

ZHEJIANG YINLUN MACHINERY CO.,LTD.

Annual Report 2020 (Abstract)

I. Important Notes

This Abstract is extracted from 2020 Annual Report of Zhejiang Yinlun Machinery Co., Ltd. (“the Company”). In order to have a full understanding of the operating results, financial status and future development plan of the Company, investors are suggested to read the full report carefully on the media designated by the China Securities Regulatory Commission (the “CSRC”).

Indicate by check mark if independent auditor issues Non-standard Audit Opinions

Applicable Not applicable

Indicate by check mark if there is a pre-arranged plan of profit distribution or transferring capital reserve into common stock for the report period which has been reviewed and approved by the Board of Directors

Applicable Not applicable

Indicate by check mark if transferring capital reserve into common stock

Applicable Not applicable

Pre-arranged profit distribution plan reviewed and approved by the Board of Directors: with 792,095,104 shares as the base ,distribute 0.8 Yuan cash dividends per 10 common stocks (tax inclusive), send bonus of 0 shares (tax inclusive), do not transfer to increase capital stock with accumulation fund.

Indicate by check mark if preplan for preferred stocks profit distribution to shareholders for the report period which has been reviewed and approved by the Board of Directors

Applicable Not applicable

II. Company Profile

1. Stock profile

Stock abbr.	YINLUN	Stock code	002126
Stock exchange	Shenzhen Stock Exchange		
Contact Information	Board Secretary	Securities Representative	
Name	Min Chen	Lifen Xu	
Office add.	No.8,East Shifeng Road, Fuxi District, Tiantai, Zhejiang, China	No.8,East Shifeng Road, Fuxi District, Tiantai, Zhejiang, China	
Tel.	0576-83938250	0576-83938250	
E-mail	002126@yinlun.cn	002126@yinlun.cn	

2. Brief introduction to main business or products in the report period

(一) Main business and main products

1. Main Business

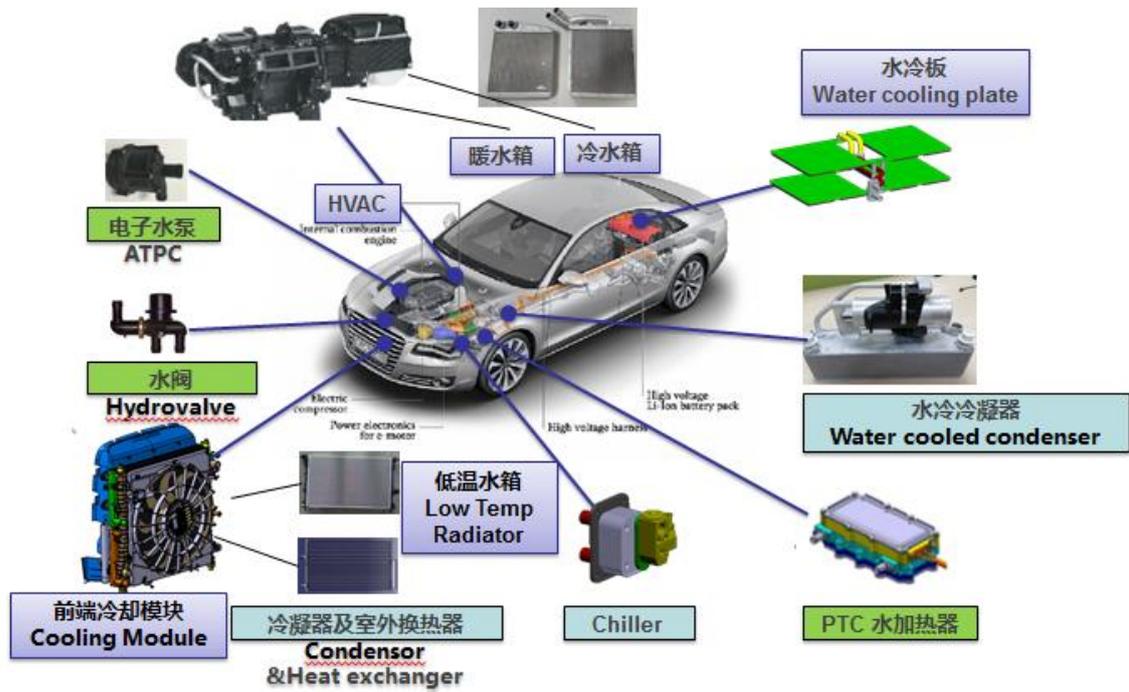
The company based on four main product development directions in "energy saving, emission reduction, intelligence, and safety" focused on the development, production and sales for products of heat exchangers of oil, water, gas, and refrigerants, automobile air conditioners and vehicle thermal management, and related products in emission control system. The main products are divided into two product categories, thermal management and exhaust gas treatment, While the thermal management can be further divided into heat exchangers and automotive air-conditioning. The company's products are also divided by application fields, which mainly include commercial vehicles, passenger cars, construction machinery and other fields.

The company is a national high-tech enterprise and the lead unit in China Internal Combustion Engine Standardization Technical Committee in heat exchanger industrial standard. It has established a national-level enterprise technology center, a post-doctoral scientific research station, a Zhejiang Provincial Key Enterprise Research Institute, a Zhejiang Engineering Research Center and a Zhejiang Provincial Double Creation base. In the recent years, the company has continued to carry out an international strategic layout and has established production facilities and R&D sub-centers in Zhejiang, Shanghai, Hubei, Shandong and other locations, as well as North America, Europe and other location.

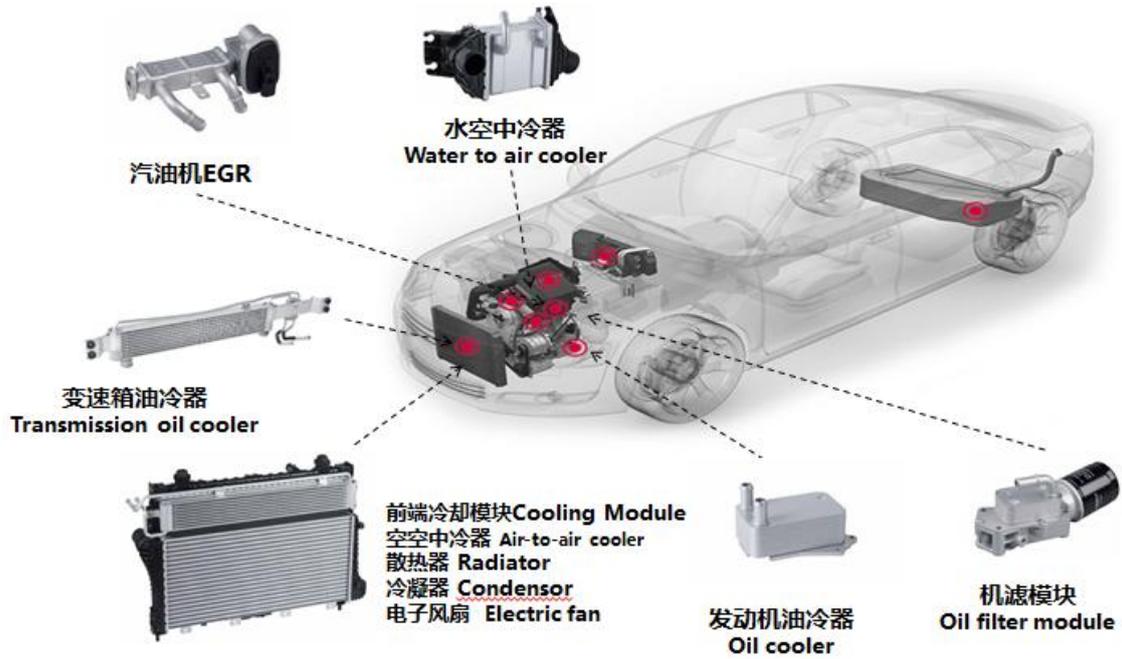
2. Company main products

The company's products are divided by applications and mainly include commercial vehicles, construction machinery, passenger cars, new energy vehicles and other fields. The position of the products in each vehicle is shown in the figure below:

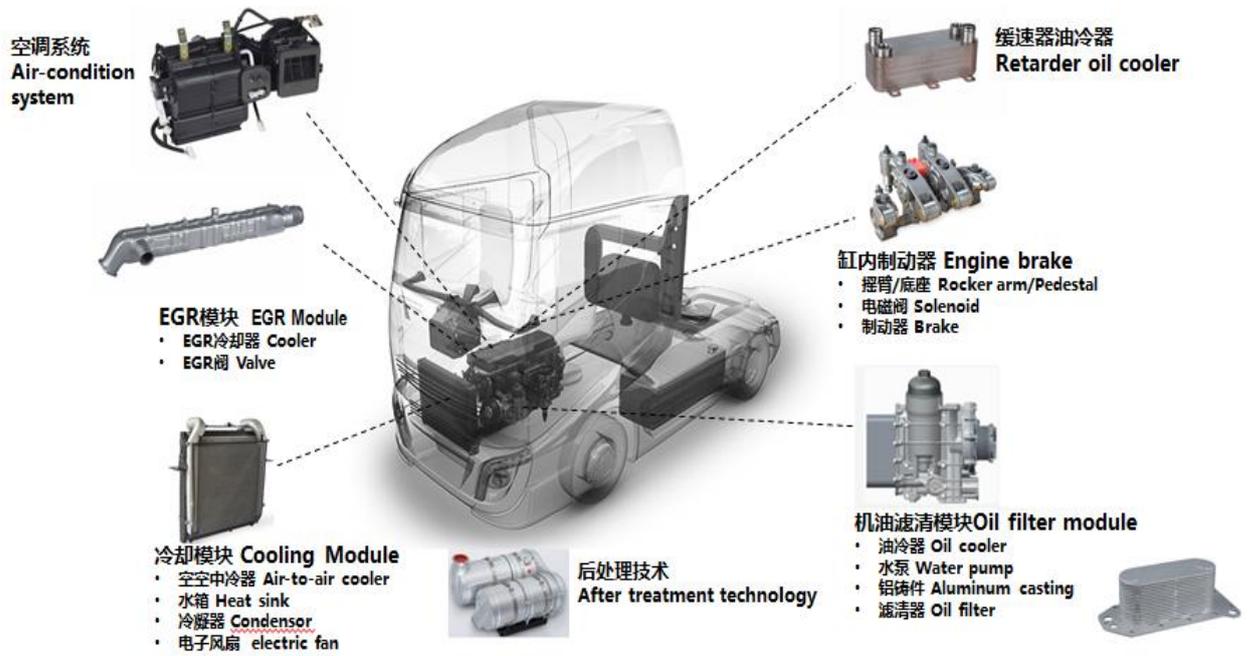
(1) new energy vehicles



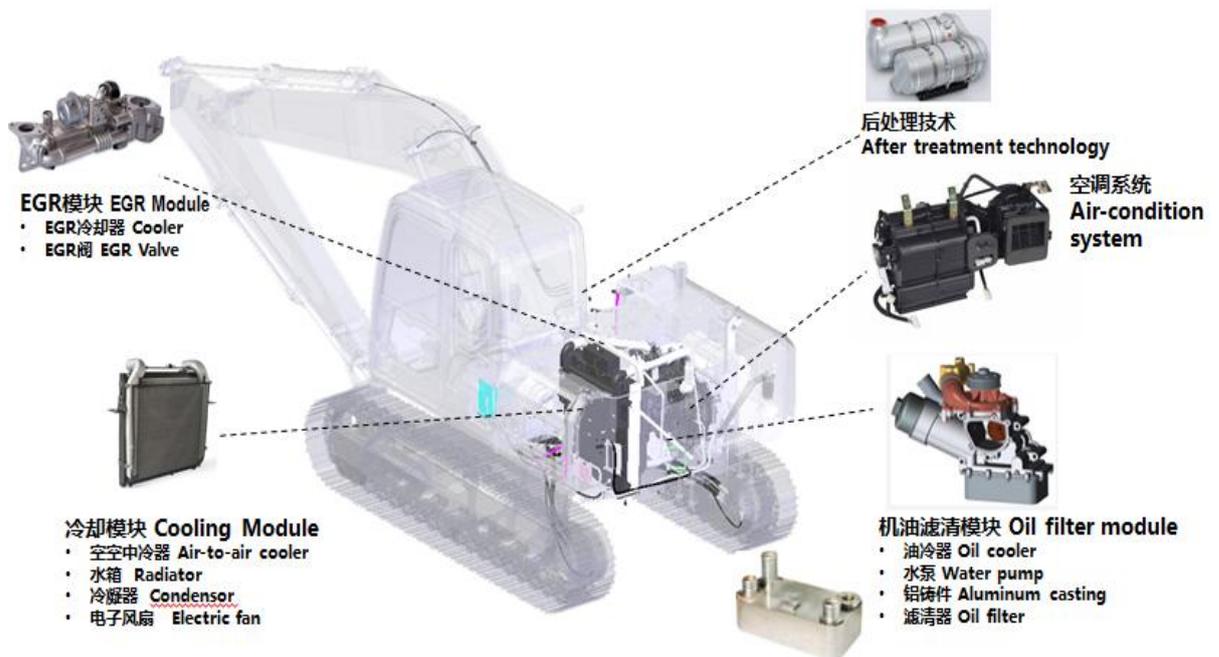
(2) passenger cars



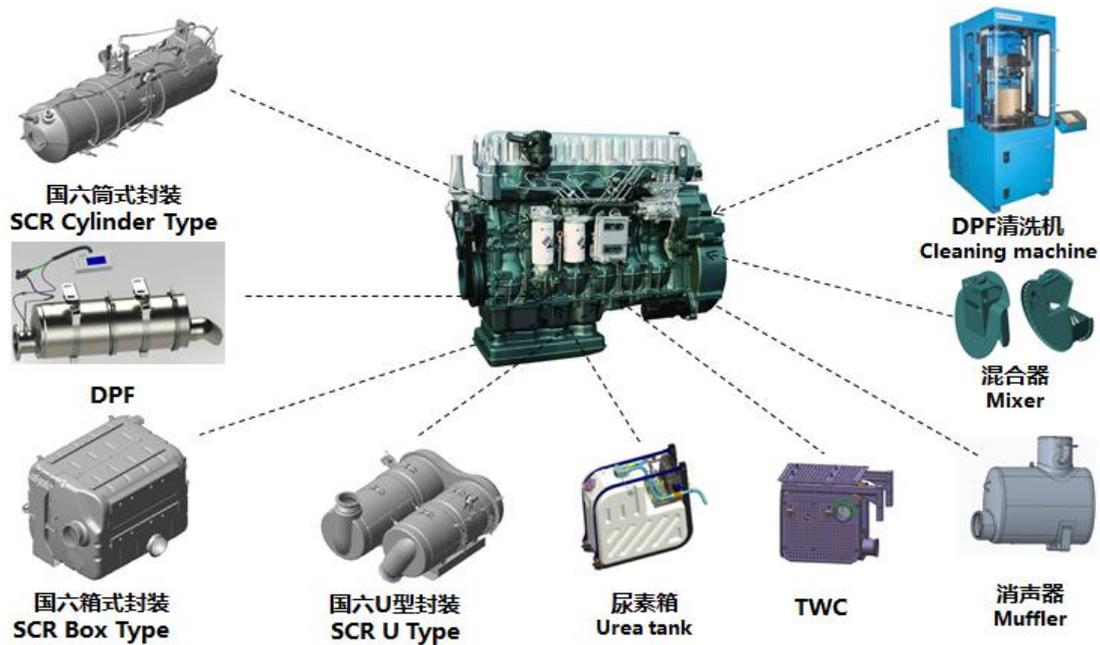
(3) commercial vehicles



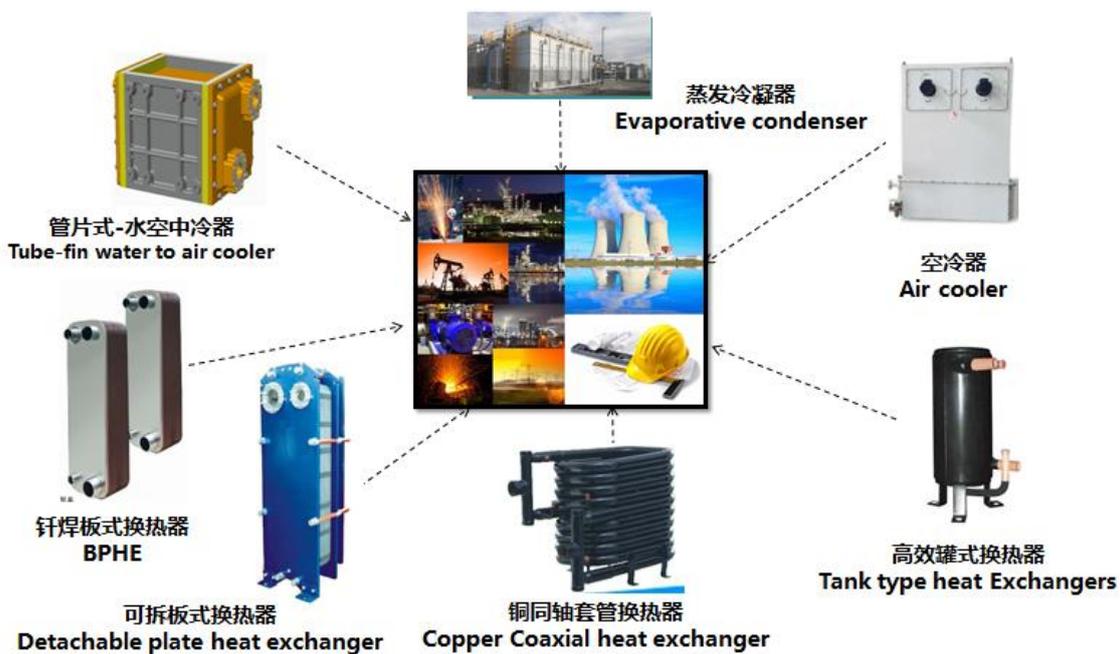
(4) construction machinery



(5) Exhaust Treatment



(6) other fields



(二) Main Customers

The main customers in the new energy vehicles include Volvo, Porsche, NIO, Xiaopeng, Weimar, GM, Ford, CATL, Geely, GAC, BYD, Yutong, Jiangling, etc.;

The main customers in the fuel cell field include Yihuatong, SAIC Maxus, etc.;

The main customers in the passenger cars include Ford, GM, BMW, Renault, MANN+HUMMEL, Jaguar Land Rover, GAC Mitsubishi, Dongfeng Nissan, Toyota, Geely, GAC, Great Wall, Changan, BYD, SAIC, etc.;

The main customers in the super sports cars include Ferrari, Audi, Mercedes-Benz, Lamborghini, Bentley, BMW, McLaren, Ford, etc.;

The main customers in the commercial vehicle include Daimler, Cummins, Navistar, Scania, FAW Jiefang, Dongfeng Motor, Sinotruk, Beiqi Foton, Yuchai, Xichai, Weichai, etc.;

The main customers in the construction machinery include Caterpillar, John Deere, Sumitomo, XCMG, Lonking, Sany Heavy Industries, Kubota, etc.

The main customers in the civil air-conditioning include Gree, Midea, Haier, Hisense, Samsung, LG, Tianshu, etc.

(三) Business Model

The company is a national high-tech enterprise with the integration of R&D, production and sales.

1、 R&D model

As a national high-tech enterprise, the company has always paid great attention to the reserve and output of technological development, continuously strengthened technological innovation and the investment in new product development, introducing high-quality talents, improved the research and development system, created a good innovation atmosphere, stimulated the innovation motivation of the employee, and further enhanced the competitiveness of the company's products.

In the second take-off stage, the company implemented a technology-leading strategy, formulated product and technology strategic planning and implementation paths, focused on product, technology research and development and process improvement, built a global R&D structure, system and process. A complete system of research, development and testing for verification has been established, to strengthen the basic capabilities of R&D and its infrastructure for better the overall R&D capabilities. At present, the company has established R&D centers in Shanghai, Europe, and North America. Some subsidiaries are also actively carrying out R&D works and have achieved good R&D results.

With the experiences from more than ten years of production and R&D, a number of internationally first-class and domestic leading core technologies have been achieved, which makes the company's products to have the advantages of leading technology, low cost, and high quality in each same product category.

2、 Production Model

The company has established an order-driven pulling-type production method, production based on sales requests, for rapid and timely response. The company develops products according

to the customer's technical, quality, development cycle, cost and other requirements, and arranges the purchase according to the order quantity and production plan. The company's cycle from receiving customer orders, purchasing the raw materials, organizing the production to delivering the product is generally about 15-25 days. The company uses agile, lean, informatization, automation, intelligent logistics and error-proofing technologies, also adapts to local conditions, by using the world's advanced manufacturing technology and management methods to continuously improve product quality, reduce costs, and shorten delivery times, to raise the company's manufacturing practice to the world leading level.

In terms of product manufacturing, the company focuses on the three major product platforms: thermal management for passenger cars and new energy vehicles, thermal management for commercial vehicles and off-roads, and exhaust gas after treatment. The product lines drive the business divisions and subsidiaries to work together, while the territories are based on customer needs. In 2020, the company added a new business division to the original passenger car and new energy thermal management division, commercial vehicle and non-road division, and exhaust gas after-treatment division. For the new energy products, the company will mainly develop and manufacture air-conditioning systems and air-conditioning boxes. The company has subsidiaries and production base in Zhejiang, Shanghai, Shandong, Hubei, Jiangsu, Guangdong, Guangxi, Jiangxi and other locations. And it has established R&D sub-centers and production base in the United States, Sweden, and Poland. In accordance with the principles of economics scale, comparative cost and closeness to the customers, the company rationally plans the production layout on a global base and meets the needs of global customers with global supply capabilities.

3、 Sales Model

The company mainly adopts direct sales model, which is point-to-point sales. As a tier one supporting supplier of major vehicle and engine manufacturers, it directly sells products to OEMs.

The company has established a rapid response system that integrates technology, production and service, and continuously strengthens expansion of local markets and technical and after-sales service capabilities globally. The company has set up a "Golden Triangle" of self-operated team which includes account managers, project managers, and technical managers. It has also set up a three-dimensional sales network and service system combining point, line and surface to provide customers with end-to-end services. The company implements three simultaneous (synchronous development, simultaneous development, and simultaneous planning) and three corporations (asset cooperation, territorial cooperation, and strategic cooperation) to continuously increase the market share at strategies and key customers. By focusing on domestic and foreign strategic

customers, the company has established individual strategic plan for each customer.

(四) Industry development status and the company's industry status

The company mainly produces thermal management products such as heat exchangers, automotive air conditioners, and exhaust gas treatment products in the automotive parts manufacturing industry. The company's business development is mainly affected by the development of the automotive industry. At the beginning of 2020, due to the impact of the pandemic, the sales volume of automobile industry has dropped significantly. As the domestic pandemic prevention and the control of the situation continue being improved, the overall China's economic status was continuously recovered, and the manufacturing industry was continuously improved at both supply and demand ends. And the market for the customers continues to be improved, and the construction projects of major infrastructure was accelerated, and the policies to promote automobile consumption in various regions continues to drive automobile production and sales, which shows a picking up momentum and supports a good development trend. According to data released by the China Association of Automobile Manufacturers, the production and sales volume of automobiles in 2020 was 25.225 million and 25.311 million, which was just 2% and 1.9% lower than last year.

In the automotive supply chain, the company has developed and became a leading enterprise in the domestic automotive thermal management industry. It has top heat exchanger mass production capacity and systematic automotive heat exchanger technology reserve. It is one of the largest suppliers for commercial and mechanical heat exchanger products. A strong competitive advantage in the thermal management of traditional commercial vehicles, passenger cars, and construction machinery has been established. It has also much experience in the exhaust gas treatment industry with certain competitiveness. It is now gradually expanding into thermal management area for new energy passenger car.

The company will continue to persist in the three strategic directions of "accelerating international development, achieving technology leadership, and enhancing overall competitiveness", and is committed to provide heat exchange solutions in the field of automotive heat exchange, and strives to build the company to be a global outstanding enterprise in providing system solutions in efficient heat exchange and exhaust system.

(五) Development trend and performance driving factors of automotive supplier

1. The trend of parts localization is conducive to the development of local auto parts manufacturing enterprises.

Based on analysis on the supply side, as continuously developing in China's automobile

industry and upgrading in industrial technology, some domestic manufacturing enterprises own the technologies in manufacturing of precision auto parts and build up the capacity of mass production. Replacement by domestic parts is gradually extending from the interior and exterior decoration parts to functional parts of engine system, air conditioning system as well as safety parts of chassis. Some international firms may take the initiative to exit because of industrial transformation and shrinking of their competitive advantages.

Based on the analysis on the demand side, under the pressure for cost reduction and efficiency increase, auto enterprises are motivated for parts localization. Comparing to big international parts suppliers, domestic parts manufacturers have the advantages of low cost. Short distance and rapid response in synchronous development are expected to benefit to the local parts manufacturers for more market share. At the same time, for automobile enterprises, cooperation with local parts manufacturers can also avoid the unexpected risks caused by the complexity and unpredictable international situations.

2. The future development potential of new energy vehicles is huge, and the value of new energy thermal management system is high

In November 2020, the general office of the State Council issued the new energy vehicle industry development plan (2021-2035), which proposed that we must seize the strategic opportunity, consolidate the good momentum, fully utilize the advantages of the infrastructure, information and communication, continuously improve the core competitiveness of the industry, and promote the high-quality and sustainable development in the new energy vehicle industry. By 2025, the market competitiveness of China's new energy vehicles will be significantly enhanced, and major breakthroughs will be made in key technologies such as power battery, driving motor and vehicle operating system, and the safety level will be comprehensively improved. The sales of new energy vehicles will reach 20% of the total sales volume of new automobiles. There is still a huge development space for new energy vehicles.

Comparing to traditional vehicles, new energy vehicles has the different power source, which also leads to more complex functions of thermal management system in new energy vehicles. Comparing to the traditional vehicle thermal management system, the value of new energy vehicle thermal management system in single vehicle is significantly higher, which is about 2-3 times of what in the traditional passenger car.

3. The commercial vehicle market will maintain a high momentum driven by factors such as the elimination of the China III, infrastructure investment and overload control

In June 2018, the State Council issued the "three year action plan for protecting blue sky",

which requires key regions to vigorously promote the elimination and renewal of diesel trucks with China III emission standard or lowers in advance, and accelerate the elimination of old gas engine vehicles using lean burn technology and "oil to gas". By 2020, in Beijing, Tianjin, Hebei and the surrounding areas, and the Fen Wei plain, more than 1 million medium and heavy diesel trucks with China III emission standard or lowers will have to be eliminated. Due to the aging of the existing heavy diesel trucks with China III, combined with other factors, the centralized scrapping and replacement of this type trucks will happen in the short term.

Secondly, through the implementation of various macro policies, China has moderately increased the intensity of counter-cycle adjustment. Jiangsu, Beijing and other provinces and cities have issued large-scale investment plans, in which various types of infrastructure construction are still an important part. With the continuous start of infrastructure projects in various regions, the demand for heavy trucks in construction will further increase.

In addition, overloading is very common in the commercial vehicle market. On September 18, 2018, the Ministry of transportation issued the notice on strictly implementing the national overload and overrun identification standards to strengthen the management in highway overload control and law enforcement. Illegally overload and overrun vehicles will be refused to enter the highway. Since viaduct rollover accident occurred in the Wuxi in October 2019, overloading has been more strictly controlled in all the cities. On May 21, 2019, the incident of "large ton weight but small ton license certificated" broke out in the light truck industry. Since then, the vehicle management offices across the country have strengthened the registration and weighing management, strictly prohibited the registration for overweight vehicles and also strengthened the management of production source of the overweight vehicles. On April 21, 2020, the safety committee of the State Council issued the national three year action plan for special rectification of work safety', established the information supervision system for overload control, strictly implemented the measures of "one overload for four penalties" for overload control, deepened the special rectification of "100 ton", and basically eliminate the illegal modification of truck and "large ton and small ton license " by 2022. In recent years, the relevant overload control measures can fully reflect the determination of the state to deal with the overload problem of the trucks. Strict enforcement of the law has significantly reduced the single vehicle capacity and significantly increased the market demand for more commercial vehicles along with the steady increase in total transport volume.

4. National emission standards continue to upgrade iteratively, creating new demand for vehicle exhaust treatment

In 2016 and 2018, "emission limits and measurement methods for light vehicles (China phase VI)" and "emission limits and measurement methods for heavy diesel vehicles (China phase VI)" were released one after another, with the specification in the emission requirements and implementation time of the China VI standards. With the gradual implementation of emission policy, the demand for exhaust gas treatment products will be greatly increased.

5. Regional localization development of automobile supply chain

Due to the influence of epidemic situation, trade friction and other factors, developed countries rethink the global industrial value chain model at the national strategic level, intervene and shrink the global industrial value chain through certain non market measures, and appropriately reduce the dependence on external single supply chain. At the same time, in order to avoid the risk on the supply side to realize the secured production, vehicle manufacturers also tend to have supply nearby.

Therefore, the existing industrial value chain pattern with division of labor and cooperation in the automobile industry will be challenged to a certain extent, and the regional localized vertical supply chain pattern and the mode of tripartite or multilateral strategic cooperation will be developed rapidly.

3. Selected Financial Data

(1) Key accounting data and financial ratios for the past three years

Indicate by check mark if there is any retrospectively restated accounting data of previous years.

Yes No

Unit: Yuan

	2020	2019	Increase/decrease of current year over prior year	2018
Revenue	6,324,186,529.70	5,520,743,642.53	14.55%	5,019,241,538.44
Net profit attributable to shareholders	321,583,085.75	317,677,156.02	1.23%	349,122,610.13
Net profit attributable to shareholders excluding non-recurring gains and losses	260,386,304.06	172,855,258.34	50.64%	304,010,155.58
Net cash flows from operating activities	456,173,578.49	688,584,828.23	-33.75%	304,839,058.43
Basic EPS (RMB Yuan / share)	0.41	0.40	2.50%	0.44
Diluted EPS (RMB Yuan / share)	0.41	0.40	2.50%	0.44
Weighted average ROE (%)	8.40%	8.60%	-0.20%	10.01%

	As of Dec.31, 2020	As of Dec.31, 2019	Increase/decrease of current year over prior year	As of Dec.31, 2018
Total assets	9,856,245,406.68	8,424,106,635.59	17.00%	7,858,823,185.48
Net assets attributable to shareholders	3,937,786,096.18	3,729,627,295.93	5.58%	3,605,604,813.61

(2) Key accounting data by quarter

Unit: Yuan

	Q1	Q2	Q3	Q4
Revenue	1,274,726,672.29	1,734,874,643.52	1,498,877,044.63	1,815,708,169.26
Net profit attributable to shareholders	93,052,233.55	110,537,804.87	75,393,745.10	42,599,302.23
Net profit attributable to shareholders excluding non-recurring gains and losses	72,987,849.25	106,276,916.16	60,922,848.77	20,198,689.88
Net cash flows from operating activities	-92,851,643.90	11,653,421.15	34,275,030.70	503,096,770.54

Indicate by check mark if any material difference between the above financial indicators or their summations and those which have been disclosed in the Company's Quarterly or Interim report.

Yes No

4. Capital and Shareholders

(1) Top 10 shareholders of common stock and preferred stock with resumed voting rights

Unit: Share

Total number of shareholders of common stocks at the end of the reporting period	33,652	Total number of shareholders of common stocks at previous month-end of this report's disclosure	40,530	Total number of shareholders of preferred stock with resumed voting right at the end of the reporting period	0	Total number of shareholders of preferred stock with resumed voting rights at previous month-end of this report's disclosure	0
Top 10 shareholders							
Name	Nature	Ownership	Quantity of stocks	Quantity of restricted stocks held	Pledged or frozen stocks		
					Status	Quantity	
Tiantai Yinlun Industrial Development Co., Ltd.	Domestic non-state-owned corporate	10.16%	80,444,000		Pledged	15,000,000	
Hong Kong Securities Clearing Company Ltd.(HKSC)	Foreign corporate	5.62%	44,512,966				

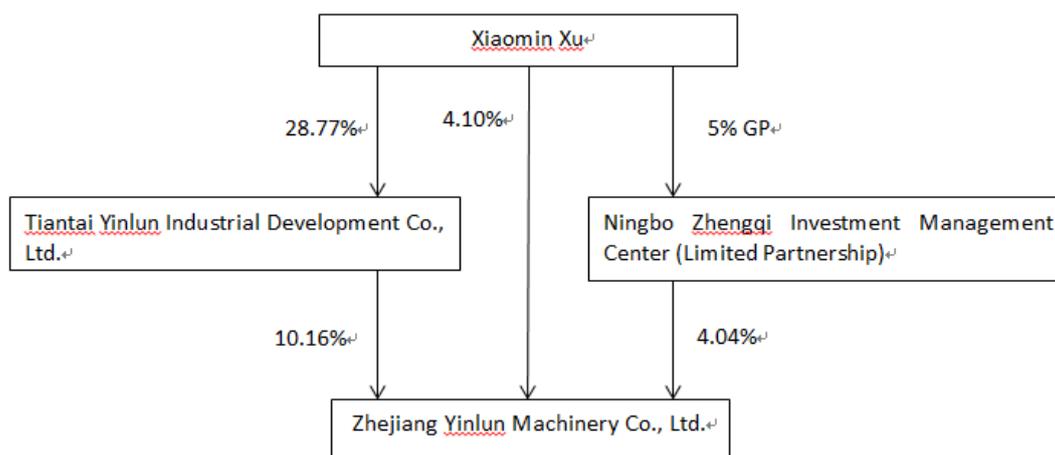
1003 Portfolio of Basic Endowment Insurance Fund	Other	4.9%	38,801,674			
Xiaomin Xu	Domestic natural person	4.1%	32,470,808	24,353,106		
Ningbo Zhengqi Investment Management Center (Limited Partnership)	Domestic non-state-owned corporate	4.04%	32,000,000			
Industrial and Commercial Bank of China Co., Ltd.-Rongtong China Wind No. 1 Flexible Configuration Hybrid Securities Investment Fund	Other	1.55%	12,243,352			
China Construction Bank Co., Ltd. - Invesco Great Wall Environmental Advantage Equity Securities Investment Fund	Other	1.26%	9,940,828			
National First Pension Trust Company - Owned funds	Other	1.2%	9,511,989			
Bank of China - China Securities New Energy Automobile ETF Securities Investment Fund	Other	1.14%	9,056,380			
Bank of China - Invesco Great Wall Preferred Hybrid Securities Investment Fund	Other	1.13%	8,914,306			
Explanation on the above-mentioned shareholders' affiliated relationship or concerted action	Xiaomin Xu is an executive director of Tiantai Yinlun Industrial Development Co., Ltd. and an executive partner of Ningbo Zhengqi Investment Management Center (Limited Partnership). The Company is not aware of any affiliation relationship between other shareholders.					
Explanation on the above-mentioned shareholders that are engaged in margin trading business	Not applicable					

(2) Total number of and top 10 shareholders of preferred stocks

Applicable Not applicable

No shareholders holding preferred stocks noted in the reporting period

(3) The ownership and controlling relationship between the Company and its actual controller is in form of diagram



5. Bonds

Does the Company have any corporate bond that is publicly issued and listed on the stock exchange and that is immature or not fully redeemed as of the approved issuance date of the Annual Report?

None

III. Management Discussion and Analysis

1. Business review for the reporting period

In 2020, the sudden new Covid-19 pandemic has had a huge impact on the automotive industry. The entire industry has not been afraid of overcome difficulties, steadily promoted resuming of the production inventory, accelerated the transformation of marketing methods, and actively promoted automotive consumption., and the automotive market has be gradually recovered, with continuously increase which has been sustained since April. The annual production of automobiles has been maintained steadily with slight decrease and the impact of the pandemic has been mostly eased. The overall performance demonstrated the great strength of development and domestic dynamic. The annual production and sales of automobiles reached for the year were 25.225 million and 25.311 million, only down 2% and 1.9% year-on-year, respectively. The rate of decline was narrowed down to 5.5 and 6.3 percentage points lower than respectively comparing to the previous year.

In this environment, the company responded quickly, focusing on pandemic prevention and control on the one hand, and resuming production on the other hand, firmly committed to the three strategic directions of "accelerating international development, highlighting technology leadership, and building comprehensive competitiveness", also liberated minds and innovated business models, continuously improve increased research and development capabilities, and improved quality control capabilities and operational efficiency. During the

reporting period, the company achieved operating income of RMB 6,324,186,529.70, an increase of 14.55% over the same period last year; realized a total profit of RMB 418,831,171.00, an increase of 4.77% over the same period of last year; realized a net profit of RMB 320,495,900 attributable to shareholders of listed companies of RMB 321,583,085.75, which was an increase of 1.23% over the same period last year.

In terms of technology research and development, 58 R&D projects were approved for the year, 198 new patent applications were filed, and R&D investment was RMB 269 million, a year-on-year increase of 22.26%. The company continued to improve the company's technology and R&D capabilities, enhance product testing capabilities, and improve product performance reliability; concentrate resources to accelerate the research and development of in key core technologies, promote major technology research and development projects, and focus on the market needs of 8+N strategic customers and important customers. Focus on and aim breaking through in the company's strategic customers and major projects.

In terms of customer and market expansion, the company focused on strategic major customers and large projects, guided resource allocation according to priority, and implemented the "one customer, one policy" tactic; and established data accumulation as a database to improve inventory, cash, and price management process to reduce sales administration costs. During the reporting period, the company also successively won 210 new projects, such as the North American new energy benchmark car cooling module, Volvo new energy vehicle battery cooling plate and cooling module, Geely Daimler SMART platform heat pump air conditioning project, Porsche new energy vehicle battery cooling plate, Geely Automobile PEA battery Cooler and DHT cooling module, Toyota oil cooler, Fastgear oil cooler, Weichai engine filter module assembly, Weichai after treatment system assembly, Mann+Hummel (BMW) water-to-air cooler, etc. of 210 new awarded projects. According to customer needs and forecasts, these above projects will add nearly 3.95 billion RMB in annual sales revenue to the company after the completion of all the projects, of which the new energy vehicle business accounted for about 27%, and the passenger vehicle business (including new energy and fuel vehicles) accounted for about 46.7%. The company's future passenger vehicle business (including new energy and fuel vehicles) will continue to increase, and the business structure will be further optimized, which enhance the stability of growth in performance growth, and lay a solid foundation for the realization of the goal for the second entrepreneurial goal.

In terms of improving product competitiveness, we the company has gradually

established an operating system with scientific management, clear processes, and strong execution. The company continuously improved product material technology, and promoted breakthroughs and improvements in key processes, and achieved no fluxless brazing on CAC cooler product. The company also paid attention to the improvement of simulation analysis capabilities, reduced simulation time, and improved the accuracy of simulation and analysis results, which results in and has winning major projects from important strategic customers for the company.

In terms of talent training and incentives, with by aiming strategic objectives achievement as the driving force for training, and customer requirements as a landing the execution guide, we built a talent training system that combines strategic business + on-the-job capability improvement. During the reporting period, the company planned and organized 7 special training courses, including project engineer ability improvement class, marketing engineer ability improvement class, and expert lecture hall, with a total of 339 hours of training. In terms of the motivation, the company used guidance of follow the performance + ability orientation, which fully reflects the personal business skills and contribution to, and stimulate the enthusiasm of employees.

2. Significant changes in main business in the reporting period

Applicable Not applicable

3. Products contributing to over 10% of the Company's main business revenue or profit

Applicable Not applicable

Unit: Yuan

Product	Revenue	Profit	Gross profit margin (%)	Revenue: +/-% over last year	Profit: +/-% over last year	Gross profit margin +/-% over last year
Heat Exchanger	4,897,522,940.29	312,309,870.29	23.50%	7.52%	3.30%	-1.08%
Exhaust Treatment	794,142,102.66	45,475,312.50	22.85%	27.82%	1,486.20%	5.44%

4. Seasonal or periodic characteristics in operating performance that needs special attention

Applicable Not applicable

5. Significant changes in revenues, costs and net profit attributable to shareholders with common shares or their composition comparing to prior reporting period

Applicable Not applicable

6. Listing suspension or termination

Applicable Not applicable

7. Matters related to financial statements

(1) Explanation on changes in accounting policy, accounting estimations and accounting methods comparing to prior year financial statement

Applicable Not applicable

(1) Implement the Accounting Standards for Business Enterprises No. 14 -- Revenue (revised in 2017) (hereinafter referred to as the "new revenue standards")

The Ministry of Finance revised the Accounting Standards for Business Enterprises No. 14 - Revenue in 2017. The revised standard stipulates that the first implementation of the standard should adjust the amount of retained earnings and other related items in the financial statements at the beginning of the year according to the cumulative impact, without adjusting the information for comparable periods.

The company will implement the new revenue standards from January 1, 2020. According to the standards, the company only adjusts the retained earnings at the beginning of 2020 and the amount of other related items in the financial statements for the cumulative impact of contracts that have not been completed on the date of first implementation, and the comparative financial statements do not adjust. The main impacts of the implementation of this standard are as follows:

The content and reason of accounting policy change	Affected report items	Amount of impact on the balance on January 1, 2020	
		consolidation	The parent company
(1) Reclassification of advance receipts related to the sale of goods to contract liabilities	Advance receipt	-34,032,140.20	-14,698,045.75
	Contract liabilities	32,445,573.23	14,503,740.07
	Other current liabilities	1,586,566.97	194,305.68
(2) Reclassify the accounts receivable related to the warranty funds that do not meet the unconditional right of collection to contract assets	Accounts receivable	-60,536,580.79	-27,537,171.39
	Contract assets	60,536,580.79	27,537,171.39

Compared with the original income standard, the impact of the implementation of the new income standard on the relevant items of the 2020 financial statements is as follows (increase/decrease):

Affected report items	Amount of impact on the balance on January 1, 2020	
	consolidation	The parent company
Accounts receivable	-73,900,378.88	-43,176,097.98

Contract assets	73,900,378.88	43,176,097.98
Contract liabilities	38,823,521.30	20,599,623.83
Advance receipts	-41,460,236.64	-21,537,385.38
Other current liabilities	2,636,715.34	937,761.55

Affected report items	Amount of impact on the balance on January 1, 2020	
	consolidation	The parent company
Operating costs	93,439,773.57	33,319,163.80
Sales expenses	-93,439,773.57	-33,319,163.80

(2) Implementation of Interpretation of Accounting Standards for Business Enterprises No. 13

The Ministry of Finance issued the Interpretation of Accounting Standards for Business Enterprises No. 13 (Finance and Accounting [2019] No. 21, hereinafter referred to as "Interpretation No. 13") on December 10, 2019, which took effect on January 1, 2020 and does not require retroactive adjustment.

① Determination of related parties

Interpretation No. 13 makes it clear that the following circumstances constitute an affiliated party: a joint venture or joint venture between the enterprise and other members of the enterprise group (including the parent company and subsidiaries); Joint ventures of an enterprise and other joint ventures or associates of an enterprise. In addition, interpretation no. 13 also makes it clear that only two or more enterprises that are materially affected by one party do not constitute affiliated parties, and adds that joint ventures include joint ventures and their subsidiaries, and joint ventures include joint ventures and their subsidiaries.

② Definition of business

Interpretation No. 13 improves the three elements of business composition, elaborates the judgment conditions of business composition, and introduces the choice of "concentration test" to simplify the judgment of whether a portfolio acquired under different control constitutes business to a certain extent.

The Company has implemented Interpretation No. 13 since January 1, 2020, and the comparative financial statements have not been adjusted. The Company has not implemented Interpretation No. 13, which has had a significant impact on the Company's financial position and operating results.

(3) Implementation of the Interim Provisions on Accounting Treatment for Carbon Emission Trading

The Ministry of Finance issued the Interim Provisions on Accounting Treatment of Carbon Emission Trading ([2019] No. 22) on December 16, 2019, which is applicable to relevant enterprises of key emitters that carry out carbon emission trading business in accordance with the Interim Measures on the Administration of Carbon Emission Trading and other relevant provisions (hereinafter referred to as key emitters). The regulation will take effect on January 1, 2020, and key emission enterprises should apply the regulation by adopting the future application method.

The Company has implemented this provision since January 1, 2020, and the comparative financial statements are not adjusted. The implementation of this provision has not had a significant impact on the Company's financial position and operating results.

(4) Implement the COVID-19 Outbreak Related Rental Concession Accounting Rules

On June 19, 2020, the Ministry of Finance (MOF) issued the Accounting Regulations on the Treatment of Rent Concessions Related to COVID-19 (Finance and Accounting [2020] No. 10), which will come into force on June 19, 2020, allowing enterprises to adjust the relevant rent concessions that occurred between January 1 solstice, the implementation date of this regulation. According to this regulation, enterprises can choose to adopt a simplified method for accounting treatment of rent concessions, such as rent remission and deferred payment, which are directly caused by COVID-19.

(2) Explanation on retrospective restatement due to significant accounting error correction in the reporting period

Applicable Not applicable

(3) Explanation on changes of consolidation scope comparing to prior year's financial statement

Applicable Not applicable

1.The company acquired 51.058% of Zhenhua Surface in May 2020, which was included in the scope of consolidated statements in May 2020.

2.The company set up its holding subsidiary Xuzhou Yinlun Environmental Protection Technology Co., Ltd in August 2020 with a registered capital of 50 million yuan, of which the company should contribute 27.5 million yuan, accounting for 55% of the registered capital. As of December 31, 2020, the Japanese company has not contributed yet, and it will be included in the scope of consolidated statements from December 2020.

3.Tiantai Yinlun Redongli Exchanger Co. Ltd, a wholly-owned subsidiary, was cancelled in February 2020 and no longer included in the scope of consolidated statements from February 2020.

4. During this period, the subsidiary, YINCHANG INC, merged all the assets, liabilities, business and personnel of LHP by means of absorption and merger. Upon completion of this absorption and merger, all the assets, liabilities, business, contracts and all other rights and obligations of TDI are enjoyed and undertaken by the subsidiary, YINCHANG INC.