash flows. When disposing of foreign operations, exchange

differences of foreign currency financial statements attributable to the foreign operations are transferred to profit or loss for the current period entirely or in proportion with the disposal portion of the foreign operations.

4.9 Financial instruments

4.9.1 Classification and confirmation of financial instruments

Financial instruments are classified as financial assets or financial liabilities and equity instruments. When the Company becomes a party of the financial instrument contract, it is recognized as a financial asset or financial liability, or equity instrument.

Financial assets are initially classified as: financial assets measured at fair value and whose changes are included in current profit or loss, held-to-maturity investments, receivables, and available-for-sale financial assets. The classification of financial assets except the receivables depends on the intention and ability of the Company and its subsidiaries to hold financial assets. Financial liabilities are initially classified as: financial liabilities measured at fair value and whose changes are included in the current profit or loss and other financial liabilities.

Financial assets measured at fair value and whose changes are included in current profit or loss include financial trading assets held for short-term sales and financial assets designated as measured at fair value and whose changes are included in current profit or loss at initial recognition; Receivables refer to non-derivative financial assets with no quoted price in the active market, fixed or determinable recovery amount; Available-for-sale financial assets include non-derivative financial assets designated as available-for-sale at initial recognition and not classified as other financial assets; Held-to-maturity investments are non-derivative financial assets with fixed maturity dates, fixed or determinable recoveries, and management 's clear intention and ability to hold to maturity.

4.9.2 Measurement of financial instruments

The initial recognition of the company's financial instruments is measured at fair value. Subsequent measurements are classified as: Financial assets measured at fair value with changes included in current profit or loss, available-for-sale financial assets, and financial liabilities measured at fair value with changes included in current profit or loss measured at fair value; Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost; Investments in equity instruments that have no quotation in an active market and whose fair value

cannot be reliably measured, and those that are linked to the equity instrument and must be settled by delivery of the equity instrument derivative financial assets or derivative financial liabilities are measured at cost. Gains or losses arising from changes in fair value in the subsequent measurement of the Company's financial assets or financial liabilities, except for those related to hedging, are handled as follows: a) Financial assets or financial liabilities measured at fair value with changes included in the current profit or loss. Gains or losses resulting from changes in fair value are included in changes in fair value. b) Changes in the fair value of available-for-sale financial assets are included in other comprehensive income.

4.9.3 Measurement method of financial instruments' fair value

For financial instruments that active markets exist, the Company uses the quoted prices in the active markets to determine their fair value. If there is no active market for the financial instruments, the Company uses valuation techniques to determine their fair value. The valuation techniques mainly include market approach, income approach and cost approach.

4.9.4 The recognition basis and measurement method of financial assets and liabilities

When almost all risks and rewards in the ownership of financial assets are transferred, or there is neither transfer nor retention of almost all risks and rewards in the ownership of financial assets, but the control of the financial assets is abandoned, the recognition of the financial asset shall be terminated. If the financial asset meets the conditions for termination of recognition, the difference between the carrying value of the transferred financial asset and the sum of the consideration received as a result of the transfer and the cumulative amount of changes in fair value that were directly included in other comprehensive income is included in the current profit or loss. If the partial transfer meets the conditions for termination confirmation, the entire carrying value of the transferred financial assets shall be allocated between the termination confirmation part and the unfinished confirmation part according to their respective relative fair values.

When the present obligation specified in the contract is extinguished, the Company derecognises a financial liability (or a part of a financial liability).

4.9.5 Impairment of financial assets

When a financial asset measured at amortized cost is impaired, an impairment provision is made

based on the difference between the expected future cash flow (excluding future credit losses that have not yet occurred) and the carrying value. If there is objective evidence that the value of the financial asset has been restored, and it is objectively related to the events that occurred after the loss was confirmed, the originally recognized impairment loss is reversed and included in the current profit or loss.

When there is objective evidence that the available-for-sale financial asset is impaired, the accumulated losses due to the decline in fair value that were originally directly included in shareholders' equity are transferred out and included in the impairment loss. For available-for-sale debt instrument investments that have confirmed impairment losses, if the fair value rises after the period and is objectively related to events that occurred after the confirmation of the original impairment loss, the originally recognized impairment loss is reversed and included in the current profit or loss. For available-for-sale equity instrument investments that have been recognized for impairment losses, the increase in fair value after the period is directly included in shareholders' equity.

For equity instrument investments, the Company judges the specific quantitative standards for the "serious" or "non-temporary" decline in its fair value, its cost calculation method and the method for determining the fair value at the end of the period, and the bases for determining the period of continued decline are as follows:

The specific quantitative standard for the "serious" decline in fair value	At the end of the period, the decrease in fair value relative to cost has reached or exceeded 50%.
The specific quantification standard of "non-temporary" decline in fair value	It has fallen for 6 consecutive months.
Cost calculation method	At the time of acquisition, the sum of the payment consideration (deducting the cash dividend declared but not yet paid or the bond interest that has reached the interest payment period but not yet received) and related transaction costs are taken as the investment cost.
The method for determining the fair value at the end of the period	For financial instruments in an active market, the fair value is determined by the quotation in the active market; if there is no financial instrument in an active market, the fair value is determined by valuation.
Basis for determining the period of continued decline	Continuous declines or rebounds and rises less than 20% during the duration of the downward trend, and the duration of the rebound does not exceed 6 months are regarded as continuous declines.

4.10 Receivables

The Company's receivables mainly include notes receivable and accounts receivable, long-term receivables and other receivables. If there exists objective evidence on the balance sheet date that it

is impaired, the Company recognizes the impairment loss based on the difference between its carrying value and the present value of expected future cash flows.

4.10.1 Receivables with individually significant amount and individual provision for bad debt

Judgment basis or amount standard for individually significant amount	Amounts of more than 1 million yuan (inclusive).
Provision method for receivables with individually significant amount and individual provision for bad debt	The assessment for impairment is separately, and the provision for bad debts is made at the difference between its carrying amount and the present value of estimated future cash flows.

4.10.2 Receivables withdrawing bad debt provision by combination

Basis for determining the portfolios	Method of calculation	Basis of the combination
Associated parties' portfolios	No provision for bad debts	Group of related parties included in the consolidation scope
Risk-free portfolio	No provision for bad debts	According to the nature of the business, it is determined that there is no credit risk, which mainly includes the receivables from government, employees' reserve funds, security deposits and deposits
Aging portfolios	Aging analysis	Including accounts receivable other than the above combination, the company makes the best estimate of the proportion of accounts receivable based on past historical experience, and classifies the credit risk portfolio with reference to the aging of the accounts receivable
Balance percentage method combination	Percentage of balance	Ending balance of accounts receivable

4.10.2.1 In the portfolios, the aging analysis method is used to accrue bad debt provision as follows:

I. Pharmaceutical

Aging	Proportion of provision for account receivable (%)	Proportion of provision for other receivables (%)
Within 1 year	0.50	0.50
1-2 years	20.00	20.00
2-3 years	60.00	60.00
More than 3 years	100.00	100.00

II. Other

Aging	Proportion of provision for account receivable (%)	Proportion of provision for other receivables (%)
Within 1 year	1.00	1.00
1-2 years	20.00	20.00
2-3 years	40.00	40.00
More than 3 years	80.00	80.00

4.10.2.2 Withdrawing bad debt reserves by balance percentage method

Combination name	Proportion of provision for account receivable (%)	Proportion of provision for other receivables (%)
Coal chemical industry	6.00	6.00

4.10.3 Receivables with individually insignificant amount but with individual provision for bad debt

Reasons for individual provision for bad debts	Accounts receivable with an age of more than 3 years and there is objective evidence that they have been impaired.
Provision methods	For the accounts receivable with objective evidence that may be impaired, the impairment test shall be conducted separately, and the provision for bad debts shall be made based on the difference between the present value of its future cash flow and its carrying value.

4.11 Inventories

4.11.1 Categories of inventories

Inventories are the finished goods or commodities that the Company holds to sell, the work in progress in production process, and the material and goods consumed during the production process or service rendering process in daily operation. Inventories include raw materials, revolving materials (packaging materials and low-value consumables etc.), consigned processing materials, work in progress, self-manufactured semifinished product, and finished goods (commodities) etc.

4.11.2 Measurement of inventories upon delivery

Weighted average method is used to measure the actual costs of inventories upon delivery.

4.11.3 Provision for diminution in value of inventories

At each balance sheet date, inventories are measured at the lower of cost and net realisable value. When the cost of inventory exceeds its net realizable value, provision for diminution in value of inventories is recognised. The Company usually recognises provision for diminution in value of inventories on the basis of a single inventory item. For the inventory items of large quantity and low price, the Company recognises provision for diminution in value of inventories based on inventory categories.

4.11.4 Inventory count system

The Company adopts the perpetual inventory system.

4.11.5 Amortization methods of low-value consumables and packaging materials

Low-cost consumables and packaging materials are amortized by the once-off amortization method

4.12 Long-term equity investment

4.12.1 Determination of initial investment cost

Long-term equity investment acquired through a business combination: For a business combination involving enterprises under common control, the initial investment cost of a long-term equity investment is the holding share of the acquiree's equity in the ultimate controlling party's consolidated financial statements measured at the carrying amounts at the acquisition date. For a business combination not involving enterprises under common control, the initial investment cost of a long-term equity investment is the cost of acquisition determined at the date of acquisition. For a long-term equity investment acquired in cash, the initial investment cost is the amount of cash paid. For a long-term equity investment acquired by issuing equity securities, the initial investment cost is the fair value of the equity securities issued. For a long-term equity investment acquired by debt restructuring, the initial investment cost is determined according to related requirements of Accounting Standards for Business Enterprises No. 12- Debt Restructuring. For a long-term equity investment acquired by exchange of non-cash assets, the initial investment cost is determined according to related requirements of Accounting Standards for Business Enterprises No. 7- Exchange of Non-monetary Assets .

4.12.2 Subsequent measurement and recognition of profit or loss

Where the Company is able to exercise control over an investee, the long-term equity investment is accounted for using the cost method. Where the Company has investment in associates and joint ventures, the long-term equity investment is accounted for using the equity method. Where portion of the long-term equity investment in an associate is indirectly held through venture capital organizations, mutual funds, trust companies or similar entities including investment-linked insurance funds, regardless whether these entities can exercise significant influence on the investments, the Company treats the investment portion according to Accounting Standards for Business Enterprises No. 22- Financial Instrument Recognition and Measurement and accounts for the remaining portion using the equity method.

4.12.3 Basis for recognition of joint control or significant influence over an investee

Joint control of an investee is that the decision of activities that can significantly affect the arrangement's return must require the unanimous consent of the parties sharing control, including sale and purchase of goods or services, financial assets management, purchase and disposal of assets, research and development activity and financing activities etc. The Company holding of 20%-50%

voting capital of the investee presents it can exercise significant influence over the investee. The Company usually can exercise significant influence over the investee even its voting capital less than 20% if it can meet one of the following situations: a) Appointing representatives in the board of directors or similar governing body of the investee; b) Participating in the strategy and policy decision process; c) Delegating management personnel; d) The investee relying on the Company's technique or technical material; e) Significant transactions occur between the Company and the investee.

4.13 Investment property

Measured by cost value model:

Investment property refers to land use rights and buildings held to earn rent or capital appreciation, or both, including leased land use rights, land use rights held and ready to be transferred after appreciation, and leased buildings. In addition, for vacant buildings held by the company for operating leases, if the board of directors makes a written resolution stating that they will be used for operating leases and the holding intention will no longer change in the short term, they are also listed as investment property.

The company's investment property is valued at its cost. The cost of outsourcing investment property includes the purchase price, relevant taxes and other expenses directly attributable to the asset; the cost of self-built investment property is determined by the construction of investment property. The composition of the necessary expenditures incurred before the asset reaches the expected usable state.

The company adopts the cost model for subsequent measurement of investment property, and depreciates or amortizes buildings and land use rights based on their estimated service life and net residual value rate. The estimated service life, net residual value rate and annual depreciation (amortization) rate of investment property are listed as follows:

Category	Depreciation period (years)	Residual rate (%)	Annual depreciation rate (%)
Land use right	40-50	0.00	2.00-2.50
Buildings	20-30	5.00	3.17-4.75

When the use of investment property is changed to self-use, the company will convert the investment property into fixed assets or intangible assets from the date of change. When the purpose of self-use real estate is changed to earning rent or capital appreciation, the company will convert fixed assets or

intangible assets into investment property from the date of change. When a conversion occurs, the book value before the conversion is used as the entry value after the conversion.

On the balance sheet date, the company estimates the recoverable amount of investment property with signs of impairment. If the recoverable amount is lower than its book value, the corresponding impairment loss is recognized. Once the impairment loss of investment property is confirmed, it will not be reversed.

When an investment property is disposed of or is permanently withdrawn from use and it is expected that no economic benefits can be obtained from its disposal, the confirmation of the investment property shall be terminated. The amount of disposal income from the sale, transfer, scrapping or destruction of investment property after deducting its book value and relevant taxes shall be included in the current profit and loss.

4.14 Fixed assets

4.14.1 Recognition criteria for fixed assets

Fixed assets refer to tangible assets held for the purpose of producing commodities, services rendering, renting or business administration with useful lives exceeding one accounting year. Fixed assets can be recognised when the following criteria are met: a) It is probable that the economic benefits relating to the fixed assets will flow into the Company; and b) The costs of the fixed assets can be measured reliably.

4.14.2 Classification and depreciation method of fixed assets

The categories of fixed assets mainly include: Land assets, buildings, machinery & equipment, electronic equipment and transportation vehicles. The Company adopts the straight line method for depreciation. The useful life and residual value of an asset is assessed based on its nature and the manner of use. At the end of each financial year, the useful lives, residual values and the depreciation method are reviewed, and adjusted if there are variances with the original estimates. Other than fully depreciated assets which are still in use and land individually measured and recorded, depreciation is provided for all fixed assets.

Category	Depreciation period (years)	Residual rate (%)	Annual depreciation rate (%)
Land assets	No depreciation		
Buildings	20-50	5.00	1.90-4.75
Machinery & equipment	5-14	5.00	6.79-19.00

Category	Depreciation period (years)	Residual rate (%)	Annual depreciation rate (%)
Electronic equipment	3-5	5.00	19.00-31.67
Transportation vehicles	4-8	5.00	11.88-23.75
Others	3-5	5.00	19.00-31.67

4.14.3 Identification basis and pricing method of fixed assets leased by financing

Financing leased fixed assets is a lease that substantially transfers all risks and rewards related to asset ownership. The initial valuation of finance leased fixed assets is the lower of the fair value of the leased asset and the current value of the minimum lease payment on the beginning of the lease period; the subsequent valuation of the finance leased fixed assets adopts the depreciation policy consistent with its own fixed assets provision for depreciation and impairment.

4.15 Construction in progress

The construction in progress of the Company includes self-construction and sub-contracting construction. Construction in progress is transferred to fixed assets when it has reached the working condition for its intended use. The recognition criteria of intended use include any of the followings:

a) The tangible work of fixed assets (including installation) have been entirely or substantively completed; b) Trial production or trial operation has occurred whose outcome indicates the asset can be operated properly or manufacture quality product steadily; c) No expenditure or insignificant expenditure occur subsequently for the constructed asset; d) The constructed asset has achieved or substantively achieved the requirement of design or contract.

4.16 Borrowing costs

4.16.1 Recognition criteria for capitalization of borrowing costs

Borrowing costs are capitalized when they are directly attributable to the acquisition, construction or production of a qualifying asset and included in the cost of related assets. Other borrowing costs are recognised as expenses and recorded in profit or loss for the current period when incurred. Qualifying assets that meet conditions for capitalization are fixed assets, investment property, inventory or other assets that take a substantial period of time for construction or production in order to get ready for their intended use or sale.

4.16.2 Calculation of capitalization cost

Capitalization period refers to the period from commencement of capitalization of borrowing costs to its termination. The period during which capitalization is suspended is excluded. Capitalization of

borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is suspended abnormally and when the suspension is for a continuous period of more than 3 months.

For designated borrowings, the amount of interest to be capitalized is the actual interest expense incurred on that borrowing less any bank interest earned from unused funds of the designated borrowings or any investment income on the temporary investment of those funds. For funds borrowed for general purpose, the amount of interest to be capitalized on such borrowings is calculated by applying a capitalization rate to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of designated borrowings. Capitalization rate is determined by calculating weighted average interest rate of general borrowings. If there is any premium or discount of the borrowings, the interest cost shall be adjusted in every accounting period by the amortized amount of premium or discount calculating by effective interest method.

Effective interest method is the method to calculate the amortization amount of premium or discount or interest expenses by the effective interest rate of the borrowings. The effective interest rate is the interest rate to discount the future cash flow of the borrowing during its expected duration to the present carrying amount of the borrowing.

4.17 Intangible assets

4.17.1 The measurement of intangible assets

The intangible assets shall be initially measured according to its cost. Acquisition costs of intangible assets include purchase price and relevant expenditures. The invested cost of intangible assets contributed by investors shall be determined according to the conventional value in the investment contract or agreement, except for those of unfair value in the contract or agreement. If the conventional value in the investment contract or agreement is unfair, the costs of intangible assets shall be their fair value. The costs of internally generated intangible assets include the total development expenditures to bring the asset to its intended use.

The subsequent measurements for intangible assets are as follows: a) The intangible assets with definite useful life are amortized by straight line method and reviewed the useful life and amortization method at the end of each year. Any discrepancy between the review and initial

estimates shall be adjusted accordingly. b) The intangible assets with indefinite useful life are not amortized, and reviewed for the useful life at the end of each year. If there are objective evidence indicating their useful life is definite, the Company shall estimate the useful life of the intangible assets and amortize them by straight line method.

The amortization methods of intangible assets with limited service life are as follows:

Category	Useful years	Amortization methods
Software	5	Straight-line
Land use rights	45-50	Straight-line
Patent	5-10	Straight-line
Others	5-10	Straight-line

4.17.2 The assessment basis for indefinite useful life

Intangible assets without foreseeable period to bring economic benefits to the Company or with uncertain useful life are classified as intangible assets of indefinite life. The judgment basis for indefinite life includes: a) The legal rights are derived from contractual rights or other legal rights, however there is no explicit useful life indicated in the contracts or regulations; b) Although considering the industry practice or demonstration from related professionals comprehensively, the benefit period of the intangible assets still can't be decided.

At the end of each year, the Company reviews the intangible assets with indefinite useful life mainly using bottom-to-top approach. The related departments who use the intangible assets will perform a basic review and evaluate whether there are changes on the basis to determine indefinite useful life.

4.17.3 The specific criteria for research phase and development phase of internally generated projects, and the specific criteria for capitalization of expenditure incurred during development phase

Expenditures for the research phase of internal research and development projects are included in the current profit and loss when incurred; expenditures for the development phase meet the conditions for recognition as intangible assets and are transferred to intangible assets. If the following conditions are met at the same time, it is recognized as an intangible asset: a) It is technically feasible to complete the intangible asset so that it can be used or sold; b) There is the intention to complete the intangible asset and use or sell it; c) The ways in which intangible assets generate economic benefits include the ability to prove that the products produced by the intangible assets

exist in the market or the intangible assets themselves exist in the market. If the intangible assets will be used internally, they can prove their usefulness; d) There are sufficient technology and finance resources and other resource support to complete the development of the intangible asset and the ability to use or sell the intangible asset; e) The expenditure attributable to the development stage of the intangible asset can be reliably measured.

4.18 Impairment of long-term assets

At each balance sheet date, if there are impairment indications for the long-term assets including long-term equity investments, investment property subsequently measured at cost model, fixed assets, construction in progress, productive biological assets measured at cost, oil and gas assets, and intangible assets etc., the Company performs impairment test. If the outcome of impairment test indicates the recoverable amount of the asset is lower than its carrying amount, the Company recognises the provision for impairment based on the amount of the shortfall.

The recoverable amount of an asset is determined by the higher of the net amount after deducting the disposal costs from the asset's fair value and the present value of the asset's estimated future cash flow. The provision for impairment of asset is estimated and recognised on individual basis. If it is not possible to estimate the recoverable amount of the individual asset, the Company determines the recoverable amount of the asset group to which the asset belongs. The asset group is the minimum portfolio of assets that could generate cash inflow independently.

Impairment tests are conducted for goodwill presented in the financial statements separately at least at the end of every accounting year regardless whether there are impairment indications or not. The carrying amount of goodwill arising from business combinations is allocated to relevant asset groups or asset group portfolio. The related impairment loss is recognised if the impairment test indicates the recoverable amount of the asset groups or asset group portfolio embodied the goodwill is lower than their carrying amounts. The amount of impairment loss is firstly deducted from the carrying amount of goodwill embodied in the asset groups or asset group portfolio, then be deducted from the carrying amounts of other assets' based on the proportions of their carrying amounts in the asset group or asset groups portfolio.

The impairment losses of assets will not be reversed in subsequent periods once they are recognised.

4.19 Long-term deferred expenses

Long-term deferred expenses refer to expenses that have been paid but their benefit period is more than one year (excluding one year). Long-term deferred expenses will be amortized in the benefit periods. If one long-term deferred expense can't benefit the Company in the subsequent periods, the remaining balance of the long-term deferred expense shall be recognised as expense in profit or loss for the current period.

4.20 Employee benefits

Employee benefits refer to all forms of consideration or compensation given by the Company in exchange for service rendered by employees or for the termination of employment relationship. Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits.

4.20.1 Short-time employee benefits

In the accounting period in which employees have rendered services, the Company recognizes the employee benefits as liability, and charges to profit or loss for the current period, or includes in the cost of relevant assets in accordance with other accounting standards. Welfare benefit are charged to profit or loss for the current period or included in the cost of relevant assets when incurred. Welfare benefit in non-monetary forms is measured at fair value. In the accounting period in which employees have rendered services, the Company recognizes the social security contributions as liability according to regulations such as medical insurance, work injury insurance and maternity insurance as well as housing funds, and charges to profit or loss for the current period or includes in the cost of relevant assets.

4.20.2 Post-employment benefits

During the accounting period in which employees provide the service, the Company calculates the defined contribution plans payable according to the basis and percentage required by local government, recognised as the liability and charges to profit or loss for current period or includes in the cost of related assets. The Company attributes the obligation incurred by defined benefits plans using the projected accumulated benefit unit credit method to periods in which the employees rendered services and charges the obligation to profit or loss for the current period or includes in the cost of related assets.

4.20.3 Termination benefits

Termination benefits provided by the Company to employees are recognised as an employee benefit liability and charged to profit or loss for the current period at the earlier of the following dates: a) The Company cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment proposal; and b) When the Company recognizes costs or expenses related to the restructuring that involves the payment of termination benefits.

4.20.4 Other long-term employee benefits

If other long-term employee benefits provided by the Company to the employees meet the conditions for classifying as a defined contributions plan, those benefits are accounted for in accordance with the above requirements relating to defined contribution plan. Besides, net obligations or net assets of other long-term employee benefits are recognised and measured in accordance with the above requirements relating to defined benefits plan.

4.21 Provisions

A provision relating to contingency is recognised when: a) The obligation is a present obligation of the Company; b) It is probable that an outflow of economic benefits will be required to settle the obligation; c) The amount of the obligation can be measured reliably. Provisions are initially measured at the best estimate of the payment to settle the associated obligations. If there is a continuous range for the necessary expenses and probabilities of occurrence of all the outcomes within this range are equal, the best estimate is determined at the average amount of upper and lower limits within the range. If the contingency involves two or more items, the best estimate is determined according to all the possible outcomes with their relevant probabilities.

The Company reviews the carrying amounts of provisions at each balance sheet date, and if there are conclusive evidences that indicate the carrying amounts of provisions can't reflect the present best estimate of the payment, the carrying amounts of provisions will be adjusted to the present best estimate of the payment.

4.22 Share-based payment

The share-based payment can be distinguished into equity-settled and cash-settled share-based payment. Equity-settled share-based payment in exchange for services rendered by employees is measured at fair value of the equity instruments granted to the employees. If there exists an active market for options and other equity instruments granted by the Company, their fair value is

determined on the price quotes in the active market. If there does not exist an active market, the fair value shall be determined by valuation techniques, including referring to the recent market prices in an arm's length transaction between the knowledgeable and willing parties, the fair value of other financial instruments with the same substance, the discount cash flow method and option price model.

At each balance sheet date in the vesting period, the Company revises the number of equity instruments that will ultimately vest based on the best estimate of the latest number of eligible employees, the fulfillment of performance conditions and other subsequent information, and recognises the expenses in each accounting period accordingly. The share-based payment can be allocated among the accounting periods based on the vesting period's proportion of the whole vesting period in each accounting period if the share-based payment will be recognised in more than one accounting period.

4.23 Revenues

Sales of goods: When the following conditions are all satisfied, the revenue of sales of goods is recognized according to the amount of the contract or agreement price received or receivable from the buyer: a) The main risks and rewards are transferred to the buyer; b) Neither retains the continuing management rights normally associated with ownership, nor implements effective control over the goods sold; c) The amount of revenue can be reliably measured; d) Related economic benefits are likely to flow to the Company; e) The related costs that have occurred or will occur can be measured reliably.

Rendering of services: If the results of the service transactions can be reliably estimated on the balance sheet date, the revenue from the services shall be confirmed by the method of percentage of completion. The Company determines the completion percentage according to the proportion of actual costs to the total estimated cost. If the results of the service transaction provided on the balance sheet date cannot be reliably estimated, the following cases are dealt with: a) If the services cost incurred is expected to be compensated, the amount of the service cost is confirmed as the service revenue, and the service cost is carried forward at the same amount; b) If the service cost incurred is not expected to be compensated, the labor service cost incurred is included in the current profit or loss, and the service revenue is not recognized.

Revenue arising from use rights of other assets: The Company recognizes the transfer of asset use right revenue when the economic benefits related to the transfer of asset use right are likely to flow in and the amount of revenue can be measured reliably.

Asset transfer with repurchase conditions: When the company sells products or transfers other assets, it signs a repurchase agreement for the sold products or transfer assets with the purchaser, and determines whether the sales of goods meet the income recognition conditions according to the terms of the agreement. If the after-sales repurchase is a financing transaction, the company does not recognize sales revenue when delivering products or assets. The difference between the repurchase price and the sales price shall be accrued on schedule during the repurchase period and included in the financial expenses.

4.24 Government grants

4.24.1 Category and accounting treatment of government grants

Government grants are the monetary assets and non-monetary assets received from the government without consideration to be paid which are not including the capital injected by the government acted as an owner role. Government grants in the form of monetary assets are measured for the received or receivable amount, while government grants in the form of non-monetary assets are measured at fair value. When the fair value of non-monetary assets can't be obtained reliably, the government grants are measured at nominal amount.

Government grants related to the Company's routine operation will be recorded in other income based on the nature of its economic substance and government grants not related to the Company's routine operation will be recorded in non-operating income or expenses.

If the government documents explicitly state that the government grants will be used to establish or form long-term assets, the government grants will be classified as government grants related to assets. If there is no explicit subsidy object in the government document, the portion related to long-term assets will be classified as government grants related to assets and the rest portion will be classified as government grants related to income. If the category of a government grant can't be distinguished reasonably, all the government grant will be classified as government grants related to income. Government grants related to assets are recognised as deferred income which are amortized in profit or loss for each period over the related assets' estimated useful period on a systematic basis.

Except those grants which are classified as government grants related to assets, other government grants are classified as government grants related to income. If the grant related to income is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and amortized in profit or loss over the periods in which the related costs are recognised. If the grant related to income is a compensation for related expenses or losses already incurred, the grant is recognised directly in profit or loss for the current period.

When a bank receives the discount interest fund from the financial sector and then provides a loan to the Company with preferential interest rate, the Company accounts for the loan at the actual received amount and related interest expenses will be calculated based on the principal and the preferential interest rate. When the Company receives the discount interest fund from the financial sector directly, the discount interest fund will be deducted from related borrowing cost.

4.24.2 The recognition timing for government grants

The government grants will be recognised when the Company meets the accompanying conditions of the government grants which are entitled to be received. The receivable government grants will be recognised when there are conclusive evidence to indicate the Company could meet all related requirements of the government grants and the Company expects to receive the government grants in the future. Other government grants will be recognised when the grant fund is received.

4.25 Deferred tax asset and deferred tax liability

4.25.1 Temporary differences arising from the difference between the carrying amount of an asset or liability (asset or liability not recognised in balance sheet but the tax base is ascertained by the current tax laws and regulation, the tax base is the temporary difference) and its tax base are recognised as deferred tax calculating by the effective tax rate in the expected period to receive the asset or discharge the liability.

4.25.2 Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized and should be recognised for deductible loss or tax reduction that could be carried forward in subsequent periods to the extent that it is probable that taxable income will be available against which deductible loss or tax reduction can be utilized. If it is probable that sufficient taxable profits will not be available in future periods to allow the benefit of the deferred tax asset to be

utilized, the carrying amount of the deferred tax asset is reduced.

4.25.3 The taxable temporary differences associated with investments in subsidiaries and associates shall be recognised deferred tax liability; except the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The deductible temporary differences associated with investments in subsidiaries, associates, the corresponding deferred tax asset is recognised when it is probable that the temporary difference will reverse in the foreseeable future and it is probable that taxable profits will be available in the future against which the temporary difference can be utilized.

4.26 Leases

The leases are classified as financial leases and operating leases. A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a financial lease. The specific basis for determination is to satisfy one or more of the following conditions: When the lease term expires, the ownership of the leased asset is transferred to the lessee; The lessee has the option to purchase the leased asset, and the purchase price concluded is expected to be much lower than the fair value of the leased asset when the option is exercised, so it can be reasonably determined that the lessee will exercise this option on the lease start date; Even if the ownership of the asset is not transferred, the lease period accounts for the majority of the useful life of the leased asset; The present value of the minimum lease payment is almost equivalent to the fair value of the leased asset on the lease start date; The leased asset is of a special nature, and only the lessee can use it without major modification. Leases that do not satisfy the above conditions are recognized as operating leases.

The accounting treatment of the Company's leases is handled in accordance with the "Accounting Standards for Business Enterprises-Leasing".

4.27 Held-for-sale

Non-current assets or disposal groups are classified as held-for-sale assets when all the following conditions are met: a) the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups); b) the sale must be highly probable, i.e. the Company has signed an irrevocable transfer agreement with the transferee and the transfer is expected to be completed within one year. If related regulations require pre-approval for the sale, the sale transaction has been approved.

When non-current asset (or disposal group) classified as held for sale is initially measured or remeasured at each balance sheet date, if the book value of the non-current asset (or disposal group) is higher than its fair value, the difference will be deducted from the book value and recognised as impairment provision of held for sale in profit or loss of current period.

Non-current asset (or disposal group) classified as held-for-sale asset will be presented as held-for-sale assets and the liabilities in the disposal group will be presented as held-for-sale liabilities in the balance sheet.

4.28 Discontinued operations

A discontinued operation is a clearly distinguished component of an entity ,that either has been disposed of, or is classified as held for sale, and meets any of the following criteria:

- (a) represents a separate major line of business or geographical area of operations,
- (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or
- (c) is a subsidiary acquired exclusively with a view to resale.

5. Changes of significant accounting policies and accounting estimates

5.1 The changes of accounting policies and reason for change

5.1 The changes of accounting policies and reason for change

5.1.1 The Ministry of Finance released < Notice for amendments of financial statements format of industrial and commercial enterprises>(Caikuai (2019) No.6) (hereinafter referred to as "Financial Statements Format") in April of year 2019 and the enterprises who adopt Accounting Standards for Business Enterprises should prepare financial statements in according to Accounting Standards for Business Enterprises and the Notice.

5.1.2 The Ministry of Finance revised the Accounting Standards for Business Enterprises No.7- Exchange of Non-monetary Assets which was in effect from June 10, 2019. The exchanges of non-monetary assets occurred before January 1, 2019 were not retrospectively applied the revised standard and the exchanges of non-monetary assets occurred from January 1, 2019 to the enforcement date are required retrospective adjustment in accordance with the revised standard.

5.1.3 The Ministry of Finance revised the Accounting Standards for Business Enterprises No.12-

Restructuring of Debt which was in effect from June 17, 2019. The debt restructuring occurred before January 1, 2019 were not retrospectively applied the revised standard and the debt restructuring occurred from January 1, 2019 to the enforcement date are required retrospective adjustment in accordance with the revised standard.

5.2 The impact of accounting policies change

5.2.1 The application impact of revised Financial Statements Format

The Company has divided "Notes and accounts receivable" into two items of "Notes receivable" and "Accounts receivable" in accordance with the requirement of Financial Statements Format; and has divided "Notes and accounts payable" into two items of "Notes payable" and "Accounts payable". The Company retrospectively adjusted the comparative financial statements accordingly and the accounting policy change has no influence on the consolidated and the parent's net profit and on the shareholders' equity.

The impacts of this matter on the consolidated statement are as follows:

Items in consolidated financial statements	As at 31/12/2018	The amount affected	As at 31/1/2019
Notes receivable		1,446,177,335.51	1,446,177,335.51
Accounts receivable		1,134,746,864.79	1,134,746,864.79
Notes receivable and accounts receivable	2,580,924,200.30	-2,580,924,200.30	
Notes payable		839,336,932.70	839,336,932.70
Accounts payable		2,900,615,831.88	2,900,615,831.88
Notes payable and accounts payable	3,739,952,764.58	-3,739,952,764.58	
Deferred income	268,461,216.3	17,211,380.00	285,672,596.30
Other current liabilities	27,293,985.4	-17,211,380.00	10,082,605.40

5.2 Significant changes in accounting estimates

None.

5.3 Correction of prior accounting errors

None.

6. Taxes

6.1 Main taxes categories and tax rates

Tax category	Tax base	Tax rate
Value added tax	Domestic sales; provide processing, repair and repair services; import goods; provide tangible movable property leasing services	16%、13%

Notes to the Financial Statement
For the year ended December 31 2019
HUALU HOLDINGS CO.,LTD.

Tax category	Tax base	Tax rate
	Sell or import fertilizers	10%、9%
	Provide real estate leasing services ; sell real estate	10%、9%
	Other taxable sales services	6%
	Simple tax calculation method	5%、3%
Urban maintenance and construction tax	Turnover tax payable	7%
Educational surtax	Turnover tax payable	3%
Local educational surtax	Turnover tax payable	2%
Enterprise income tax	Taxable income	8.84%、15%、 16.5%、19%、20%、 21%、25%

Note: On March 21, 2019, the Ministry of Finance issued the "Announcement on Deepening the VAT Reform Policies". From April 1, 2019, VAT taxpayers have VAT taxable sales or imported goods applied with the 16% tax rate adjusted to 13% and if the 10% tax rate was originally applied, the tax rate is adjusted to 9%..

Income tax rates for different taxpayers:

Name of tax enterprise	Tax rate of income tax
HUALU HOLDINGS CO.,LTD.	25%
China Shandong Group Co., Ltd.	25%
China Shandong group limited	16.5%
Shandong Hualu-Hengsheng Group Co.,Ltd	25%
Huaru Investment Development Co., Ltd.	25%
Shandong Xinhua PharmaceuticalCo.,Ltd.	15%
Shandong Lukang Pharmaceutical Co.,Ltd.	15%
Shandong Lukang Zhonghe Environment Protection Technology Co., Ltd.	15%
Shandong Academy of Environmental Science Co.,Ltd	15%

6.2 Significant tax incentives and approval documents

Note 1: The subsidiary Shandong Xinhua PharmaceuticalCo.,Ltd. obtained the high-tech enterprise certificate numbered GR201737001056 on December 28, 2017, approved by Shandong Provincial Science and Technology Department, Shaandong Provincial Department of Finance and State Administration of Taxation Shaandong Provincial Taxation Bureau, valid for 3 years. During the reporting period, corporate income tax was implemented at a preferential tax rate of 15%.

Note 2: The subsidiary Shandong Lukang Pharmaceutical Co.,Ltd. obtained the high-tech enterprise certificate numbered GR201837002466 on November 30, 2018, approved by Shandong Provincial Science and Technology Department, Shaandong Provincial Department of Finance and State Administration of Taxation Shaandong Provincial Taxation Bureau, valid for 3 years. During the reporting period, corporate income tax was implemented at a preferential tax rate of 15%.

Note 3: The subsidiary Shandong Lukang Zhonghe Environment Protection Technology Co., Ltd. obtained the high-tech enterprise certificate numbered GR201837000342 on August 16, 2018, approved by Shandong Provincial

Science and Technology Department, Shaandong Provincial Department of Finance and State Administration of Taxation Shaandong Provincial Taxation Bureau, valid for 3 years. During the reporting period, corporate income tax was implemented at a preferential tax rate of 15%.

Note 4: The subsidiary Shandong Academy of Environmental Science Co.,Ltd obtained the high-tech enterprise certificate numbered GR201837000388 on November 30, 2018, approved by Shandong Provincial Science and Technology Department, Shaandong Provincial Department of Finance and State Administration of Taxation Shaandong Provincial Taxation Bureau, valid for 3 years. During the reporting period, corporate income tax was implemented at a preferential tax rate of 15%.

7. Business combination and consolidated financial statements

7.1 Sub-enterprises

Notes to the Financial Statement
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HUALU HOLDINGS CO.,LTD.

No.	Name of Subsidiaries	Level	Registration place	Business Nature	Paid-up capital ('10 thousand yuan)	Holding proportion (%)
1	China Shandong Group Co., Ltd.	2	Jinan	Trade	11,112.00	100.00
2	China Shandong group limited	2	Hong Kong	Trade	25,424.97	100.00
3	Shandong Hualu-Hengsheng Group Co.,Ltd	2	Dezhou	Chemical	10,117.06	100.00
4	Shandong Xinhua PharmaceuticalCo.,Ltd.	2	Zibo	Pharmaceutical	62,185.94	32.94
5	Shandong Lukang Pharmaceutical Co.,Ltd.	2	Jining	Pharmaceutical	88,022.97	21.12
6	Shandong Lukang Zhonghe Environment Protection Technology Co., Ltd.	2	Jining	Environmental Protection	5,000.00	60.00
7	Huaru Investment Development Co., Ltd.	2	Jinan	Investment Management	30,000.00	100.00
8	Shandong Academy of Environmental Science Co.,Ltd	2	Jinan	Environmental Protection	9,804.00	100.00

Note: The Group has 46 third-level subsidiaries and 5 fourth-level subsidiaries.

7.2 The original subsidiaries or structured entities that are no longer included in the scope of consolidation in current period

None.

7.3 Entities newly included in the scope of consolidation in the current period

None.

8. Notes to the consolidated financial statements

8.1 Cash at bank and on hand

Item	Balance as at 31/12/2019	Balance as at 1/1/2019
Cash on hand	357,451.35	380,004.23
Cash at bank	3,123,579,563.08	4,456,318,304.55
Other monetary funds	539,954,401.34	449,298,745.25
Total	3,663,891,415.77	4,905,997,054.03
Including: the total balance deposited overseas	127,109,069.93	659,085,969.15

Details of other monetary funds:

Item	Balance as at 31/12/2019	Balance as at 1/1/2019
The bank acceptance deposit	419,571,117.50	383,618,759.45
Performance bond	21,186,530.19	22,396,088.48
The letter of credit deposit	11,067,055.58	
Foreign exchange margin	50,000.00	1,453,484.04
Loans margin deposit	10,302,149.14	5,600,000.00
Deposited investment funds	30,070,553.86	23,487.16
Bank draft deposit		4,719,600.00
Frozen funds in bank deposits	1,270,006.00	
Regulated advance receipt for the sale of real estate	26,703,017.16	
Total	520,220,429.43	417,811,419.13

8.2 Financial assets measured at fair value through profit or loss for the current period

Item	Balance as at 31/12/2019	Balance as at 1/1/2019
Financial assets held for trading	1,151,280.00	1,047,960.00
Including: Equity instrument investment	1,151,280.00	1,047,960.00
Total	1,151,280.00	1,047,960.00

8.3 Notes receivable

Item	Balance as at 31/12/2019			Balance as at 1/1/2019		
	Balance	Allowance for credit losses	Carrying amount	Balance	Allowance for credit losses	Carrying amount
Bank acceptance bills	1,330,794,829.85		1,330,794,829.85	1,445,664,744.33		1,445,664,744.33
Trade acceptance bills	30,000.00		30,000.00	512,591.18		512,591.18
Total	1,330,824,829.85		1,330,824,829.85	1,446,177,335.51		1,446,177,335.51

8.4 Accounts receivable

8.4.1 Accounts receivable by category

Item	As at 31/12/2019			
	Balance		Allowance for credit losses	
	Amount	PCT (%)	Amount	ECL rate (%)
Account receivable of individually significant amount and with allowance for credit losses made on an individual basis	290,623,932.60	19.39	251,721,137.51	86.61
Account receivable withdrawing bad debt provision according to credit risk characteristic combination	1,194,263,188.43	79.67	236,836,230.43	19.83
Account receivable of individually insignificant amount and with allowance for credit losses made on an individual basis	14,022,892.61	0.94	10,322,844.61	73.61
Total	1,498,910,013.64	100.00	498,880,212.55	

Item	As at 1/1/2019			
	Balance		Allowance for credit losses	
	Amount	PCT (%)	Amount	ECL rate (%)
Account receivable of individually significant amount and with allowance for credit losses made on an individual basis	238,671,899.98	15.04	187,167,106.89	78.42
Account receivable withdrawing bad debt provision according to credit risk characteristic combination	1,288,405,184.41	81.20	208,107,043.21	16.15
Account receivable of individually insignificant amount and with allowance for credit losses made on an individual basis	59,705,417.24	3.76	56,761,486.74	95.07
Total	1,586,782,501.63	100.00	452,035,636.84	

8.4.1.1 Account receivable of individually significant amount and with allowance for credit losses made on an individual basis

Company name	Balance as at 31/12/2019	Balance of allowance for credit losses as at 31/12/2019	Aging	ECL rate(%)	Allowance reason
Shandong Yikang Pharmaceutical Co. LTD	2,100,397.26	2,100,397.26	More than 3 years	100.00	Expected to not be fully collectible
Shaanxi Lukang Pharmaceutical Co., LTD.	5,185,533.75	5,185,533.75	More than 3 years	100.00	Expected to not be fully collectible
Zhanjiang Mazhang Ruiping Pharmaceutical Co. LTD	3,862,140.80	3,862,140.80	More than 3 years	100.00	Expected to not be fully collectible
Anhui Province Taihe County Pharmaceutical Company pharmaceutical supply station	2,595,127.20	2,595,127.20	More than 3 years	100.00	Expected to not be fully collectible
Jinan Medical procurement and supply station of Shandong Province	2,519,913.40	2,519,913.40	More than 3 years	100.00	Expected to not be fully collectible
Shandong Jiuda Pharmaceutical Co. LTD	2,255,677.20	2,255,677.20	More than 3 years	100.00	Expected to not be fully collectible
Shandong Rui Traditional Chinese Medicine Co. LTD	2,248,893.40	2,248,893.40	More than 3 years	100.00	Expected to not be fully collectible
Tengzhou Minsheng Pharmaceutical Co. LTD	1,841,653.00	1,841,653.00	More than 3 years	100.00	Expected to not be fully collectible

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HUALU HOLDINGS CO.,LTD.

Company name	Balance as at 31/12/2019	Balance of allowance for credit losses as at 31/12/2019	Aging	ECL rate(%)	Allowance reason
Shandong Ecord Technology Development Co., LTD	1,820,966.09	1,820,966.09	More than 3 years	100.00	Expected to not be fully collectible
Dezhou Lukang Pharmaceutical Management Co. LTD	1,814,782.77	1,814,782.77	More than 3 years	100.00	Expected to not be fully collectible
Shandong Sanzheng Pharmaceutical Co. LTD	1,273,098.00	1,273,098.00	More than 3 years	100.00	Expected to not be fully collectible
Chengdu Jinniu District Pharmaceutical Corporation procurement and supply station	1,267,640.00	1,267,640.00	More than 3 years	100.00	Expected to not be fully collectible
Jinan Biochemical Medicine Corporation	1,227,238.08	1,227,238.08	More than 3 years	100.00	Expected to not be fully collectible
Shandong Province Heze medical station new special medicine	1,179,916.60	1,179,916.60	More than 3 years	100.00	Expected to not be fully collectible
Hunan Yin Hai Pharmaceutical Co. LTD	1,079,342.00	1,079,342.00	More than 3 years	100.00	Expected to not be fully collectible
Jinan Yongning Pharmaceutical Management Co. LTD	1,052,973.39	1,052,973.39	More than 3 years	100.00	Expected to not be fully collectible
Hainan Pharmaceutical Corporation Drug Wholesale Department	1,017,240.00	1,017,240.00	More than 3 years	100.00	Expected to not be fully collectible
Xi 'an Xinsen Pharmaceutical Co. LTD	1,008,954.70	1,008,954.70	More than 3 years	100.00	Expected to not be fully collectible
Lukang Three Leaf Company	3,483,864.28	3,483,864.28	More than 3 years	100.00	Expected to not be fully collectible
Lukang Import and Export Corporation	23,458,823.41	23,458,823.41	More than 3 years	100.00	Expected to not be fully collectible
Lukang Feed branch factory	3,736,688.52	3,736,688.52	More than 3 years	100.00	Expected to not be fully collectible
Shandong Quanlin Group Thermal Power Co. LTD	14,417,747.53	14,417,747.53	More than 3 years	100.00	Involved in appeal
Jinan Jinyuyuan Optoelectronics Co., LTD	1,970,760.00	1,970,760.00	More than 3 years	100.00	Expected to not be fully collectible
Shandong Shenghua MONOSodium glutamate Co. LTD	683,352.00	683,352.00	More than 3 years	100.00	Expected to not be fully collectible
Weifang Huaxiu Textile Co., LTD	27,722,951.61	27,722,951.61	More than 3 years	100.00	During the prosecution stage, there is a possibility that it cannot be recovered
China's economic and trade	3,138,973.50	3,138,973.50	More than 3 years	100.00	Historical reasons
BIO ASIA LIMITED	89,601,003.30	62,720,702.31	More than 3 years	70.00	Less likely to be recovered
LABIOFAM S.A CUBA	30,454,184.46	21,317,929.12	More than 3 years	70.00	Less likely to be recovered
Shandong Cupressaceae Biological Engineering Co. LTD	3,754,575.84	2,628,203.09	More than 3 years	70.00	Less likely to be recovered

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Company name	Balance as at 31/12/2019	Balance of allowance for credit losses as at 31/12/2019	Aging	ECL rate(%)	Allowance reason
Zhangqiu Xiuhui town people's government	1,780,374.14	1,780,374.14	More than 3 years	100.00	Expected to not be fully collectible
Others	51,069,146.37	49,309,280.36	More than 3 years	96.54	Less likely to be recovered
Total	290,623,932.60	251,721,137.51	—	—	—

8.4.1.2 Account receivable withdrawing bad debt provision according to credit risk characteristic combination

Group 1: Accounts receivable due from aging analysis :

Aging	As at 31/12/2019			As at 1/1/2019		
	Balance		Allowance for credit losses	Balance		Allowance for credit losses
	Amount	PCT(%)		Amount	PCT(%)	
Within 1 year	828,907,833.83	71.60	2,708,823.51	1,062,499,812.78	84.14	111,026,212.01
1-2 years	191,590,035.70	16.55	131,623,621.83	113,123,385.89	8.96	23,666,602.16
2-3 years	63,876,148.67	5.52	30,247,228.03	15,208,990.60	1.20	5,366,901.95
More than 3 years	73,257,452.55	6.33	70,058,654.00	71,973,630.46	5.70	66,555,088.94
Total	1,157,631,470.75	100.00	234,638,327.37	1,262,805,819.73	100.00	206,614,805.06

Group2: Accounts receivable due from the balance percentage method :

Combination name	As at 31/12/2019			As at 1/1/2019		
	Balance	ECL rate(%)	Allowance for credit losses	Balance	ECL rate(%)	Allowance for credit losses
Coal chemical industry	36,631,717.68	6.00	2,197,903.06	24,870,635.89	6.00	1,492,238.15
Total	36,631,717.68	6.00	2,197,903.06	24,870,635.89	6.00	1,492,238.15

8.4.1.3 Account receivable of individually insignificant amount and with allowance for credit losses made on an individual basis

Company name	Balance as at 31/12/2019	Balance of allowance for credit losses as at 31/12/2019	Aging	ECL rate(%)	Allowance reason
Zhucheng Huaxin Casting Co. LTD	497,000.00	497,000.00	More than 3 years	100.00	Expected to be uncollectible
Weishan Island Tourism development Co. LTD	385,000.00	385,000.00	More than 3 years	100.00	Expected to be uncollectible
Yangshuo County Gaotian Town people's government	373,996.61	373,996.61	More than 3 years	100.00	Expected to be uncollectible
Shandong Expressway Co., LTD	300,000.00	300,000.00	More than 3 years	100.00	Expected to be uncollectible
Tai'an Training Center	295,492.75	295,492.75	More than 3 years	100.00	Expected to be uncollectible
People's Government of Yangshuo Town, Yangshuo County	265,651.25	265,651.25	More than 3 years	100.00	Expected to be uncollectible

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Company name	Balance as at 31/12/2019	Balance of allowance for credit losses as at 31/12/2019	Aging	ECL rate(%)	Allowance reason
Heze Coal Administration Bureau	650,000.00	520,000.00	More than 3 years	80.00	Less likely to be recovered
Shandong new Julong Energy Co. LTD	400,000.00	320,000.00	More than 3 years	80.00	Less likely to be recovered
Zhangqiu Guanzhuang Town government	390,085.55	390,085.55	More than 3 years	100.00	Expected to be uncollectible
Others	10,465,666.45	6,975,618.45	More than 3 years	66.65	Less likely to be recovered
Total	14,022,892.61	10,322,844.61	—	—	—

8.4.2 Accounts receivable due from the top five debtors of the Company are as follows:

Company name	Balance as at 31/12/2019	Percentage in total accounts receivable (%)	Balance of allowance for credit losses as at 31/12/2019
BIO ASIA LIMITED	89,601,003.30	5.98	62,720,702.31
Jiangsu Yabaite Technology Co., Ltd.	42,638,560.00	2.84	21,319,280.00
Shandong Xinkangqi Pharmaceutical Co. LTD	40,405,087.51	2.70	40,405,087.51
Fujian Rongding Industrial Co., LTD	40,000,000.00	2.67	40,000,000.00
Fujian Zhibao Trading Co., LTD	40,000,000.00	2.67	40,000,000.00
Total	252,644,650.81	16.86	204,445,069.82

8.5 Prepayments

8.5.1 Aging analysis of prepayments

Aging	As at 31/12/2019			As at 1/1/2019		
	Balance		Allowance for credit losses	Balance		Allowance for credit losses
	Amount	PCT(%)		Amount	PCT(%)	
Within 1 year	171,123,515.45	67.55	2,408.69	278,086,291.42	76.62	11,008.41
1-2 years	11,597,567.81	4.58		9,351,124.83	2.58	
2-3 years	6,291,940.30	2.48		16,338,011.01	4.50	13,424,195.18
More than 3 years	64,333,838.01	25.39	59,233,409.09	59,137,434.34	16.30	54,912,064.07
Total	253,346,861.57	100.00	59,235,817.78	362,912,861.60	100.00	68,347,267.66

The prepayments with aging more than 1 year

Creditor name	Debtor name	Balance as at 31/12/2019	Aging	Reasons for outstanding balance
China Shandong Group Co., Ltd.	Huanyuan County Tongjin Mining Co. LTD	40,330,807.72	More than 3 years	Involved in appeal
China Shandong Group Co., Ltd.	Shandong Shunhe Economic and trade Co. LTD	8,098,012.62	More than 3 years	Involved in appeal
China Shandong Group Co., Ltd.	Shandong Sedan Chair Gao Trading Co., LTD	5,558,195.18	More than 3 years	Involved in appeal
Shandong Academy of	Jinan Meiyada Environmental Protection	2,291,402.15	2-3 years	The

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Creditor name	Debtor name	Balance as at 31/12/2019	Aging	Reasons for outstanding balance
Environmental Science Co.,Ltd	Technology Co., LTD			settlement period has not expired
Shandong Lukang Zhonghe Environment Protection Technology Co., Ltd.	Jinan Hefang Liyuan Environmental Protection Technology Co., LTD	1,963,530.00	Within 1 year	The settlement period has not expired
Total		58,241,947.67		

8.5.2 The top five prepayments are as follows:

Company name	Balance as at 31/12/2019	Percentage in total prepayment(%)	Balance of allowance for credit losses as at 31/12/2019
Huanyuan County Tongjin Mining Co. LTD	40,330,807.72	15.92	40,330,807.72
Pingdingshan Jinhui Chemical Technology Service Co. LTD	25,272,000.00	9.98	
Yangquan Coal Group Shouyang Coal Sales Co. LTD	11,164,632.26	4.41	
Marubeni (Shanghai) Co. LTD	10,465,400.00	4.13	
Shandong Shunhe Economic and trade Co. LTD	8,098,012.62	3.20	8,098,012.62
Total	95,330,852.60	37.64	48,428,820.34

8.6 Other receivables

Category	Balance as at 31/12/2019	Balance as at 1/1/2019
Interest receivable	3,093,149.49	6,301,558.46
Dividends receivable	29,660.75	
Other receivables	838,398,108.29	881,699,410.11
Total	841,520,918.53	888,000,968.57

8.6.1 Interest receivable

Category	Balance as at 31/12/2019	Balance as at 1/1/2019
Fixed-term deposits	25,000.00	6,253,476.27
Bond investments	3,068,149.49	
Others		48,082.19
Total	3,093,149.49	6,301,558.46

8.6.2 Other receivables

Item	As at 31/12/2019			
	Balance		Allowance for credit losses	
	Amount	PCT (%)	Amount	ECL rate (%)
Other receivable of individually significant amount and with allowance for credit losses made on an individual basis	254,329,103.95	21.22	229,076,048.15	90.07
Other receivable withdrawing bad debt provision according to credit risk characteristic combination	929,503,428.34	77.55	116,358,375.85	12.52

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Item	As at 31/12/2019			
	Balance		Allowance for credit losses	
	Amount	PCT (%)	Amount	ECL rate (%)
Other receivable of individually insignificant amount and with allowance for credit losses made on an individual basis	14,703,184.38	1.23	14,703,184.38	100.00
Total	1,198,535,716.67	100.00	360,137,608.38	

Item	As at 1/1/2019			
	Balance		Allowance for credit losses	
	Amount	PCT (%)	Amount	ECL rate (%)
Other receivable of individually significant amount and with allowance for credit losses made on an individual basis	200,858,989.74	16.33	200,858,989.74	100.00
Other receivable withdrawing bad debt provision according to credit risk characteristic combination	1,021,548,355.62	83.07	139,848,945.51	13.69
Other receivable of individually insignificant amount and with allowance for credit losses made on an individual basis	7,378,151.09	0.60	7,378,151.09	100.00
Total	1,229,785,496.45	100.00	348,086,086.34	

8.6.2.1 Other receivable of individually significant amount and with allowance for credit losses made on an individual basis

Debtor name	Balance as at 31/12/2019	Balance of allowance for credit losses as at 31/12/2019	Aging	ECL rate(%)	Allowance reason
Pang Da Automobile Trade Group Co. LTD	99,500,000.00	74,246,944.20	2-3 years	74.62	Losses from debt restructuring
Hong Kong baofeng limited	5,043,848.63	5,043,848.63	More than 3 years	100.00	Insolvency
Shandong Guangyuan Hydrocarbon Energy Co. LTD	72,346,344.35	72,346,344.35	More than 3 years	100.00	Involved in appeal
Xiaoyi Blue Sea coal Industry Co. LTD	56,076,027.50	56,076,027.50	More than 3 years	100.00	Involved in appeal
Shandong Sino Coal Sales Co. LTD	9,386,487.68	9,386,487.68	More than 3 years	100.00	Involved in appeal
People's Court of Quyang County, Hebei Province	9,900,000.00	9,900,000.00	More than 3 years	100.00	Involved in appeal
Transfer of undeductible customs invoices and overdue input tax	2,076,395.79	2,076,395.79	More than 3 years	100.00	Expected to be uncollectible
Total	254,329,103.95	229,076,048.15	—	—	—

8.6.2.2 Other receivable withdrawing bad debt provision according to credit risk characteristic combination

Group 1: Other receivable due from aging analysis :

Aging	As at 31/12/2019			As at 1/1/2019		
	Balance		Allowance for credit losses	Balance		Allowance for credit losses
	Amount	PCT(%)		Amount	PCT(%)	
Within 1 year	26,195,170.02	16.61	826,148.45	792,291,268.68	85.16	13,053,099.87
1-2 years	12,253,554.04	7.77	1,308,436.42	6,139,494.93	0.66	1,013,554.65
2-3 years	2,722,413.43	1.73	1,463,491.32	1,650,996.03	0.18	642,551.83
More than 3 years	116,522,247.79	73.89	112,759,099.66	130,262,312.20	14.00	125,098,993.93
Total	157,693,385.28	100.00	116,357,175.85	930,344,071.84	100.00	139,808,200.28

Group2: Other receivable due from the balance percentage method:

Combination name	As at 31/12/2019			As at 1/1/2019		
	Balance	ECL rate(%)	Allowance for credit losses	Balance	ECL rate(%)	Allowance for credit losses
Coal chemical industry	20,000.00	6.00	1,200.00	679,087.20	6.00	40,745.23
Total	20,000.00	6.00	1,200.00	679,087.20	6.00	40,745.23

Group3: Other receivable due from other combination methods :

Combination name	As at 31/12/2019			As at 1/1/2019		
	Balance	PCT(%)	Allowance for credit losses	Balance	PCT(%)	Allowance for credit losses
Related party combination	69,114,697.26	8.96		4,740,024.18	5.24	
Risk-free combinatio	702,675,345.80	91.04		85,785,172.40	94.76	
Total	771,790,043.06	100.00		90,525,196.58	100.00	

8.6.2.3 Other receivable of individually insignificant amount and with allowance for credit losses made on an individual basis

Debtor name	Balance	Balance of allowance for credit losses as at 31/12/2019	Aging	ECL rate(%)	Allowance reason
Shandong Xinqu International Logistics Co., LTD	1,143,776.35	1,143,776.35	More than 3 years	100.00	Expected to be uncollectible
Dezhou Zhongran City Gas Development Co. LTD	743,918.10	743,918.10	More than 3 years	100.00	Expected to be uncollectible
Yangquan Nanzhuang Coal Group Co. LTD	405,087.28	405,087.28	More than 3 years	100.00	Expected to be uncollectible
Jinmei Jizhou Yin Hai Fertilizer Co. LTD	180,723.30	180,723.30	More than 3 years	100.00	Expected to be uncollectible
Provincial Department of Environmental Protection agency Service Center	300,000.00	300,000.00	More than 3 years	100.00	Expected to be uncollectible
Employee dormitory building loan	270,183.44	270,183.44	More than 3 years	100.00	Expected to be uncollectible
Shandong Luyuan Environmental Protection Engineering Development	150,000.00	150,000.00	More than 3 years	100.00	Expected to be uncollectible

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Debtor name	Balance	Balance of allowance for credit losses as at 31/12/2019	Aging	ECL rate(%)	Allowance reason
Center					
Others	11,509,495.91	11,509,495.91	More than 3 years	100.00	Expected to be uncollectible
Total	14,703,184.38	14,703,184.38	—	—	—

8.6.2.4 Other receivables due from the top five debtors are as follows:

Debtor name	Nature of balance	Balance as at 31/12/2019	Aging	Percentage in total other receivables(%)	Balance of allowance for credit losses as at 31/12/2019
Shandong Finance investment Group Co. LTD	Current account	690,000,000.00	1-2 years	57.57	
Zibo City Land Reserve Trading Center	Land payment	24,530,500.00	1-2 years	2.05	
Shandong Guangyuan Hydrocarbon Energy Co. LTD	Payment	72,346,344.35	More than 3 years	6.04	72,346,344.35
Xiaoyi City Blue sea coal industry Co. LTD	Payment	56,076,027.50	More than 3 years	4.68	56,076,027.50
Ping An International Financial Leasing Co., Ltd.	Deposit	10,000,000.00	1-2 years	0.83	
Total	—	852,952,871.85	—	71.17	128,422,371.85

8.7 Inventories

Category	As at 31/12/2019			As at 1/1/2019		
	Book balance	Provision for diminution in value	Carrying amount	Book balance	Provision for diminution in value	Carrying amount
Raw materials	602,278,569.23	15,416,792.46	586,861,776.77	546,135,933.97	13,326,699.49	532,809,234.48
Self-manufactured semifinished product and work in progress	337,724,058.96	31,587,694.17	306,136,364.79	350,177,698.17	15,979,951.31	334,197,746.86
Finished goods	1,308,427,636.13	86,474,655.07	1,221,952,981.06	1,475,890,926.13	76,886,159.45	1,399,004,766.68
Revolving materials	17,911,282.92	1,402,845.60	16,508,437.32	16,380,374.63	1,402,845.60	14,977,529.03
Project construction (completed but unsettled payment)	64,092,647.65		64,092,647.65	80,036,307.19		80,036,307.19
Others	267,406,925.25	2,162,806.30	265,244,118.95	133,116,749.33		133,116,749.33
Total	2,597,841,120.14	137,044,793.60	2,460,796,326.54	2,601,737,989.42	107,595,655.85	2,494,142,333.57

8.8 Non-current assets due within one year

Item	Balance as at 31/12/2019	Balance as at 1/1/2019
Finance lease payments due within one year	470,047,409.09	901,019,436.83

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Item	Balance as at 31/12/2019	Balance as at 1/1/2019
Long-term deferred expenses that will be amortized within one year	183,333.19	200,000.04
Entrusted loan due within one year		98,000,000.00
Total	470,230,742.28	999,219,436.87

8.9 Other current assets

Item	Balance as at 31/12/2019	Balance as at 1/1/2019
Advanced payment of taxes	49,476,759.81	34,451,081.08
To be deducted Vat input tax	143,507,144.69	208,582,589.57
Structured deposits	1,403,487,336.76	1,340,000,000.00
Others		5,141,023.24
Total	1,596,471,241.26	1,588,174,693.89

8.10 Available-for-sale financial assets

Item	As at 31/12/2019			As at 1/1/2019		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Available-for-sale equity instruments	907,629,175.69	25,322,934.27	882,306,241.42	238,294,613.19	26,122,934.27	212,171,678.92
Including:						
Measured at fair value	242,953,096.00		242,953,096.00	194,734,352.75		194,734,352.75
Measured at cost	664,676,079.69	25,322,934.27	639,353,145.42	43,560,260.44	26,122,934.27	17,437,326.17
Total	907,629,175.69	25,322,934.27	882,306,241.42	238,294,613.19	26,122,934.27	212,171,678.92

8.10.1 Available-for-sale financial assets measured at fair value

Category of available-for-sale financial assets	Available-for-sale equity instrument	Total
Cost of equity instrument/ amortized cost of debt instrument	20,121,608.22	20,121,608.22
Fair value	242,953,096.00	242,953,096.00
Accumulated change amount of fair value in other comprehensive income	222,831,487.78	222,831,487.78

8.11 Held to maturity investment

Item	As at 31/12/2019			As at 1/1/2019		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Subordinated debt held by asset securitization				78,000,000.00		78,000,000.00
Shandong Sea Group dollar bonds	48,506,299.19		48,506,299.19			

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Item	As at 31/12/2019			As at 1/1/2019		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Wendeng Weihai dollar bonds	35,100,000.00		35,100,000.00			
Shan Steel Group dollar bonds	49,140,000.00		49,140,000.00			
Lushang Group dollar bonds	35,438,646.58		35,438,646.58			
Bank of Qingdao Preference Shares	48,593,876.48		48,593,876.48	34,320,000.00		34,320,000.00
Shandong Guohui dollar bonds				34,320,000.00		34,320,000.00
Total	216,778,822.25		216,778,822.25	146,640,000.00		146,640,000.00

8.12 Long-term receivables

Item	As at 31/12/2019			As at 1/1/2019		
	Balance	Allowance for credit losses	Carrying amount	Balance	Allowance for credit losses	Carrying amount
Finance Leases	327,107,164.40	84,332,178.39	242,774,986.01	726,522,571.89	67,365,753.25	659,156,818.64
Including: Unrealized finance income	49,934,764.80		49,934,764.80	119,801,991.91		119,801,991.91
Others	447,408,914.78		447,408,914.78	256,343,616.98		256,343,616.98
Total	774,516,079.18	84,332,178.39	690,183,900.79	982,866,188.87	67,365,753.25	915,500,435.62

8.13 Long-term equity investment

Item	As at 1/1/2019	Additions	Reductions	As at 12/31/2019
Investment to joint associates	73,859,934.02	98,698.99	20,426,141.30	53,532,491.71
Subtotal	73,859,934.02	98,698.99	20,426,141.30	53,532,491.71
Less: provision for impairment of long-term equity investment	3,882,999.22			3,882,999.22
Total	69,976,934.80	98,698.99	20,426,141.30	49,649,492.49

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Investee	Cost of investment	Balance as at 1/1/2019	Movement during the financial year							Balance as at 31/12/2019	Provision for impairment as at 31/12/2019
			Addition of investment	Reduction of investment	Investment income/loss recognised under the equity method	Adjustment of OCI	Changes of other equity	Cash dividend or profit announced to be issued	Provision for impairment		
Associates											
Hualu Yellow River Delta (Ningxia) Equity Investment Fund (limited Partnership)	4,725,000.00	4,763,077.47			-2,953.41					4,760,124.06	
Cansheng Pharmaceutical (Zibo) Co., Ltd.	28,320,086.33	46,724,157.31			-2,355,147.75					44,467,708.55	
Lukang America Pharmaceuticals Ltd	3,882,999.22	3,882,999.22								3,882,999.22	3,882,999.22
Shandong Huachuang Real Estate Co. LTD	4,500,000.00				-3,429,135.02			-13,642,425.00		421,659.88	
Hualu Mingshi (Shandong) Investment Management Co., LTD	4,725,000.00	996,480.12		996,480.12							
Total	42,478,085.55	73,859,934.02		996,480.12	-5,787,236.18			-13,642,425.00		53,532,491.71	3,882,999.22

8.14 Investment property

Item	Balance as at 1/1/2019	Additions	Reductions	Balance as at 31/12/2019
I. Cost	489,398,177.22	25,742,685.27	3,222,073.84	511,918,788.65
Including: Buildings	475,108,157.53	19,513,518.72	3,053,778.78	491,567,897.47
Land use rights	14,290,019.69	6,229,166.55	168,295.06	20,350,891.18
II. Accumulated depreciation or amortization	170,418,888.74	17,331,027.84	1,438,931.94	186,310,984.64
Including: Buildings	167,600,228.47	15,180,328.54	1,364,321.20	181,416,235.81
Land use rights	2,818,660.27	2,150,699.30	74,610.74	4,894,748.83
III. Provision for impairment				-
Including: Buildings				
Land use rights				
IV. Carrying amount	318,979,288.48			325,607,804.01
Including: Buildings	307,507,929.06			310,151,661.66
Land use rights	11,471,359.42			15,456,142.35

8.15 Fixed assets

Category	Balance as at 31/12/2019	Balance as at 1/1/2019
Fixed assets	17,645,948,810.06	18,274,412,053.10
Disposal of fixed assets	8,174,491.47	7,915,068.05
Total	17,654,123,301.53	18,282,327,121.15

8.15.1 Movement of fixed assets

Item	Balance as at 1/1/2019	Additions	Reductions	Balance as at 31/12/2019
I. Cost	29,427,063,704.10	1,400,897,627.62	880,797,636.07	29,947,163,695.65
Including: Land assets	18,697,178.69	716,886.38		19,414,065.07
Buildings	5,498,766,833.46	794,934,655.87	264,887,186.26	6,028,814,303.07
Machinery & equipment	22,888,554,906.41	460,018,744.51	588,195,306.52	22,760,378,344.40
Transportation vehicles	161,868,048.60	40,266,383.95	24,382,537.53	177,751,895.02
Electronic equipment	842,005,380.45	96,079,312.29	3,033,512.40	935,051,180.34
Office equipment	3,329,837.33	4,640,723.64	122,068.16	7,848,492.81
Others	13,841,519.16	4,240,920.98	177,025.20	17,905,414.94
II. Accumulated depreciation	11,119,083,724.00	1,840,281,917.87	691,057,879.47	12,268,307,762.40
Including: Land assets				—
Buildings	1,528,621,502.44	226,459,585.10	201,621,940.91	1,553,459,146.63
Machinery & equipment	8,972,378,766.50	1,481,890,867.64	464,631,748.80	9,989,637,885.34
Transportation vehicles	93,182,237.79	24,887,771.36	22,365,263.09	95,704,746.06
Electronic equipment	511,509,825.71	103,146,807.91	2,154,786.50	612,501,847.12

Notes to the Financial Statement
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Item	Balance as at 1/1/2019	Additions	Reductions	Balance as at 31/12/2019
Office equipment	2,901,414.58	2,866,655.21	115,966.23	5,652,103.56
Others	10,489,976.98	1,030,230.65	168,173.94	11,352,033.69
III. Provision for impairment				32,907,123.19
Including: Land assets				—
Buildings	5,048,429.55	90,508.16	897,747.60	4,241,190.11
Machinery & equipment	27,755,913.62	1,021,824.84	149,552.03	28,628,186.43
Transportation vehicles				
Electronic equipment	37,880.60		133.95	37,746.65
Office equipment				
Others	725,703.23		725,703.23	
IV. Carrying amount	18,274,412,053.10			17,645,948,810.06
Including: Land assets	18,697,178.69			19,414,065.07
Buildings	3,965,096,901.47			4,471,113,966.33
Machinery & equipment	13,888,420,226.29			12,742,112,272.63
Transportation vehicles	68,685,810.81			82,047,148.96
Electronic equipment	330,457,674.14			322,511,586.57
Office equipment	428,422.75			2,196,389.25
Others	2,625,838.95			6,553,381.25

8.15.2 Disposal of fixed assets

Item	Balance as at 31/12/2019	Balance as at 1/1/2019	Reasons for transfer to cleanup
Buildings	510,765.93	806,737.79	Loss of production capacity
Machinery & equipment	7,660,490.18	7,085,679.54	Backward technology, high energy consumption
Electronic equipment	3,070.36	22,384.60	Loss of production capacity
Others	165.00	266.12	Loss of production capacity
Total	8,174,491.47	7,915,068.05	

8.16 Construction in process

Category	As at 31/12/2019			As at 1/1/2019		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Projects constructed in process	1,558,074,632.63	1,368,000.00	1,556,706,632.63	817,591,747.71	4,118,000.00	813,473,747.71
Construction materials	56,246,591.21		56,246,591.21	36,487,094.12		36,487,094.12
Total	1,614,321,223.84	1,368,000.00	1,612,953,223.84	854,078,841.83	4,118,000.00	849,960,841.83

8.16.1 Movement of significant construction in progress

Project name	Budget	As at 1/1/2019	Additions	Transfer to fixed assets	Other reductions	As at 31/12/2019
High-end pharmaceutical preparation project	639,656,900.00	65,586,014.55	93,990,795.53	78,044,798.71		81,532,011.37
Biomedical Recycling Industrial Park Project	1,416,310,000.00	198,339,663.22	406,453,628.72	304,715,274.75		300,078,017.19
High-end biological veterinary drug project	561,911,020.65	42,025,882.16	238,540,153.92	57,054,342.69		223,511,693.39
High-end new pharmaceutical preparation industrialization project injection workshop	212,340,000.00		12,253,088.39			12,253,088.39
Solid preparation international processing technology transformation project	174,290,000.00	45,553,288.45	20,307,729.99	476,660.06		65,384,358.38
Wastewater Treatment (RTO) Project of the First Branch	16,000,000.00		3,011,348.35			3,011,348.35
Wastewater Treatment (RTO) Project of the Second Branch	17,000,000.00		2,520,686.28			2,520,686.28
Preparation Workshop II of Modern Medicine International Cooperation Center	350,890,000.00	64,952,288.21	122,803,773.80			187,756,062.01
Refined Adipic Acid Quality Improvement Project	1,572,000,000.00		81,344,440.14			81,344,440.14
New amide and nylon material project (300,000 tons/year)	4,980,000,000.00		80,262,651.01			80,262,651.01
Total	7,467,910,000.00	416,457,136.59	1,061,488,296.13	440,291,076.21		1,045,747,440.06

8.16.2 Construction materials

Item	Balance as at 31/12/2019	Balance as at 1/1/2019
Special materials	3,194,914.73	
Construction materials	53,051,676.48	36,487,094.12
Total	56,246,591.21	36,487,094.12

8.17 Intangible assets

Item	Balance as at 1/1/2019	Additions	Reductions	Balance as at 31/12/2019
I. Cost	1,677,811,157.22	679,653,405.25	15,521,490.95	2,341,943,071.52
Including: Software	33,842,346.70	5,818,200.59		39,660,547.29
Land use rights	1,487,273,183.62	663,443,865.57	15,478,289.75	2,135,238,759.44
Patent rights	3,870,524.66	20,754.71		3,891,279.37
Non-Patent techniques	112,517,929.05	8,948,396.14		121,466,325.19
Trademark rights	19,456,412.21	1,341,509.44		20,797,921.65
Franchise	18,192,636.54	80,678.80		18,273,315.34
Others	2,658,124.44		43,201.20	2,614,923.24
II. Accumulated depreciation	350,557,173.64	44,477,814.68	5,962,313.55	389,072,674.77
Including: Software	23,237,212.94	3,532,769.87		26,769,982.81
Land use rights	219,797,089.68	35,237,758.38	5,919,112.35	249,115,735.71
Patent rights	3,778,857.96	10,648.56		3,789,506.52
Non-Patent techniques	86,324,729.76	4,661,722.51		90,986,452.27
Trademark rights	13,093,500.56	426,895.70		13,520,396.26
Franchise	1,667,658.30	608,019.66		2,275,677.96
Others	2,658,124.44		43,201.20	2,614,923.24
III. Provision for impairment	13,274,992.20	187,868.69		13,462,860.89
Including: Software	15,107.90			15,107.90
Land use rights				
Patent rights				
Non-Patent techniques	6,896,972.65	187,868.69		7,084,841.34
Trademark rights	6,362,911.65			6,362,911.65
Franchise				
Others				
IV. Carrying amount	1,313,978,991.38			1,939,407,535.86
Including: Software	10,590,025.86			12,875,456.58
Land use rights	1,267,476,093.94			1,886,123,023.73
Patent rights	91,666.70			101,772.85
Non-Patent techniques	19,296,226.64			23,395,031.58

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Item	Balance as at 1/1/2019	Additions	Reductions	Balance as at 31/12/2019
Trademark rights				914,613.74
Franchise	16,524,978.24			15,997,637.38
Others				

8.18 Development expenditures

Project	Balance as at 1/1/2019	Additions		Reductions			Balance as at 31/12/2019
		Internally development expenditures	Others	Recognised as intangible assets	Profit or loss	Others	
Ezetimibe Simvastatin Tablets	720,000.00				720,000.00		
Febuxostat, Febuxostat tablets	750,000.00						750,000.00
Parecoxib sodium raw material and freeze-dried powder injection	2,763,973.54	2,000,000.00					4,763,973.54
Cefmenoxime hydrochloride raw materials and powder injections	1,600,000.00						1,600,000.00
Memantine Hydrochloride/Donepezil Sustained Release Capsules	1,800,000.00						1,800,000.00
Ticagrelor raw materials and tablets	2,615,094.29	2,460,377.31					5,075,471.60
Dapagliflozin raw materials and tablets	6,213,207.50	2,801,006.53					9,014,214.03
GF-Process Development	27,743,196.50	17,407,169.68		10,289,905.58	1,080,000.00		33,780,460.60
ST-Process Development	16,338,266.12	8,404,864.30					24,743,130.42
DD-Process Development	1,022,652.09	193,224.43					1,215,876.52
Rosuvastatin calcium tablets	900,000.00	2,990,269.56					3,890,269.56
Celecoxib raw materials and capsules	1,260,000.00						1,260,000.00
Esomeprazole sodium and freeze-dried powder injection	1,929,056.60						1,929,056.60
Tenofovir disoproxil fumarate and tablets	1,200,000.00				1,200,000.00		
Apixaban raw materials and tablets	1,215,000.00						1,215,000.00
Y-JYSTFTB project	1,380,000.00						1,380,000.00
CIGB-814 project		37,509,683.27					37,509,683.27
Aprepitant and capsules (specifications: 80mg, 125mg) commissioned to develop		2,520,000.00					2,520,000.00
R&D of Acarbose Tablets		6,056,603.58					6,056,603.58
CMS203 non-clinical safety evaluation study		814,150.96					814,150.96

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Project	Balance as at 1/1/2019	Additions		Reductions			Balance as at 31/12/2019
		Internally development expenditures	Others	Recognised as intangible assets	Profit or loss	Others	
Study on the Expression and Secretion Technology of Long-acting Insulin Glargine by Filamentous Fungi		200,000.00					200,000.00
TRN-157	717,304.50	6,615,700.00					7,333,004.50
Total	70,167,751.14	89,973,049.62		10,289,905.58	3,000,000.00		146,850,895.18

8.19 Long-term deferred expenses

Item	Balance as at 1/1/2019	Additions	Amortization	Other reductions	Balance as at 31/12/2019
Financing service expense	11,526,208.42		3,984,874.95		7,541,333.47
Product certification expense	561,367.31		548,370.99		12,996.32
Asset decoration expense		8,451,484.64	960,346.60		7,491,138.04
Zoucheng office building renovation	365,048.55	401,850.47	120,682.85		646,216.17
Environmental protection R&D base 3# workshop usage expense	14,268,292.70		365,853.66		13,902,439.04
Company qualification expense		779,985.46	156,286.27		623,699.19
Compensation expenses and water rights for agricultural irrigation facilities	63,333,333.44		9,999,999.96		53,333,333.48
Laboratory upgrade project	2,654,724.09			2,654,724.09	
Registered Power Engineer Technical Service Agreement	119,637.29		119,637.29		
Technical Service Agreement of Registered Water Supply and Drainage Engineer	133,348.09		133,348.09		
Sulfur-tolerant shift catalyst	1,837,037.03		1,837,037.03		
Securities rating expenses	229,982.06		229,982.06		
Securitization service expenses	5,568.46		5,568.46		
Medium-term note underwriting expenses	183,333.19		183,333.19		
Total	95,217,880.63	9,633,320.57	18,645,321.40	2,654,724.09	83,551,155.71

8.20 Deferred tax assets and deferred tax liabilities

8.20.1 Deferred tax assets and deferred tax liabilities before offsetting

Item	As at 31/12/2019	As at 1/1/2019
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Notes to the Financial Statement
For the year ended December 31, 2019
HUALU HOLDINGS CO.,LTD.

	Deferred tax assets or liabilities	Deductible or taxable temporary differences	Deferred tax assets or liabilities	Deductible or taxable temporary differences
Deferred tax assets:				
Provisions for impairment of assets	158,719,773.76	763,172,615.41	101,458,803.98	460,023,327.05
Start-up expense	3,675,029.53	24,500,196.88	3,675,029.54	24,500,196.88
Deductible loss	21,522,322.64	119,122,444.36	19,100,834.85	102,242,392.35
Accrued expenses	713,552.91	4,150,137.73	229,308.58	917,234.32
Unrealized internal profits from purchases and sales with subsidiaries	10,328,642.74	50,757,806.42	6,493,030.87	38,077,696.91
Changes in the fair value of financial assets that are measured at fair value and whose changes are included in the current profit and loss			8,766,163.88	35,064,655.55
Deferred income				
Share-based payment				
Others	6,899,332.99	45,995,553.25	3,829,070.88	15,316,283.52
Sub-total	201,858,654.57	1,007,698,754.05	143,552,242.58	676,141,786.58
Deferred tax liabilities:				
Changes in fair value of the financial assets recognised in other comprehensive income	34,160,554.71	115,923,737.01	34,466,266.42	229,775,109.47
Depreciation of fixed assets	44,782,974.61	276,663,044.71	22,464,960.06	149,766,400.40
Valuation of trading financial instruments and derivative financial instruments			730,396.31	2,921,585.24
Provision for impairment of fixed assets			-2,447,018.36	-16,313,455.73
Bad debt provision			-1,739,555.29	-11,597,035.27
Inventory impairment			-6,956,620.51	-46,377,470.07
Unpaid wages and salaries			-400,149.75	-2,667,665.00
Estimated liabilities and others			-2,840,801.46	-18,938,676.40
Deferred income			-2,694,237.50	-17,961,583.33
Sub-total	78,943,529.32	392,586,781.72	40,583,239.92	268,607,209.31

8.21 Other non-current assets

Item	Balance as at 31/12/2019	Balance as at 1/1/2019
Prepayments for land, projects and equipments and other long-term assets	1,242,946,435.74	661,660,221.42
Advanced payment of taxes	1,840,536.78	
Unrealized sale and leaseback gains and losses	11,426,380.96	14,137,300.38
Others		50,817,540.59
Total	1,256,213,353.48	726,615,062.39

8.22 Short-term loans

Notes to the Financial Statement
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Borrowing condition	Balance as at 31/12/2019	Balance as at 1/1/2019
Secured loans	209,891,000.00	173,410,400.00
Guarantee loans	906,200,000.00	790,000,000.00
Loans on credit	691,000,000.00	506,583,000.00
Total	1,807,091,000.00	1,469,993,400.00

8.23 Notes payable

Item	Balance as at 31/12/2019	Balance as at 1/1/2019
Bank acceptance notes	926,785,863.77	839,336,932.70
Total	926,785,863.77	839,336,932.70

8.24 Accounts payable

Item	Balance as at 31/12/2019	Balance as at 1/1/2019
Within 1 year (including 1 year)	1,817,789,843.61	2,536,247,160.67
1-2 years (including 2 year)	283,798,166.98	235,848,839.44
2-3 years (including 3 year)	39,239,402.77	31,996,178.99
More than 3 years	67,296,236.75	96,523,652.78
Total	2,208,123,650.11	2,900,615,831.88

8.24.1 Significant accounts payable with aging over 1 year

Creditor Name	Balance as at 31/12/2019	Reason for outstanding repayment
SHANXI GUOYANG NEW ENERGY CO., LTD	7,441,703.39	he settlement period has not expired
Dezhou Branch of Heilongjiang Thermal Power Third Engineering Company	5,688,014.98	he settlement period has not expired
Kunpeng Municipal Engineering Co., LTD	6,732,321.22	he settlement period has not expired
Shandong Hetai Municipal Engineering Co., LTD	4,420,000.00	he settlement period has not expired
Guangzhou Zike Environment Co., Ltd	2,909,830.52	he settlement period has not expired
Total	27,191,870.11	—

8.25 Advances from customers

Item	Balance as at 31/12/2019	Balance as at 1/1/2019
Within 1 year (inclusive, the same below)	756,819,154.33	737,517,204.01
More than 1 years	227,442,505.85	151,426,195.63
Total	984,261,660.18	888,943,399.64

8.25.1 Significant advances from customers with aging over 1 year

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HUALU HOLDINGS CO.,LTD.

Creditor Name	Balance as at 31/12/2019	Reasons for not carried forward
Huantai County Environmental Protection Bureau	13,235,336.54	The settlement period has not expired
CAMPOR TECHNOLOGIES HOLDINGS INC	4,217,696.00	The settlement period has not expired
Shandong Botong New Energy Co. LTD	910,000.00	The settlement period has not expired
Construction Administration Bureau of sediment Disposal and Ecological restoration Demonstration Project in Yishui Section of Yishui River	844,260.00	The settlement period has not expired
Yantai Mingyuan Environmental Protection Assessment consulting Co. LTD	800,000.00	The settlement period has not expired
Total	20,007,292.54	—

8.26 Employee benefits payable

8.26.1 Employee benefits payable

Item	As at 1/1/2019	Accrued	Paid	As at 31/12/2019
I. Short-term employee benefits	226,105,944.76	2,148,456,890.82	2,131,778,668.39	242,784,167.19
II. Post-employment benefits—defined contribution plans	6,016,819.86	275,860,069.52	281,325,467.26	551,422.12
III. Termination benefits		3,028,337.03	3,028,337.03	
Total	232,122,764.62	2,427,345,297.37	2,416,132,472.68	243,335,589.31

8.26.2 Details of the short-term employee benefits

Item	As at 1/1/2019	Accrued	Paid	As at 31/12/2019
Salaries, bonus, and allowances	105,089,544.42	1,723,203,941.75	1,715,794,521.81	112,498,964.36
Staff welfare	25,428,065.73	89,472,123.75	90,522,486.98	24,377,702.50
Social insurances	116,177.53	117,351,554.48	116,765,094.49	702,637.52
Including: Medical insurance	53,031.82	96,995,518.16	96,995,188.40	53,361.58
Work injury insurance	24,181.65	8,820,881.16	8,841,350.90	3,711.91
Maternity insurance	26,615.27	10,652,997.41	10,652,997.44	26,615.24
Others	12,348.79	882,157.75	275,557.75	618,948.79
Housing Fund	1,433,062.90	134,398,591.67	135,751,772.57	79,882.00
Union funds and employee education fee	94,039,094.18	46,907,167.78	35,933,281.15	105,012,980.81
Others		37,123,511.39	37,011,511.39	112,000.00
Total	226,105,944.76	2,148,456,890.82	2,131,778,668.39	242,784,167.19

8.26.3 Defined contribution plans

Item	As at 1/1/2019	Accrued	Paid	As at 31/12/2019
Primary endowment insurance	810,479.97	223,051,293.73	223,345,218.57	516,555.13
Unemployment insurance	7,042.34	9,456,394.19	9,456,394.11	7,042.42
Pension insurance	5,199,297.55	43,352,381.60	48,523,854.58	27,824.57

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Item	As at 1/1/2019	Accrued	Paid	As at 31/12/2019
Total	6,016,819.86	275,860,069.52	281,325,467.26	551,422.12

8.27 Taxes and surcharges payable

Category	Balance as at 31/12/2019	Balance as at 1/1/2019
Value added tax	70,533,487.21	44,420,126.88
Consumption tax		214,695.99
Resource tax	4,927,624.80	9,843,134.00
Enterprise income tax	116,168,403.57	285,469,573.81
Urban maintenance and construction tax	6,297,578.10	7,229,710.10
Estate tax	12,250,488.43	10,639,693.15
Land use tax	8,840,275.93	15,856,192.28
Individual income tax	13,140,790.85	7,066,788.74
Educational surtax	2,975,591.16	4,954,850.98
Local educational surtax	1,528,101.03	210,877.40
Water conservancy construction fund	452,405.01	171,353.77
Other taxes and surcharges	4,229,424.26	6,028,750.39
Total	241,344,170.35	392,105,747.49

8.28 Other payables

Category	Balance as at 31/12/2019	Balance as at 1/1/2019
Interest payable	46,797,799.42	52,951,943.47
Dividends payable	9,181,222.34	7,500,316.85
Other payables	933,404,145.41	957,684,640.25
Total	989,383,167.17	1,018,136,900.57

8.28.1 Interest payable

Category	Balance as at 31/12/2019	Balance as at 1/1/2019
Interest for long-term loans	1,382,162.03	1,477,506.34
Interest on corporate bonds	16,372,382.84	15,404,764.52
Interest payable for short-term loans	27,629,872.49	33,363,063.12
Others	1,413,382.06	2,706,609.49
Total	46,797,799.42	52,951,943.47

8.28.2 Dividends payable

Notes to the Financial Statement
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HUALU HOLDINGS CO.,LTD.

Category	Balance as at 31/12/2019	Balance as at 1/1/2019
Dividends for common shares	9,181,222.34	7,500,316.85
Total	9,181,222.34	7,500,316.85

8.28.3 Other payables

8.28.3.1 Other payables by nature

Nature	Balance as at 31/12/2019	Balance as at 1/1/2019
Warranty	60,600.00	3,641,600.00
Deposit and guaranteed deposit	249,666,345.42	107,790,194.70
Collection	1,336,813.91	4,790,469.08
Borrowing from non-financial institutions	1,900,000.00	174,739,000.00
Accrued expenses	122,722,444.36	102,242,392.35
Current accountt	74,190,336.92	146,678,075.66
Restricted stock repurchase obligations	54,691,200.00	80,185,600.00
Payable for engineering equipment	257,147,251.13	214,263,791.15
Others	171,689,153.67	123,353,517.31
Total	933,404,145.41	957,684,640.25

8.28.3.2 Significant other payables aging over 1 year:

Creditor Name	Balance as at 31/12/2019	Reason for unsettled
Changle Shengshi Thermal Power Co. LTD	5,665,000.00	The settlement period has not expired
Kunming Kunchuan Logistics Information Industry Co., LTD	4,000,000.00	The settlement period has not expired
Shandong Fengyuan Tongda Electric Power Co. LTD	1,690,000.00	The settlement period has not expired
Jingxian Guangsha Real Estate Development Co. LTD	1,588,657.10	The settlement period has not expired
Zibo Biomedical Research Institute, Shandong University	1,000,000.00	The settlement period has not expired
Total	13,943,657.10	—

8.29 Non-current liabilities due within one year

Item	Balance as at 31/12/2019	Balance as at 1/1/2019
Long-term loans due within one year	1,590,667,156.87	2,485,670,431.58
Long-term bonds due within one year	1,600,000,000.00	
Long-term payables due within one year	87,699,409.35	203,516,347.96
Other non-current liabilities due within one year	588,504.00	124,872,000.20
Total	3,278,955,070.22	2,814,058,779.74

8.30 Other current liabilities

Item	Balance as at 31/12/2019	Balance as at 1/1/2019
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Notes to the Financial Statement
For the year ended December 31 2019
HUALU HOLDINGS CO.,LTD.

Item	Balance as at 31/12/2019	Balance as at 1/1/2019
Deferred income	4,980,873.51	4,134,422.16
Unrealized sale and leaseback gains and losses		5,948,183.24
Total	4,980,873.51	10,082,605.40

8.31 Long-term loans

Borrowing condition	Balance as at 31/12/2019	Balance as at 1/1/2019
Secured loans		62,324,844.05
Guarantee loans	1,573,617,961.43	2,978,063,418.61
Loans on credit	534,109,008.96	903,790,113.60
Total	2,107,726,970.39	3,944,178,376.26

8.32 Bonds payable

Item	Balance as at 31/12/2019	Balance as at 1/1/2019
15 Hualu Holdings MTN001		300,000,000.00
Corporate bonds		1,300,000,000.00
Total		1,600,000,000.00

8.32.1 Movement of bonds payable (excluding other financial instruments like preference shares, perpetual loans etc.)

Bond name	Par value	Issue date	Bond period	Issue amount
15 Hualu Holdings MTN001	300,000,000.00			300,000,000.00
Corporate bonds	1,300,000,000.00			1,300,000,000.00
Total	1,600,000,000.00			1,600,000,000.00

Movement of bonds payable (Continued)

Bond name	Balance as at 1/1/2019	Issue in current period	Interest accrued on par value	Amortization of premium or discount	Repayment	Other decrease	Balance as at 31/12/2019
15 Hualu Holdings MTN001	300,000,000.00					-300,000,000.00	
Corporate bonds	1,300,000,000.00					-1,300,000,000.00	
Total	1,600,000,000.00					-1,600,000,000.00	

8.33 Long term accounts payable

Nature	As at 31/12/2019	As at 1/1/2019
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Notes to the Financial Statement
For the year ended December 31, 2019
HUALU HOLDINGS CO., LTD.

Nature	As at 31/12/2019	As at 1/1/2019
Long term payables	277,274,627.09	383,381,908.52
Special payables	347,884,599.96	115,412,529.85
Total	625,159,227.05	498,794,438.37

8.33.1 Long-term payables according to the nature of the payment

Item	As at 31/12/2019	As at 1/1/2019
Finance lease payable	105,130,175.63	194,619,729.83
Shandong Zhengfang Industrial Development Co. LTD	121,857,705.00	121,857,705.00
Sale and leaseback payment	50,286,746.46	66,904,473.69
Total	277,274,627.09	383,381,908.52

8.33.2 The ending balance of large-amount special payables

Item	Balance as at 1/1/2019	Accrued	Paid	Balance as at 1/1/2019
Overall relocation compensation	96,790,000.00	241,990,000.00		338,780,000.00
State-owned capital operating budget expenditure	4,000,000.00			4,000,000.00
Medical reserve funds	2,000,000.00			2,000,000.00
League of Nations ODS Project	955,261.86	404,826.00	420,040.79	940,047.07
Development and engineering demonstration of nanocomposite material-separation membrane combined process for high-salt and high-organic wastewater treatment and resource recovery	643,713.00		105,559.50	538,153.50
Total	115,412,529.85	242,394,826.00	9,922,755.89	347,884,599.96

8.34 Provisions

Item	As at 31/12/2019	As at 1/1/2019
Guarantees for third parties	20,750,786.02	20,750,786.02
Restructuring obligations	24,500,196.88	24,500,196.88
Total	45,250,982.90	45,250,982.90

Note1: Explanation of external guarantee: In 1997, in accordance with the relevant merger policy requirements of the Zibo Municipal Government, Shandong Xinhua Pharmaceutical Group Co., Ltd. ("Xinhua Group"), the subsidiary company of the Company, successively merged three loss-making enterprises including Shandong Zibo Acid Plant, Zibo Dongfeng Chemical Plant, and Shandong Dongda Group, and had undertaken corresponding bank loan guarantee responsibilities for the aforementioned three enterprises. Among them, the Zibo Dongfeng Chemical Plant (later changed to Shandong Xinhua Dongfeng Chemical Company), which Xinhua Group merged on March 31, 2003, provided 4 bank loan guarantees and assumed joint guarantee responsibilities. The principal amount of the four borrowings was RMB 12.91 million. As of December 31, 2009, the accumulated interest owed was RMB 6,633,800, and the total principal and interest amounted to RMB 19,550,800. The above guarantee contracts have all expired, and the bank collects the arrears through notarized delivery every year, and requires the company to perform the guarantee responsibilities.

Notes to the Financial Statement
For the year ended December 31, 2019
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Note2:Description of the reorganization obligation: The Company's subsidiary, the Academy of Environmental Sciences, was originally an institution under the Shandong Provincial Environmental Protection Department. In 2016, according to the Shandong Provincial Environmental Protection Department's "Request for Adjustment of the Shandong Provincial Environmental Protection Research and Design Institute Transformation Plan" (Luhuanfa [2016] No. 44) and the Shandong Provincial People's Government "Approval of the Approval of the Transformation of Shandong Provincial Environmental Protection Research and Design Institute into a State-owned Enterprise" (Luzhengzi [2016] No. 90) documents, it began to be transformed into a state-owned enterprise. According to the number of retirees, internal retired persons, resignation and the number of persons who choose to enter the enterprise, the expected wages, social insurance premiums and economic compensations to be assumed are included in the estimated liabilities-restructuring obligation as the cost of the transformation of a public institution into a state-owned enterprise.

8.35 Deferred income

Item	As at 1/1/2019	Increase	Decrease	As at 31/12/2019
Government grants	238,928,224.04	31,405,328.90	35,807,507.91	234,526,045.03
Expansion fee	46,744,372.26	16,257,712.44	10,262,581.26	52,739,503.44
Total	285,672,596.30	47,663,041.34	46,070,089.17	287,265,548.47

8.35.1 Deferred income from government grants

Item	Related to assets/income	Balance as at 1/1/2019	Increase	Recorded in profit or loss for current period	Other movement	Balance as at 31/12/2019
"Three-supply and one industry" separation and transfer of subsidy funds	Related to income		6,697,700.00	6,540,380.00		157,320.00
Environmental protection equipment subsidy	Related to assets	6,421,285.73		250,000.00	638,761.90	5,532,523.83
Technology Special Fund	Related to assets	1,378,716.24		376.72	321,085.07	1,057,254.45
Support enterprise development funds	Related to assets	34,903,165.42			3,487,455.11	31,415,710.31
Special funds for the development of emerging industries and key industries	Related to assets	474,186.18			200,000.00	274,186.18
Special funds for regional strategy promotion	Related to assets	2,700,000.00		228,352.85	150,000.00	2,321,647.15
VOCS waste gas treatment project subsidy	Related to assets		2,570,000.00	45,892.86	183,571.43	2,340,535.71
Special funds for the construction of	Related to assets	10,000,000.00				10,000,000.00

Notes to the Financial Statement
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Item	Related to assets/income	Balance as at 1/1/2019	Increase	Recorded in profit or loss for current period	Other movement	Balance as at 31/12/2019
scientific and technological innovation platforms						
Technology Center Innovation Capacity Building Project	Related to assets	1,833,333.32		500,000.00		1,333,333.32
GMP transformation project of aspirin series products	Related to assets	4,766,583.33		1,217,000.00		3,549,583.33
Cultivation of Aspirin Famous and High-quality Medicine Varieties	Related to assets	7,062,500.00		1,575,000.00		5,487,500.00
Special funds for MVR energy-saving renovation	Related to assets	2,640,000.00		480,000.00		2,160,000.00
Comprehensive air pollution prevention and control project for the recovery of methylene chloride and other organic gases	Related to assets	35,313,250.00		3,561,000.00		31,752,250.00
Modern Medicine International Cooperation Center Project	Related to assets	68,715,062.50	5,459,500.00	7,288,712.50		66,885,850.00
Dongyuan 2000m3/day sewage treatment system new construction project	Related to assets	3,969,500.00		467,000.00		3,502,500.00
Modern Chemical Medicine Industrialization Center (II) Project	Related to assets	2,249,297.50		254,630.00		1,994,667.50
Xinhua Pharmaceutical E-commerce Health Innovation Industrial Park Project	Related to assets	1,034,333.34		107,000.00		927,333.34
Hormone series product technological transformation project	Related to assets	5,667,245.83		588,000.00		5,079,245.83

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Item	Related to assets/income	Balance as at 1/1/2019	Increase	Recorded in profit or loss for current period	Other movement	Balance as at 31/12/2019
Research and industrialization project of polycarbophil calcium and tablets	Related to assets	2,975,000.00	360,000.00	336,000.00		2,999,000.00
Aspirin Technical Transformation Project	Related to assets	3,800,000.00		400,000.00		3,400,000.00
High-tech Zone Medical and Health Industry Support Project	Related to assets		737,833.00	2,617.56		735,215.44
Caffeine green key technology and continuous system construction project	Related to assets		1,600,000.00			1,600,000.00
Equipment government subsidies	Related to assets		5,714,000.00	95,233.32		5,618,766.68
2019 Provincial Science and Technology Innovation Development Fund (Engineering Technology Research Center of Science and Technology Base)	Related to income		1,000,000.00			1,000,000.00
Subsidy funds for enterprise restructuring	Related to income		3,830,000.00	2,419,527.22		1,410,472.78
Government subsidies for the renovation of heating pipe networks in old communities	Related to assets	24,316,666.68		2,150,000.04		22,166,666.64
Special funds for oxo synthesis project	Related to assets	1,379,464.26		160,714.29		1,218,749.97
Special fund for flue gas desulfurization renovation project	Related to assets	1,428,571.44		142,857.14		1,285,714.30
Special funds for upgrading traditional industries and comprehensive utilization of cleaner	Related to assets	3,547,500.00		276,428.57		3,271,071.43

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HUALU HOLDINGS CO.,LTD.

Item	Related to assets/income	Balance as at 1/1/2019	Increase	Recorded in profit or loss for current period	Other movement	Balance as at 31/12/2019
production						
Special Funds for Air Pollution Prevention and Control	Related to income	6,871,428.57		528,571.43		6,342,857.14
Air Pollution Comprehensive Solution Sub-project	Related to income		1,096,295.90	278,839.90		817,456.00
R&D and engineering demonstration of oily sludge radiant thermal cracking resource utilization technology	Related to income		2,240,000.00			2,240,000.00
Others	Related to assets	5,481,133.70		832,500.00		4,648,633.70
Total		238,928,224.04	31,305,328.90	30,726,634.40	4,980,873.51	234,526,045.03

8.36 Other non-current liabilities

Item	As at 31/12/2019	As at 1/1/2019
Authorized reserve fund	3,561,500.00	3,561,500.00
Unrealized sale and leaseback gains and losses		9,903,532.11
Total	3,561,500.00	13,465,032.11

8.37 Share capital

Item	Balance as at 1/1/2019		Increase	Decrease	Balance as at 31/12/2019	
	Investment amount	Proportion (%)			Investment amount	Proportion (%)
State-owned Assets Supervision and Administration Commission of Shandong People's Government	1,835,700,000.00	61.19			1,835,700,000.00	59.16
Social Security Fund Council of Shandong Province	786,600,000.00	26.22		524,400,000.00	262,200,000.00	8.45
Shandong Finance investment Group Co. LTD	377,700,000.00	12.59			377,700,000.00	12.17
Shandong Development Investment Holding Group Co. LTD			103,000,000.00		103,000,000.00	3.32
Shandong Guohui Investment Co. LTD			524,400,000.00		524,400,000.00	16.90
Total	3,000,000,000.00	100.00	627,400,000.00	524,400,000.00	3,103,000,000.00	100.00

8.38 Capital reserve

Category	Balance as at 1/1/2019	Increase	Decrease	Balance as at 31/12/2019
I . Share premiums	761,173,482.01	237,000,000.00		998,173,482.01
II . Other capital reserve	31,479,025.81	5,525,142.21		37,004,168.02
Total	792,652,507.82	242,525,142.21		1,035,177,650.03

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8.39 Other comprehensive income

Item	Balance as at 1/1/2019	Movement in the year					Balance as at 31/12/2020
		Amount before tax	Less: OCI in prior periods transfer in profit or loss for the current period	Less: income tax	Amount after tax attributable to the Company	Amount after tax attributable to minority interests	
OCI items which will be reclassified subsequently to profit or loss Including: gains and losses from changes in fair value of available-for-sale financial assets							76,605,578.34
	68,587,042.58	-11,993,927.85		5,926,548.73			50,666,566.00
Translation differences from translation of foreign currency financial statements	22,764,904.08	3,174,108.26					25,939,012.34
Total of OCI	91,351,946.66	-8,819,819.59		5,926,548.73			76,605,578.34

8.40 Special reserve

Category	Balance as at 1/1/2019	Increase	Decrease	Balance as at 31/12/2019
Safety costs	1,757,562.47	40,673,433.83	40,398,734.14	2,032,262.16
Total	1,757,562.47	40,673,433.83	40,398,734.14	2,032,262.16

8.41 Surplus reserve

Category	Balance as at 1/1/2019	Increase	Decrease	Balance as at 31/12/2019
Statutory surplus reserve	976,466.87	19,149,283.54		20,125,750.41
Total	976,466.87	19,149,283.54		20,125,750.41

8.42 Retained earnings

Item	As at 31/12/2019	Appropriation proportion
Retained earnings as at 1/1/2019	3,399,967,750.62	
Add: Net profit attributable to the Company during the year	1,037,570,838.88	
Less: Appropriation of statutory surplus reserve	19,149,283.54	10%
Common share dividends payable	86,706,700.00	
Others		
Retained earnings as at 31/12/2019	4,331,682,605.96	

8.43 Operating income and operating costs

Item	Year ended 31/12/2019		Year ended 31/12/2018	
	Income	Costs	Income	Costs
I . Primary operating business	24,304,791,439.68	17,288,813,695.48	23,610,562,452.49	16,398,190,849.79
Chemical industry	10,347,647,222.15	7,641,770,759.33	11,329,906,593.02	7,580,703,197.60
fertilizer	3,671,692,511.18	2,439,566,653.98	2,926,266,370.02	2,102,752,385.82
preparation	5,501,736,781.79	3,716,117,992.04	2,213,078,367.19	1,507,324,760.63
Raw materials	3,081,327,295.30	2,068,191,100.25	2,114,030,019.44	1,489,312,632.83
Pharmaceutical intermediates and others	625,461,666.74	529,684,150.29	632,887,509.22	557,177,034.25
Technical Services	607,989,299.04	491,041,347.81	560,638,593.14	419,341,703.01
Thermoelectric	139,638,068.07	154,304,717.26	155,291,830.60	193,852,651.28
Finance lease income	82,197,840.20	64,350,568.73	156,219,196.75	120,266,315.16
Trade income	66,284,696.45	59,489,442.95	187,033,276.00	182,345,468.84
Others	180,816,058.76	124,296,962.84	3,335,210,697.11	2,245,114,700.37
II. Other operating business	405,686,528.10	331,583,289.76	371,109,540.87	336,575,049.01
Lease income	28,508,014.30	2,892,894.03	25,527,341.01	7,450,132.70

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Item	Year ended 31/12/2019		Year ended 31/12/2018	
	Income	Costs	Income	Costs
Others	377,178,513.80	328,690,395.73	345,582,199.86	329,124,916.31
Total	24,710,477,967.78	17,620,396,985.24	23,981,671,993.36	16,734,765,898.80

8.44 Taxes and surcharges

Item	Year ended 31/12/2019	Year ended 31/12/2018
Urban maintenance and construction tax	62,860,904.05	57,485,783.59
Educational surcharge	32,143,490.18	24,652,841.78
Local educational surtax	12,786,892.68	16,435,434.73
Water conservancy construction fund	4,505,292.62	4,106,670.05
Property tax	33,793,764.42	29,446,239.69
Land use tax	30,787,762.27	62,218,619.01
Vehicle and vessel use tax	160,547.47	206,059.14
Stamp duty	8,528,323.65	11,093,910.45
Others	9,095,709.40	12,136,574.06
Total	194,662,686.74	217,782,132.50

8.45 Selling and distribution expenses

Item	Year ended 31/12/2019	Year ended 31/12/2018
Transport expenses	380,616,640.53	271,943,563.94
loading expenses	539,014.73	4,348,904.96
Warehousing and storage expenses	10,154,215.52	17,561,723.73
advertising expenses	74,411,412.70	35,323,798.19
Sales service expenses	796,479,840.81	663,477,557.51
Employee benefits	259,473,558.72	262,274,638.55
Business expenses	81,249,678.64	4,175,746.08
Depreciation	7,691,057.86	7,038,098.92
Repair expenses	75,909.64	1,292,136.87
Others	106,475,368.38	154,250,317.75
Total	1,717,166,697.53	1,421,686,486.50

8.46 General and administrative expenses

Item	Year ended 31/12/2019	Year ended 31/12/2018
Employee benefits	412,476,751.09	393,468,045.59
Insurance expenses	185,930.38	1,982,834.22
Dpreciation	93,183,025.89	73,496,464.35

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Item	Year ended 31/12/2019	Year ended 31/12/2018
Repair expenses	14,895,218.26	16,169,524.15
Amortization of intangible assets	23,216,341.48	34,102,970.38
Business Hospitality expenses	11,196,922.45	16,112,731.01
Travel expenses	10,398,153.48	11,189,528.67
Office expenses	26,369,172.14	19,167,014.07
conference expenses	354,218.36	596,258.54
Litigation expenses	2,812,185.69	8,278,400.22
Hiring intermediary agency expenses	27,917,178.27	13,785,368.13
Consultation expenses	254,416.20	5,568,677.86
Board expenses	346,221.81	426,111.73
Rental expenses	5,340,190.32	
Retirement expenses	6,498,448.12	
Warehouse expenses	18,285,169.74	
Share-based payment	8,364,700.00	
Others	114,941,372.34	131,234,517.95
Total	777,035,616.02	725,578,446.87

8.47 Research and development expenses

Item	Year ended 31/12/2019	Year ended 31/12/2018
Employee benefits	149,590,042.59	127,832,962.04
Materials expenses	280,359,204.41	35,183,078.91
Power expenses	12,330,092.87	13,098,476.73
Depreciation and amortization	19,663,464.47	16,726,087.10
New product	52,514,679.62	
New technology and new process	182,886,330.81	
Commissioned external R&D expenses	479,878.65	
Others	37,943,176.89	211,824,002.82
Total	735,766,870.31	404,664,607.60

8.48 Finance expenses

Item	Year ended 31/12/2019	Year ended 31/12/2018
Interest expense	305,454,224.93	315,586,285.86
Less: interest income	54,900,969.22	73,443,655.76
Losses from foreign exchange	-7,592,894.27	-22,029,373.80
Less: Gains from foreign exchange	37,055,543.06	3,570,714.41
Finance charges	1,755,810.04	5,177,608.89
Others	9,434,213.08	10,167,127.72

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Item	Year ended 31/12/2019	Year ended 31/12/2018
Total	217,094,841.50	231,887,278.50

8.49 Other income

Item	Year ended 31/12/2019	Year ended 31/12/2018
Government grants	82,762,260.63	81,916,697.44
Total	82,762,260.63	81,916,697.44

Details of government grants:

Item	Year ended 31/12/2019	Year ended 31/12/2018
Tax refund	937,491.52	1,019,970.59
Enterprise development support funds		24,450,000.00
Welfare Enterprise Tax Rebate	12,504,440.00	11,876,040.00
Job stabilization subsidy	3,606,196.00	2,289,065.00
Graduate trainee subsidy funds	521,076.00	185,976.00
Foreign economic and trade development policy funds	134,600.00	1,686,664.00
Energy-saving special funds	1,910,000.00	1,050,100.00
Science and technology award funds	150,000.00	20,000.00
Patent subsidy	106,000.00	32,360.00
Talent special subsidy funds	3,950,000.00	
High-tech enterprise rewards	100,000.00	100,000.00
Subsidies for the operation of automatic monitoring systems for key supervised enterprises	6,440.00	18,225.00
Corporate R&D Expense Subsidy	5,556,329.00	1,440,700.00
Technological innovation and new drug development	2,000,000.00	1,000,000.00
Deferred income amortization	22,363,737.97	11,160,999.10
Science and Technology Bureau Award	5,000.00	2,500.00
Business restructuring subsidy	2,419,527.22	3,830,000.00
Special subsidies for enterprises to go to the cloud	200,000.00	8,150.00
Economic support funds	482,700.00	40,000.00
Heating subsidy	5,723,700.00	5,536,062.50
Government subsidies for the renovation of heating pipe networks for residents in old communities	2,150,000.04	1,483,333.32
Special Funds for Air Pollution Prevention and Control	528,571.43	528,571.43
Export credit insurance subsidies	462,350.00	364,096.76
Value-added tax deduction	444,231.18	
National League Special Project Subsidy	1,695,987.70	
"2+26" Urban Comprehensive Solution Research Subsidy	278,839.90	
Shandong Provincial Department of Science and Technology Financial Subsidy for Enterprise Research and Development in 2019	1,786,900.00	
Foreign trade export incentives	900,000.00	

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Item	Year ended 31/12/2019	Year ended 31/12/2018
Provincial engineering laboratory (engineering research center) award funds	300,000.00	
Provincial Enterprise Technology Center Subsidy Fund of Zoucheng Industry and Information Technology Bureau	300,000.00	
Subsidy funds for consistency evaluation of generic drugs	3,000,000.00	
Smart Energy Saving Reward Fund		1,000,000.00
Science and Technology Conference Awards		1,536,000.00
Paracetamol supporting fund subsidy		2,000,000.00
National Air Pollution Prevention and Control Incentive Fund		1,000,000.00
Others	8,238,142.67	8,257,883.74
Total	82,762,260.63	81,916,697.44

8.50 Investment income

Category	Year ended 31/12/2019	Year ended 31/12/2018
Gain/(Loss) from long-term equity investments in equity method	-5,787,236.18	7,416,948.08
Gain/(Loss) on disposal of long-term equity investment	13,479.88	8,662,547.59
Investment income obtained during the holding period of financial assets that are measured at fair value and whose changes are included in the current profit and loss	46,740.00	11,070.00
Investment income from disposal of financial assets that are measured at fair value and whose changes are included in the current profit and loss		237,326.17
Investment income from held-to-maturity investments during the holding period	8,430,945.43	5,226,166.34
Investment income from available-for-sale financial assets	9,183,408.63	1,750,925.45
Investment income from disposal of available-for-sale financial assets	92,044.42	
Others	47,717,970.46	13,162,766.07
Total	59,697,352.64	36,467,749.70

8.51 Gains from fair value changes

Source of gains/(losses)from changes in fair value	Year ended 31/12/2019	Year ended 31/12/2018
Financial assets measured at fair value through profit or loss for the current period	13,590,656.76	-482,160.00
Total	13,590,656.76	-482,160.00

8.52 Impairment on assets

Item	Year ended 31/12/2019	Year ended 31/12/2018
Allowance for credit losses	-113,513,878.06	-189,782,745.74
Provision for diminution in value of inventory	-120,929,041.54	-89,269,655.51
Impairment loss on fixed assets	-2,820,708.53	-82,838,212.20
Impairment loss for intangible assets	-187,868.69	-148,666.45

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Item	Year ended 31/12/2019	Year ended 31/12/2018
Others		-424,287.30
Total	-237,451,496.82	-362,463,567.20

8.53 Gains from disposal of assets

Item	Year ended 31/12/2019	Year ended 31/12/2018	Amount to be included in non-recurring gain or loss for the year
Net income from disposal of fixed assets	8,889,664.95	30,045,143.14	8,889,664.95
Total	8,889,664.95	30,045,143.14	8,889,664.95

8.54 Non-operating income

Item	Year ended 31/12/2019	Year ended 31/12/2018	Amount to be included in non-recurring gain or loss for the year
Unpayable payable account	47,800,011.58		47,800,011.58
Confiscation income	440,845.00	711,932.05	440,845.00
Government subsidies not related to the daily activities of the company	7,821,480.00	10,918,721.44	7,821,480.00
Non-current assets damage and retirement gains	764,688.76		764,688.76
Compensation income	136,598.68	58,263.11	136,598.68
Gains on debt restructuring		642,655.51	
Others	9,530,014.57	22,786,223.65	9,530,014.57
Total	66,493,638.59	35,117,795.76	66,493,638.59

Details of government grants:

Item	Year ended 31/12/2019	Year ended 31/12/2018
Three supplies and one industry	6,540,380.00	9,579,956.44
Science and Technology Bureau Knowledge Economy Award	582,000.00	
Others	699,100.00	1,338,765.00
Total	7,821,480.00	10,918,721.44

8.55 Non-operating expenses

Item	Year ended 31/12/2019	Year ended 31/12/2018	Amount to be included in non-recurring gain or loss for the year
Donation	619,879.97	12,031,864.04	619,879.97
Liquidated damages, compensation, late fees and fines	1,869,264.32	1,706,154.56	1,869,264.32
Losses on damage or abandonment of non-current assets	4,495,319.15	8,898,944.56	4,495,319.15
Relocation expenses	4,080,076.33	6,932,324.21	4,080,076.33
Others	4,927,534.62	51,899,193.6	4,927,534.62

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Item	Year ended 31/12/2019	Year ended 31/12/2018	Amount to be included in non-recurring gain or loss for the year
Total	15,992,074.39	81,468,480.96	15,992,074.39

8.56 Income tax expenses

8.56.1 Details of income tax expenses

Item	Year ended 31/12/2019	Year ended 31/12/2018
Current income tax expense calculated according to tax laws	528,705,912.82	626,723,344.16
Deferred income tax	-25,871,872.60	-8,895,958.37
Others	5,294,074.27	2,027,480.33
Total	508,128,114.49	619,854,866.12

8.56.2 Reconciliation between income tax expenses and accounting profit is as follows:

Item	Year ended 31/12/2019
Profit before tax	3,426,344,272.80
Income tax expenses calculated at statutory/applicable tax rates	856,586,068.20
Effect of different tax rate of subsidiaries	-324,840,871.50
Effect of adjustment for income tax in prior year	12,989,890.92
Effect of income not subject to income tax	-1,847,741.59
Effect of expenses nondeductible for tax purposes	4,973,628.49
Effect of utilization of deductible temporary differences or deductible losses in prior years which haven't been recognised deferred tax assets	-5,449,356.20
Effect of unrecognised deductible temporary differences and deductible losses in current period	7,085,284.70
Extra deduction	-33,643,821.72
Others	-7,724,966.81
Income tax expenses	508,128,114.49

8.57 Notes to statement of cash flows

8.57.1 Supplement to statement of cash flows

Item	Year ended 31/12/2019	Year ended 31/12/2018
Net profit adjusted to cash flows from operating activities	—	—
Net profit	2,918,216,158.31	3,364,585,454.35
Add: provision for asset impairment	237,451,496.82	362,463,567.20
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of productive biological assets and depreciation of investment property	1,809,071,293.00	1,757,322,148.94
Amortization of intangible assets	33,681,021.36	36,705,064.29
Amortization of long-term deferred expenses	26,480,907.04	20,404,186.52

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Item	Year ended 31/12/2019	Year ended 31/12/2018
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	2,794,195.03	-30,045,143.14
Losses on write-down of fixed assets ("-" for gains)	3,687,752.19	8,898,944.56
Losses from changes in fair value ("-" for gains)	-13,590,656.76	482,160.00
Financial expenses ("-" for income)	325,993,032.90	315,586,285.86
Investments losses ("-" for gains)	-59,697,352.64	-36,467,749.70
Decreases in the deferred tax assets ("-" for increases)	-58,306,411.99	-51,231,068.77
Increases in the deferred tax liabilities ("-" for decreases)	38,360,289.40	21,008,768.78
Decreases in inventories ("-" for increases)	-46,250,452.69	-512,629,863.68
Decreases in operating receivables ("-" for increases)	2,162,511,712.30	-2,042,768,601.91
Increases in operating payables ("-" for decreases)	-1,792,024,954.04	1,515,468,332.10
Others	-203,075,880.68	
Net cash flows from operating activities	5,385,302,149.55	4,729,782,485.40
Significant investing and financing activities not involving cash inflow and outflow	—	
Conversion of debt into capital		
Convertible corporate bonds maturing within one year		
Fixed assets acquired under financial lease		
Net change in cash and cash equivalents	—	
Cash as at 31/12/2019	3,298,408,595.78	4,488,185,634.90
Less: cash as at 1/1/2019	4,488,185,634.90	4,639,031,455.01
Add: cash equivalents as at 31/12/2019		
Less: cash equivalents as at 1/1/2019		
Net increase in cash and cash equivalents	-1,189,777,039.12	-150,845,820.11

8.56.2 Cash and cash equivalents

Item	Balance as at 31/12/2019	Balance as at 1/1/2019
I . Cash	3,188,408,595.78	4,488,185,634.90
Including: cash on hand	356,716.81	380,004.23
Unrestricted bank deposits	3,123,579,563.08	4,456,318,304.55
Unrestricted other cash and cash equivalents	64,472,315.89	31,487,326.12
II . Cash equivalents	110,000,000.00	
III. Cash and cash equivalents as at 31/12/2019	3,298,408,595.78	4,488,185,634.90

8.58 Monetary items denominated in foreign currency

Item	Balance in foreign currency as at 31/12/2019	Exchange rate	Balance translated into RMB as at 31/12/2019
Cash at hand and in banks	—	—	—

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Item	Balance in foreign currency as at 31/12/2019	Exchange rate	Balance translated into RMB as at 31/12/2019
Including: USD	15,783,362.39	6.9835	110,223,331.71
GBP	224,517.19	9.1501	2,054,354.74
HKD	1,970,060.34	0.8999	1,772,920.20
EUR	172,897.22	7.8155	1,351,278.22
JPY	6,217.00	0.0641	398.42
Accounts receivable	—	—	—
Including: USD	27,271,556.64	6.9956	190,780,603.58
GBP	940,980.54	9.1501	8,610,066.04
Prepayment	—	—	—
Including: USD	244,208.16	6.9762	1,703,644.97
Accounts payable	—	—	—
Including: USD	2,108,202.29	6.9885	14,733,218.42
Advance from customers	—	—	—
Including: USD	1,743,586.61	7.0500	12,292,285.60
Other payables	—	—	—
Including: USD	2,251,289.79	7.0489	15,869,153.81

8.59 Ownership or using rights of assets subject to restriction

Item	Carrying amount as at 31/12/2019	Restriction reason
Cash at bank and on hand	520,220,429.43	Bank acceptance bill deposits, foreign exchange business deposits, loan deposits, bill deposits, performance deposits, frozen, regulated pre-collected housing payments, etc.
Notes receivable	50,755,452.13	Pledge of Bank Acceptance bill
Fixed assets	359,463,703.29	Mortgage loan
Intangible assets	7,166,127.17	Mortgage loan
Construction in process	791,621.67	Mortgage loan
Total	938,397,333.69	—

9. Commitments and contingencies

None.

10. Post balance sheet events

10.1 According to the resolution of the board of directors meeting held on March 20, 2020, Shandong Xinhua Pharmaceutical Co., Ltd. proposes that the company distribute a cash dividend of RMB 1.20 (tax included) to all shareholders for every 10 shares. The transfer of public reserve funds to share capital must be approved by the annual general meeting of shareholders.

10.2 The fourteenth meeting of the ninth board of directors of Shandong Lukang Pharmaceutical Co., Ltd. reviewed and approved the profit distribution plan for 2019. Based on the company's total share capital of 880,229,735 shares on December 31, 2019, it will be distributed to all shareholders for every 10 shares. The cash dividend is RMB 0.45. The above profit distribution plan is yet to be approved by the company's 2019 annual general meeting of shareholders.

10.3 On January 13, 2020, the Shandong Provincial People's Government issued the "Shandong Provincial People's Government's Reply on Matters Concerning the Free Transfer of Lukang Pharmaceutical Co., Ltd. Shares held by the Provincial State-owned Assets Supervision and Administration Commission to Hualu Holding Group Co., Ltd.", agreeing 185,896,620 state-owned shares of the company held by the State-owned Assets Supervision and Administration Commission of Shandong Province were transferred to the company for free.

On March 10, 2020, Shandong Lukang Pharmaceutical Co., Ltd. received the "China Securities Depository and Clearing Co., Ltd. Transfer Registration Confirmation" forwarded by the company, and the share transfer registration procedures for this free transfer have been completed.

After the completion of the free transfer, the company directly holds 185,896,620 shares of Shandong Lukang Pharmaceutical Co., Ltd., accounting for 21.12% of the total share capital of Shandong Lukang Pharmaceutical Co., Ltd., and is its direct controlling shareholder. The State-owned Assets Supervision and Administration Commission of Shandong Province no longer holds shares in Shandong Lukang Pharmaceutical Co., Ltd., but remains its actual controller.

Except for the above-mentioned post-balance sheet events, the Company has no other major undisclosed post-balance sheet events that should be disclosed.

11. Related parties and transactions

11.1 The parent company of the Company

The actual controller of the company is the State-owned Assets Supervision and Administration Commission of Shandong Provincial People's Government.

11.2 Subsidiaries of the Company

Details of subsidiaries refer to Note 7 Interest in other entities.

11.3 Joint ventures and associates of the Company

Details of Significant joint ventures and associates of the Company refer to Note 7 Interest in other

entities. Information of other joint ventures and associates having transactions with the Company in current period or having outstanding balances carried forward from prior periods are as follows:

11.4 Other related parties

Entity name	Relationship
Cansheng Pharmaceutical (Zibo) Co., Ltd.	Joint share company
Perrigo Company	Subsidiary shareholder
Shandong Huanke Kechuang Environmental Protection Technology Co. LTD	Joint share company

11.5 Transactions with related parties

11.5.1 Purchase of goods/receipt of services and sales of goods/rendering of services

Name	Contents	Year ended 31/12/2019	Year ended 31/12/2018
Purchase of goods/receipt of services:			
Cansheng Pharmaceutical (Zibo) Co., Ltd.	Preparation raw materials	17,602,695.71	13,133,615.20
Sales of goods/rendering of services:			
Cansheng Pharmaceutical (Zibo) Co., Ltd.	Sales motivation	11,761,881.37	10,716,706.10
Cansheng Pharmaceutical (Zibo) Co., Ltd.	Maintenance service	183,845.91	779,050.97
Cansheng Pharmaceutical (Zibo) Co., Ltd.	Technical Services	97,169.81	
Perrigo Company	Sales of raw materials	243,928,087.54	211,394,420.14

11.5.2 Guarantee activities with related parties

Guarantor	Guarantee	Amount of guarantee as at 31/12/2019	Amount of guarantee as at 1/1/2019
HUALU HOLDINGS CO.,LTD.	Shandong Lukang Pharmaceutical Co.,Ltd.	653,400,000.00	453,400,000.00
HUALU HOLDINGS CO.,LTD.	China Shandong Group Co., Ltd.	47,500,000.00	12,000,000.00
Shandong Hualu-Hengsheng Group Co.,Ltd	Shandong Hualu-Hengsheng Chemical Co.,Ltd	2,273,439,300.00	2,897,169,300.00
HUALU HOLDINGS CO.,LTD.	Hualu International Financial Leasing Co.,Ltd.	130,000,000.00	262,000,000.00
HUALU HOLDINGS CO.,LTD.	China Shandong group limited	139,524,000.00	
Shandong Lukang Pharmaceutical Co.,Ltd.	Shandong Lukang Shelile Pharmaceutical Co., Ltd.	300,408,900.00	296,834,500.00
HUALU HOLDINGS CO.,LTD.	Shandong Hualu-Hengsheng Chemical Co.,Ltd	1,211,800.00	2,423,600.00
Shandong Lukang Shelile Pharmaceutical Co., Ltd.	Shandong Lukang Pharmaceutical Co.,Ltd.	301,000,000.00	250,000,000.00
Hualu International Financial Leasing Co.,Ltd.	Shandong Lugang Financial Leasing Co.,Ltd.	18,650,000.00	65,910,000.00
Shandong Lugang Financial Leasing Co.,Ltd.	Hualu International Financial Leasing Co.,Ltd.	27,190,000.00	41,600,000.00
China Shandong group limited	Shandong Xinhua Wanbo Chemical Industry Co., Ltd.		5,000,000.00

11.6 Receivables due from and payables due to related parties

11.6.1 Receivables due from related parties

Account name	Related party	As at 31/12/2019		As at 1/1/2019	
		Balance	Allowance for credit losses	Balance	Allowance for credit losses
Accounts receivable	Perrigo Company	20,132,764.80	100,663.82	19,093,218.09	95,466.09
Accounts receivable	Cansheng Pharmaceutical (Zibo) Co., Ltd.	10,701.82	53.51	164,332.87	821.66
Accounts receivable	Shandong Xinhua Industry and Trade Co., Ltd			1,110,088.04	1,110,088.04
Other receivables	Shandong Finance investment Group Co. LTD	69,000,000.00		69,000,000.00	6,900,000.00
Other receivables	Shandong Huanke Kechuang Environmental Protection Technology Co. LTD	99,850.60		99,850.60	

11.6.2 Payables due to related parties

Account name	Related party	Balance as at 31/12/2019	Balance as at 1/1/2019
Accounts payable	Cansheng Pharmaceutical (Zibo) Co., Ltd.	1,341,087.43	1,855,557.77
Advances from customers	Perrigo Company	394,457.02	612,597.22

12. Notes to the financial statements of the Company

12.1 Other receivables

Item	Balance as at 31/12/2019	Balance as at 1/1/2019
Other receivables	922,568,400.69	913,337,095.37
Total	922,568,400.69	913,337,095.37

12.1.1 Other receivables

Item	As at 31/12/2019			
	Balance		Allowance for credit losses	
	Amount	PCT (%)	Amount	ECL rate (%)
Other receivable of individually significant amount and with allowance for credit losses made on an individual basis				
Other receivable withdrawing bad debt provision according to credit risk characteristic combination	1,006,284,807.34	100.00	83,716,406.65	8.32
Other receivable of individually insignificant amount and with allowance for credit losses made on an individual basis				
Total	1,006,284,807.34	100.00	83,716,406.65	8.32

Item	As at 1/1/2019			
	Balance		Allowance for credit losses	
	Amount	PCT (%)	Amount	ECL rate (%)

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Item	As at 1/1/2019			
	Balance		Allowance for credit losses	
	Amount	PCT (%)	Amount	ECL rate (%)
Other receivable of individually significant amount and with allowance for credit losses made on an individual basis	19,014,712.28	1.86	19,014,712.28	100.00
Other receivable withdrawing bad debt provision according to credit risk characteristic combination	1,005,774,115.60	98.14	92,437,020.23	9.19
Other receivable of individually insignificant amount and with allowance for credit losses made on an individual basis				
Total	1,024,788,827.88	100.00	111,451,732.51	10.88

12.1.1.1 Other receivable withdrawing bad debt provision according to credit risk characteristic combination

Group 1: Other receivable due from aging analysis :

Aging	As at 31/12/2019			As at 1/1/2019		
	Balance		Allowance for credit losses	Balance		Allowance for credit losses
	Amount	PCT(%)		Amount	PCT(%)	
Within 1 year	575,178.06	0.68	5,361.68	715,331,575.92	89.32	7,030,710.45
1-2 years	49,847.15	0.06	9,969.43	129,529.99	0.02	25,906.00
2-3 years				2,800.00	0.00	1,120.00
More than 3 years	83,822,385.54	99.26	83,701,075.54	85,380,483.78	10.66	85,379,283.78
Total	84,447,410.75	100.00	83,716,406.65	800,844,389.69	100.00	92,437,020.23

Group2: Other receivable due from other combination methods:

Combination name	As at 31/12/19			As at 1/1/2019		
	Amount	ECL rate(%)	Allowance for credit losses	Amount	ECL rate(%)	Allowance for credit losses
Related party Combination	207,283,495.59			204,823,793.56		
Risk-free Combination	714,553,901.00			105,932.35		
Total	921,837,396.59			204,929,725.91		

12.1.1.2 Other receivables due from the top five debtors are as follows:

Debtor name	Nature of balance	Balance as at 31/12/2019	Aging	Percentage in total other receivables(%)	Balance of allowance for credit losses as at 31/12/2019
Shandong Finance investment Group Co. LTD	Current account	690,000,000.00	1-2 years	68.57	
Shandong Lukang Pharmaceutical Co.,Ltd.	Internal current account	102,572,427.93	More than 3 years	10.19	
Shandong Pharmaceutical Co.,Ltd. Xinhua	Internal current account	100,000,000.00	More than 3 years	9.94	

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Debtor name	Nature of balance	Balance as at 31/12/2019	Aging	Percentage in total other receivables(%)	Balance of allowance for credit losses as at 31/12/2019
Zibo City Land Reserve Trading Center	Land payment	24,530,500.00	1-2 years	2.44	
Shandong Xinhua Industry and Trade Co., Ltd	Current account	18,168,264.78	More than 3 years	1.81	18,168,264.78
Total	—	935,271,192.71		92.95	18,168,264.78

12.2 Long-term equity investments

Item	As at 1/1/2019	Additions	Reductions	As at 31/12/2019
Investment to subsidiaries	2,760,760,111.57		512,160,354.36	2,248,599,757.21
Investment to joint associates	50,607,156.53		46,724,157.31	3,882,999.22
Subtotal	2,811,367,268.10		558,884,511.67	2,252,482,756.43
Less: provision for impairment of long-term equity investment	44,199,120.82		18,180,419.33	26,018,701.49
Total	2,767,168,147.28		540,704,092.34	2,226,464,054.94

12.2.1 Investment to subsidiaries and associates

Investee	Investment cost	Balance as at 1/1/2019	Movement during the financial year							Balance as at 31/12/2019	Provision for impairment as at 31/12/2019
			Addition of investment	Reduction of investment	Investment income/loss recognised under the equity method	Adjustment of OCI	Changes of other equity	Cash dividend or profit announced to be issued	Provision for impairment		
I. Subsidiaries	2,266,780,176.54	2,760,760,111.57		504,882,594.36						2,248,599,757.21	
China Shandong group limited	324,472,003.22	818,451,938.25		493,979,935.03						324,472,003.22	
Shandong Lugang Financial Leasing Co.,Ltd.	29,002,324.00	29,002,324.00								29,002,324.00	
China Shandong Group Co., Ltd.	113,808,531.27	113,808,531.27								113,808,531.27	
Shandong Hualu-Hengsheng Group Co.,Ltd	698,181,499.35	698,181,499.35								698,181,499.35	
Shandong Xinhua Pharmaceutical Co.,Ltd.	228,418,428.12	228,418,428.12								228,418,428.12	
Shandong Xinhua Wanbo Chemical Industry Co., Ltd.	33,038,361.60	33,038,361.60		10,902,659.33						22,135,702.27	
Shandong Lukang Pharmaceutical Co.,Ltd.	296,241,732.23	296,241,732.23								296,241,732.23	
Shandong Lukang Zhonghe Environment Protection Technology Co., Ltd.	61,872,300.00	61,872,300.00								61,872,300.00	
Shandong Lukang Biological Pesticides Co., Ltd.	2,438,738.64	2,438,738.64								2,438,738.64	
Huaru Investment Development Co., Ltd.	300,000,000.00	300,000,000.00								300,000,000.00	
Shandong Academy of Environmental Science	162,028,498.11	162,028,498.11								162,028,498.11	

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Investee	Investment cost	Balance as at 1/1/2019	Movement during the financial year								Balance as at 31/12/2019	Provision for impairment as at 31/12/2019
			Addition of investment	Reduction of investment	Investment income/loss recognised under the equity method	Adjustment of OCI	Changes of other equity	Cash dividend or profit announced to be issued	Provision for impairment	Others		
Co.,Ltd												
Zhongke Hualu Soil Remediation Engineering Co., Ltd.	10,000,000.00	10,000,000.00									10,000,000.00	
Shandong Xinhua Industry and Trade Co., Ltd	7,277,760.00	7,277,760.00								-7,277,760.00		
II. Investment to joint associates	32,203,085.55	50,607,156.53		28,320,086.33			-18,404,070.98				3,882,999.22	3,882,999.22
Lukang America Pharmaceuticals Ltd	3,882,999.22	3,882,999.22									3,882,999.22	3,882,999.22
Cansheng Pharmaceutical (Zibo) Co., Ltd.	28,320,086.33	46,724,157.31		28,320,086.33			-18,404,070.98					
Total	2,298,983,262.09	2,811,367,268.10		533,202,680.69	-	-	-18,404,070.98	-		-7,277,760.00-	2,252,482,756.43	3,882,999.22

12.3 Operating income and operating costs

Item	Year ended 31/12/2019		Year ended 31/12/2018	
	Income	Cost	Income	Cost
Other operating business	13,436,182.43		7,887,955.77	31,415.24
Consulting income			5,500,000.02	
Lease income	558,824.31			
Others	12,877,358.12		2,387,955.75	31,415.24
Total	13,436,182.43		7,887,955.77	31,415.24

12.4 Investment income

Category	Year ended 31/12/2019	Year ended 31/12/2018
Gain/(Loss) on disposal of long term equity investment	35,748,188.69	52,329,003.31
Gain/(Loss) from long-term equity investments in equity method		983,935.60
Investment income of available-for-sale financial assets during the holding period		3,616.35
Investment income from disposal of available-for-sale financial assets	36,212.04	
Receive cash dividends from subsidiaries	126,206,305.20	77,768,654.38
Other		
Total	161,990,705.93	131,077,976.94

12.5 Notes to statement of cash flows

12.5.1 Supplement to statement of cash flows

Item	Year ended 31/12/2019	Year ended 31/12/2018
Net profit adjusted to cash flows from operating activities	—	
Net profit	193,725,571.89	83,536,359.78
Add: provision for asset impairment	-7,157,595.34	-4,783,298.46
Credit impairment losses		
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of productive biological assets and depreciation of investment property	1,470,863.29	40,671,705.13
Amortization of intangible assets	196,108.74	1,003,800.00
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	-1,182,299.08	-20,988,134.80
Losses on write-down of fixed assets ("-" for gains)		
Losses from changes in fair value ("-" for gains)		
Financial expenses ("-" for income)	9,880,000.00	8,821,621.91
Investments losses ("-" for gains)	-161,990,705.93	-131,077,976.94
Decreases in the deferred tax assets ("-" for increases)	36,523.90	-4,989,421.52

Notes to the Financial Statement
For the year ended December 31 2019
HUALU HOLDINGS CO.,LTD.

Item	Year ended 31/12/2019	Year ended 31/12/2018
Increases in the deferred tax liabilities ("-" for decreases)		
Decreases in inventories ("-" for increases)		
Decreases in operating receivables ("-" for increases)	35,166,763.33	-740,617,076.92
Increases in operating payables ("-" for decreases)	-78,537,836.09	230,561,735.47
Others		
Net cash flows from operating activities	-8,392,605.29	-537,860,666.35
Significant investing and financing activities not involving cash inflow and outflow		
Conversion of debt into capital		
Convertible corporate bonds maturing within one year		
Fixed assets acquired under financial lease		
Net change in cash and cash equivalents		
Cash as at 31/12/2019	204,226,193.68	228,829,889.14
Less: cash as at 1/1/2019	228,829,889.14	794,388,684.28
Add: cash equivalents as at 31/12/2019		
Less: cash equivalents as at 1/1/2019		
Net increase in cash and cash equivalents	-24,603,695.46	-565,558,795.14

13. Other significant events

None.

14. Approval of financial statements

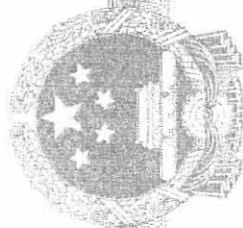
The financial statements have been approved by the board of directors of the Company.

HUALU HOLDINGS CO.,LTD.

September 28, 2021

The notes to the financial statements from page 17 to page 94 were approved by the following representatives:

Legal representative	Person in charge of accounting function	Person in charge of accounting department
Signature: _____	Signature: _____	Signature: _____
Date: _____	Date: _____	Date: _____



营业执照

(副本)(6-1)

统一社会信用代码

91110108590611484C



扫描二维码登录
“国家企业信用
信息公示系统”
了解更多登记、
备案、许可、监
管信息

名称 大信会计师事务所（特殊普通合伙）

类型 特殊普通合伙企业

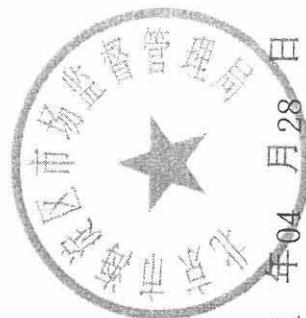
法定代表人 胡咏华, 吴卫星

经营范围 审查企业会计报表、出具审计报告；验证企业资本，出具验资报告；办理企业合并、分立、清算事宜中的审计业务，出具有关报告；基本建设年度财务决算审计；代理记账；会计咨询、税务咨询、管理咨询、会计培训；法律法规规定的其他业务。（市场主体依法自主选择经营项目，开展经营活动；依法须经批准的项目，经相关部门批准后依批准的内容开展经营活动；不得从事国家和本市产业政策禁止和限制类项目的经营活动。）

成立日期 2012年03月06日

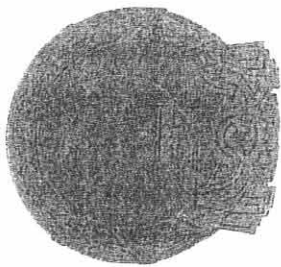
合伙期限 2012年03月06日 至 2112年03月05日

主要经营场所 北京市海淀区知春路1号学院国际大厦1504室



登记机关

2021 年 04 月 28 日



证书序号: 0014492

说明

- 1、《会计师事务所执业证书》是证明持有人经财政部门依法审批, 准予执行注册会计师法定业务的凭证。
- 2、《会计师事务所执业证书》记载事项发生变动的, 应当向财政部门申请换发。
- 3、《会计师事务所执业证书》不得伪造、涂改、出租、出借、转让。
- 4、会计师事务所终止或执业许可注销的, 应当向财政部门交回《会计师事务所执业证书》。

会计师事务所 执业证书

名称: 大信会计师事务所(特殊普通合伙)
首席合伙人: 胡咏华
主任会计师:
经营场所: 北京市海淀区知春路一号学院国际大厦1504室

组织形式: 特殊普通合伙
执业证书编号: 11010141
批准执业文号: 京财会许可[2011]0073号
批准执业日期: 2011年09月09日



发证机关:

北京市财政局

二〇二〇年十二月四日

中华人民共和国财政部制



姓名	田城
Sex	男
出生日期	1977-07-25
工作单位	大信会计师事务所(特殊普通合伙)山东分所
身份证号码	370221770725061
Identity card No.	



证书编号: 110001670112
No. of Certificate

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

发证日期: 2006 年 06 月 05 日
Date of Issuance

年度检验
Annual Renewal

登记
Registration

2019年
注册会计师
年检合格专用章

本证书经检验合格, 继续有效一年。
This certificate is this renewal.

Annual Renewal Registration

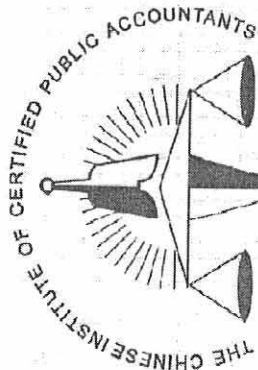
登记
Registration

2018年
注册会计师
年检合格专用章

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山东省注册会计师协会
2020年
注册会计师
年检合格专用章

2020 年 03 月 10 日



姓名	张琦心
Full name	
性别	男
Sex	
出生日期	1988-02-16
Date of birth	
工作单位	山东舜天信诚会计师事务所有限公司
Working unit	
身份证号码	371426198802165613
Identity card No.	

13

年度检验登记 2019年
山东省注册会计师协会
Annual Renewal Registration
注册会计师
年检验合格专用章

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年度检验登记 2018年
山东省注册会计师协会
Annual Renewal Registration
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山东省注册会计师协会
Annual Renewal Registration
注册会计师
年检验合格专用章

证书编号: 370100412700
No. of Certificate

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

发证日期: 2016 年 04 月 12 日
Date of Issuance

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 28/F, CCB Tower
 3 Connaught Road Central
 Central, Hong Kong

PRINCIPAL PAYING AGENT, TRANSFER AGENT AND REGISTRAR

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