



CHONGQING JIANSHE VEHICLE SYSTEM CO., LTD.

AUDITOR'S REPORT

DHSZ [2023] NO. 003251

Da Hua CPAs LLP

Chongqing Jianshe Vehicle System Co., Ltd.
Auditor's Report and Financial Statements

(From January 1, 2022 to December 31, 2022)

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Auditor's Report

DHSZ [2023] No. 003251

To all shareholders of Chongqing Jianshe Vehicle System Co., Ltd.:

I. Opinion

We have audited the accompanying financial statements of Chongqing Jianshe Vehicle System Co., Ltd.(hereinafter referred to as "the Company"), which comprise the consolidated balance sheet and the parent company's balance sheet as at December 31, 2022, the consolidated income statement and the parent company's income statement, the consolidated statement of cash flows and the parent company's statement of cash flows, and the consolidated statement of changes in shareholders' equity and the parent company's statement of changes in shareholders' equity for the year ended December 31, 2022 as well as the notes to the relevant financial statements.

In our opinion, the financial statements attached are prepared, in all material respects, in accordance with the Accounting Standards for Business Enterprises, and fairly present the Company's consolidated financial position and parent company's financial position as at December 31, 2022 and its consolidated operating results and cash flows and parent company's operating results and cash flows for the year then ended.

II. Basis for Opinion

We conducted our audit in accordance with Auditing Standards for Certified Public Accountants in China. 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 Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We determine to communicate the following key audit matters in the auditors' report.

(I) Revenue recognition

1. Descriptions of key audit matters

Please refer to Note 3.33 and Note 5.32 of the consolidated financial statements for the accounting policies and book amount related to revenue recognition of the Company.

The main business of the Company is the production and sales of automobile air-conditioning compressors, provision of supporting services for automotive OEMs. As revenue is one of key performance indicators of the Company, we regard the Company's revenue recognition as a key audit matter.

2. How our audit addressed the matter

Significant audit procedures implemented for the revenue recognition include:

- (1) We obtained the internal control system related to the Company's sales cycle, analyzed its rationality and tested its operational effectiveness.
- (2) Obtained the main sales contract, checked the cooperation mode, main contract terms and settlement mode, and made a comparison with the revenue recognition policy actually implemented by the Company;
- (3) Obtained the detailed list of sales revenue and costs, and executed the analysis program for the changes of sales revenue and gross profit margin;
- (4) Conducted detail tests and sampled sales contract, customer billing notice, customer acceptance certificate and bank receipt, etc. for check;
- (5) Implemented the revenue cut-off tests, and checked the sales revenue confirmed before and after the balance sheet date, customer acceptance list and customer billing notice;
- (6) Selected samples of the ending balance of accounts receivable and the current income for certification.

Based on the audit procedures executed, we believe that the revenue recognition of the Company meets accounting policies.

IV. Other Information

The Management of the Company shall be responsible for other information. The other information comprises the information covered in the 2022 annual report of the Company, but excludes the financial statements and our auditor's report.

Our opinion on the financial statements does not cover the other information, and we do not and will 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 identified above 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 on the other information, we conclude that there is a material misstatement of the other information, we are required to report that fact. However, we have nothing to report in this regard.

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

The Management is responsible for the preparation and fair presentation of the financial statements in accordance with the requirements of Accounting Standards for Business Enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing the Company's going-concern ability, disclosing the matters related to going concern (if applicable) and using the going-concern assumption unless the Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

VI. 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 auditors' 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 the audit 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 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 CSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
3. Evaluate the appropriateness of accounting policies used by and the reasonableness of accounting estimates and related disclosures made by the Management.
4. Conclude on the appropriateness of the Management's use of the going-concern assumption. Meanwhile, according to the audit evidence acquired, the management comes to conclusion on matters which may cause significant misgiving against the going-concern ability of the Company or whether the said situation exists material uncertainty or not. If we conclude that a material uncertainty exists, we are required to, in our auditors' report, draw attention of the users of reports to the related disclosures in the financial statements; if such disclosures are inadequate, we should modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the financial statements' overall presentation, structure and contents, and whether the financial statements fairly represent the underlying transactions and events.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities of the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit, and bear interests' full responsibility for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them in regard to all relationships and other matters that may reasonably be thought to affect our independence, and related safeguards (if applicable).

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

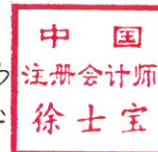


Beijing, China

**Certified Public Accountant of China:
(Engagement Partner)**

Xu Shibao

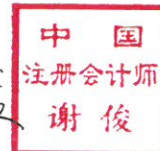
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Certified Public Accountant of China:

Xie Jun

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April 27, 2023

Consolidated Balance Sheet

As at December 31, 2022

Prepared by: Chongqing Jianshe Vehicle System Co., Ltd.

(Amounts are expressed in RMB unless otherwise stated)

Assets	Note 5	Balance as at December 31, 2022	Balance as at December 31, 2021
Current assets:			
Monetary funds	5.1	179,954,522.99	91,678,523.19
Financial assets held for trading		-	-
Derivative financial assets		-	-
Notes receivable	5.2	-	2,220,000.00
Accounts receivable	5.3	113,710,214.72	149,333,285.64
Receivables financing	5.4	17,548,591.75	29,250,840.86
Advances to suppliers	5.5	4,024,366.02	7,228,480.93
Other receivables	5.6	1,720,044.17	1,431,664.33
Inventories	5.7	131,860,572.93	206,719,605.79
Contract assets		-	-
Assets held for sale	5.8	-	104,982,996.11
Non-current assets maturing within one year		-	-
Other current assets	5.9	1,468,399.16	4,585,170.16
Total current assets		450,286,711.74	597,430,567.01
Non-current assets:			
Creditor's right investments		-	-
Other creditor's right investments		-	-
Long-term receivables		-	-
Long-term equity investments	5.10	210,112,321.04	201,984,268.72
Other equity instrument investments		-	-
Other non-current financial assets	5.11	-	-
Investment properties		-	-
Fixed assets	5.12	202,039,143.80	216,541,481.98
Construction in progress	5.13	989,429.96	1,811,125.46
Productive biological assets		-	-
Oil and gas assets		-	-
Right-of-use assets		-	-
Intangible assets	5.14	11,801,504.95	13,580,639.04
Development expenses		-	-
Goodwill		-	-
Long-term deferred expenses	5.15	70,280.65	116,978.77
Deferred income tax assets	5.16	5,752,057.03	6,060,617.99
Other non-current assets	5.17	15,860,120.00	3,810,800.00
Total non-current assets		446,624,857.43	443,905,911.96
Total assets		896,911,569.17	1,041,336,478.97

(The accompanying notes to the financial statements form an integral part of the consolidated financial statements)

Legal Representative:

Accounting Principal:

Head of the Accounting Department:

Consolidated Balance Sheet (Continued)

As at December 31, 2022

Prepared by: Chongqing Jianshe Vehicle System Co., Ltd.

(Amounts are expressed in RMB unless otherwise stated)

Liabilities and shareholders' equity	Note 5	Balance as at December 31, 2022	Balance as at December 31, 2021
Current liabilities:			
Short-term borrowings	5.18	546,603,500.00	493,460,000.00
Financial liabilities held for trading		-	-
Derivative financial liabilities		-	-
Notes payable	5.19	30,379,988.94	160,670,000.00
Accounts payable	5.20	171,190,476.10	190,292,444.13
Advances from customers		-	-
Contract liabilities	5.21	3,441,205.38	2,868,604.98
Employee compensation payable	5.22	8,529,392.78	20,944,522.89
Taxes and surcharges payable	5.23	16,649,704.07	15,134,121.83
Other payables	5.24	7,566,872.62	6,766,954.83
Liabilities held for sale		-	-
Non-current liabilities maturing within one year		-	-
Other current liabilities	5.25	447,356.63	372,918.65
Total current liabilities		784,808,496.52	890,509,567.31
Non-current liabilities:			
Long-term borrowings		-	-
Bonds payable		-	-
Including: preferred stocks		-	-
Perpetual bonds		-	-
Lease liabilities		-	-
Long-term payables		-	-
Long-term employee compensation payable		-	-
Estimated liabilities		-	-
Deferred income		-	-
Deferred income tax liabilities	5.16	1,011,787.97	1,523,318.82
Other non-current liabilities		-	-
Total non-current liabilities		1,011,787.97	1,523,318.82
Total liabilities		785,820,284.49	892,032,886.13
Shareholders' equity			
Share capital	5.26	119,375,000.00	119,375,000.00
Other equity instruments		-	-
Including: preferred stocks		-	-
Perpetual bonds		-	-
Capital reserves	5.27	958,565,294.29	958,565,294.29
Less: treasury stock		-	-
Other comprehensive income	5.28	9,800.00	9,800.00
Special reserves	5.29	3,234,669.03	1,713,882.50
Surplus reserves	5.30	125,686,000.00	125,686,000.00
Undistributed profits	5.31	-1,095,779,478.64	-1,056,046,383.95
Total equity attributable to shareholders of the parent company		111,091,284.68	149,303,592.84
Minority equity		-	-
Total shareholders' equity		111,091,284.68	149,303,592.84
Total liabilities and shareholders' equity		896,911,569.17	1,041,336,478.97

(The accompanying notes to the financial statements form an integral part of the consolidated financial statements)

Legal Representative:

Accounting Principal:

Head of the Accounting Department:

Consolidated Income Statement

For the Year Ended December 31, 2022

Prepared by: Chongqing Jianshe Vehicle System Co., Ltd.

(Amounts are expressed in RMB unless otherwise stated)

Item	Note 5	Year 2022	Year 2021
I. Operating revenue	5.32	474,114,098.08	680,118,967.08
Less: Operating costs	5.32	450,395,435.30	586,901,822.80
Taxes and surcharges	5.33	3,754,824.57	6,707,375.25
Selling and distribution expenses	5.34	15,239,315.12	16,795,778.20
General and administrative expenses	5.35	47,721,110.67	62,047,629.17
Research and development expenses	5.36	30,598,868.69	29,760,773.46
Financial expenses	5.37	17,472,245.88	23,014,845.65
Including: interest expenses		20,216,911.43	24,231,685.81
Interest income		1,640,888.48	1,562,787.46
Plus: Other income	5.38	1,205,689.22	1,583,305.16
Investment income ("-" for losses)	5.39	8,128,052.32	15,770,549.70
Including: income from investment in associates and joint ventures		8,128,052.32	15,770,549.70
Gains from derecognition of financial assets measured at amortized cost		-	-
Gains from net exposure hedging ("-" for losses)		-	-
Gains from changes in fair value ("-" for losses)		-	-
Losses from credit impairment ("-" for losses)	5.40	989,437.83	-318,331.09
Losses from asset impairment ("-" for losses)	5.41	-	17,064.89
Gains from disposal of assets ("-" for losses)	5.42	40,420,431.93	1,566,473.14
II. Operating profits ("-" for losses)		-40,324,090.85	-26,490,195.65
Plus: Non-operating revenue	5.43	170,256.15	319,658.55
Less: Non-operating expenses	5.44	3,112.43	198.18
III. Total profits ("-" for total losses)		-40,156,947.13	-26,170,735.28
Less: Income tax expenses	5.45	-423,852.44	-171,772.56
IV. Net profit ("-" for net loss)		-39,733,094.69	-25,998,962.72
Including: net profit of the combinee under the business combination under common control before the business combination			
(I) Classified by operating sustainability			
Net profit from continued operation ("-" for net loss)		-39,733,094.69	-25,998,962.72
Net profit from discontinued operation ("-" for net loss)			
(II) Classified by ownership			
Net profit attributable to owners of the parent company ("-" for net loss)		-39,733,094.69	-25,998,962.72
Minority interest income ("-" for net loss)		-	-
V. Other comprehensive income, net of tax		-	-
Other comprehensive income, net of tax, attributable to owners of the parent company		-	-
(I) Other comprehensive income that cannot be reclassified into profit or loss		-	-
1. Net Changes in re-measurement of the defined benefit plan		-	-
2. Other comprehensive income that cannot be transferred to profit or loss under the equity method		-	-
3. Changes in fair value of other equity instrument investments			
4. Changes in the fair value of the company's own credit risk			
5. Others			
(II) Other comprehensive income that will be reclassified into profit or loss		-	-
1. Other comprehensive income that can be transferred to profit or loss under the equity method			
2. Changes in fair value of other creditor's right investments			
3. Amount of financial assets reclassified into other comprehensive income			
4. Provision for credit impairment of other creditor's right investments			
5. Cash flow hedging reserve			
6. Differences arising from translation of foreign-currency financial statements		-	-
7. Disposal of the investment income generated by subsidiaries in a package before the loss of control			
8. Other assets converted into investment properties measured using the fair value model			
9. Others			
Other comprehensive income, net of tax attributable to minority shareholders			
VI. Total comprehensive income		-39,733,094.69	-25,998,962.72
Total comprehensive income attributable to owners of the parent company		-39,733,094.69	-25,998,962.72
Total comprehensive income attributable to minority shareholders		-	-
VII. Earnings per share:			
(I) Basic earnings per share		-0.33	-0.22
(II) Diluted earnings per share		-0.33	-0.22

(The accompanying notes to the financial statements form an integral part of the consolidated financial statements)

Legal Representative:

Accounting Principal:

Head of the Accounting Department:

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2022

Prepared by: Chongqing Jianshe Vehicle System Co., Ltd.

(Amounts are expressed in RMB unless otherwise stated)

Item	Note 5	Year 2022	Year 2021
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		455,186,338.69	573,159,596.26
Refund of taxes and surcharges		10,282,411.62	20,826,397.73
Cash received from other operating activities	5.46	12,374,241.54	9,842,241.82
Sub-total of cash inflows from operating activities		477,842,991.85	603,828,235.81
Cash paid for goods purchased and services received		320,316,578.74	432,450,100.21
Cash paid to and on behalf of employees		107,843,217.38	111,795,006.58
Cash paid for taxes and surcharges		15,295,146.76	13,624,159.14
Cash paid for other operating activities	5.46	21,978,449.88	24,526,602.41
Sub-total of cash outflows from operating activities		465,433,392.76	582,395,868.34
Net cash flows from operating activities		12,409,599.09	21,432,367.47
II. Cash flows from investing activities:			
Cash received from disinvestment		-	-
Cash received from investment income		-	-
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		153,543,148.36	1,609,454.58
Net cash received from disposal of subsidiaries and other business units		-	-
Cash received from other investing activities		-	-
Sub-total of cash inflows from investing activities		153,543,148.36	1,609,454.58
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets		26,166,782.57	12,003,935.51
Cash paid for investments		-	-
Net cash paid to acquire subsidiaries and other business units		-	-
Cash paid for other investing activities		-	-
Sub-total of cash outflows from investing activities		26,166,782.57	12,003,935.51
Net cash flows from investing activities		127,376,365.79	-10,394,480.93
III. Cash flows from financing activities:			
Cash received from absorption of investments		-	-
Including: cash received by subsidiaries from investment by minority shareholders			
Cash received from borrowings		650,903,500.00	673,010,000.00
Cash received from other financing activities	5.46	81,688,328.08	43,814,318.47
Sub-total of cash inflows from financing activities		732,591,828.08	716,824,318.47
Cash paid for debts repayments		597,760,000.00	733,460,000.00
Cash paid for distribution of dividends and profits or payment of interest		20,216,911.43	24,166,086.12
Including: dividends and profits paid to minority shareholders by subsidiaries			
Cash paid for other financing activities	Note 46	108,137,271.47	25,795,639.32
Sub-total of cash outflows from financing activities		726,114,182.90	783,421,725.44
Net cash flows from financing activities		6,477,645.18	-66,597,406.97
IV. Effect of fluctuation in exchange rate on cash and cash equivalents		-7,599.20	-12,209.93
V. Net increase in cash and cash equivalents		146,256,010.86	-55,571,730.36
Plus: beginning balance of cash and cash equivalents		23,738,523.19	79,310,253.55
VI. Ending balance of cash and cash equivalents		169,994,534.05	23,738,523.19

(The accompanying notes to the financial statements form an integral part of the consolidated financial statements)

Legal Representative:

Accounting Principal:

Head of the Accounting Department:

Consolidated Statement of Changes in Shareholders' Equity

For the Year Ended December 31, 2022

Prepared by: Chongqing Jianshe Vehicle System Co., Ltd.

(Amounts are expressed in RMB unless otherwise stated)

Item	Year 2022									
	Equity attributable to the shareholders of parent company									
	Share capital	Preferred stock	Other equity instruments	Capital reserves	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Total shareholders' equity
I. Balance as at December 31, 2021	119,375,000.00	-	-	958,565,294.29	-	9,800.00	1,713,882.50	125,686,000.00	-1,056,046,383.95	149,303,592.84
Plus: changes in accounting policies										
Adjustments for correction of accounting errors in prior year										
Business combination under common control										
Others										
II. Balance as at January 1, 2022	119,375,000.00	-	-	958,565,294.29	-	9,800.00	1,713,882.50	125,686,000.00	-1,056,046,383.95	149,303,592.84
III. Increase/decrease in 2022										
(I) Total comprehensive income										
(II) Capital contributed or reduced by shareholders										
1. Common stock contributed by shareholders										
2. Capital contributed by the holders of other equity instruments										
3. Amounts of share-based payments recognized in shareholders' equity										
4. Others										
(III) Profit distribution										
1. Withdrawal of surplus reserves										
2. Profit distributed to shareholders										
3. Others										
(IV) Internal carry-forward of shareholders' equity										
1. Conversion of capital reserves into paid-in capital										
2. Conversion of surplus reserves into share capital										
3. Surplus reserves offsetting losses										
4. Carry-forward of changes in the defined benefit plan for retained earnings										
5. Carry-forward of other comprehensive income for retained earnings										
6. Others										
(V) Special reserves										
1. Amount withdrawn in 2022										
2. Amount used in 2022										
(VI) Others										
IV. Balance as at December 31, 2022	119,375,000.00	-	-	958,565,294.29	-	9,800.00	3,234,669.03	125,686,000.00	-1,095,779,478.64	111,091,284.68

(The accompanying notes to the financial statements form an integral part of the consolidated financial statements)

Legal Representative:

Accounting Principal:

Head of the Accounting Department:

Consolidated Statement of Changes in Shareholders' Equity

Prepared by: Chongqing Jianshe Vehicle System Co., Ltd

For the Year Ended December 31, 2022

(Amounts are expressed in RMB unless otherwise stated)

Item	Year 2021											
	Equity attributable to shareholders of the parent company											
	Share capital	Other equity instruments		Capital reserves	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Minority equity	Total shareholders' equity	
	Preferred stock	Perpetual bonds	Others									
I. Balance as at December 31, 2021	119,375,000.00							958,565,294.29	9,800.00	-1,030,047,421.23	-	173,588,673.06
Plus: changes in accounting policies												-
Adjustments for correction of accounting errors in prior year												-
Business combination under common control												-
Others												-
II. Balance as at January 1, 2022	119,375,000.00	-	-	-				958,565,294.29	9,800.00	-1,030,047,421.23	-	173,588,673.06
III. Increase/decrease in 2022	-	-	-	-				-	-	1,713,882.50	-	-24,285,080.22
(I) Total comprehensive income										-25,998,962.72	-	-25,998,962.72
(II) Capital contributed or reduced by shareholders												-
1. Common stock contributed by shareholders	-											-
2. Capital contributed by the holders of other equity instruments	-											-
3. Amounts of share-based payments recognized in shareholders' equity	-											-
4. Others	-											-
(III) Profit distribution	-											-
1. Withdrawal of surplus reserves												-
2. Profit distributed to shareholders												-
3. Others												-
(IV) Internal carry-forward of shareholders' equity	-											-
1. Conversion of capital reserves into paid-in capital	-											-
2. Conversion of surplus reserves into share capital	-											-
3. Surplus reserves offsetting losses												-
4. Carry-forward of changes in the defined benefit plan for retained earnings												-
5. Carry-forward of other comprehensive income for retained earnings												-
6. Others												-
(V) Special reserves	-											-
1. Amount withdrawn in 2022												1,713,882.50
2. Amount used in 2022												2,710,546.82
(VI) Others												-996,664.32
IV. Balance as at December 31, 2022	119,375,000.00	-	-	-				958,565,294.29	9,800.00	1,713,882.50	-	149,303,592.84

(The accompanying notes to the financial statements form an integral part of the consolidated financial statements)

Legal Representative:

Accounting Principal:

Head of the Accounting Department:

Parent Company's Balance Sheet

As at December 31, 2022

Prepared by: Chongqing Jianshe Vehicle System Co., Ltd. (Amounts are expressed in RMB unless otherwise stated)

Assets	Note 12	Balance as at December 31, 2022	Balance as at December 31, 2021
Current assets:			
Monetary funds		19,632,308.54	2,146,167.36
Financial assets held for trading		-	-
Derivative financial assets		-	-
Notes receivable		-	-
Accounts receivable	12.1	3,266,890.00	3,152,475.45
Receivables financing		-	440,000.00
Advances to suppliers		2,796,181.98	2,465,664.66
Other receivables	12.2	1,345,740.08	1,153,592.45
Inventories		3,992,120.63	2,084,284.76
Contract assets		-	-
Assets held for sale		-	104,982,996.11
Non-current assets maturing within one year		-	-
Other current assets		26,885.79	1,523,292.88
Total current assets		31,060,127.02	117,948,473.67
Non-current assets:			
Creditor's right investments		-	-
Other creditor's right investments		-	-
Long-term receivables		-	-
Long-term equity investments	12.3	409,157,764.99	401,029,712.67
Other equity instrument investments		-	-
Other non-current financial assets		-	-
Investment properties		-	-
Fixed assets		27,476,448.18	30,608,778.01
Construction in progress		-	16,637.17
Productive biological assets		-	-
Oil and gas assets		-	-
Right-of-use assets		-	-
Intangible assets		-	-
Development expenses		-	-
Goodwill		-	-
Long-term deferred expenses		-	-
Deferred income tax assets		-	-
Other non-current assets		135,600.00	-
Total non-current assets		436,769,813.17	431,655,127.85
Total assets		467,829,940.19	549,603,601.52

(The accompanying notes to the financial statements form an integral part of the consolidated financial statements)

Legal Representative:

Accounting Principal:

Head of the Accounting Department:

Parent Company's Balance Sheet (Continued)

As at December 31, 2022

Prepared by: Chongqing Jianshe Vehicle System Co., Ltd. (Amounts are expressed in RMB unless otherwise stated)

Liabilities and shareholders' equity	Note 12	Balance as at December 31, 2022	Balance as at December 31, 2021
Current liabilities:			
Short-term borrowings		-	-
Financial liabilities held for trading		-	-
Derivative financial liabilities		-	-
Notes payable		-	-
Accounts payable		148,575,684.59	165,209,294.49
Advances from customers		-	-
Contract liabilities		177,064.96	159,843.70
Employee compensation payable		4,008,918.72	6,044,727.21
Taxes and surcharges payable		15,529,178.05	15,021,233.16
Other payables		273,461,451.21	355,521,343.12
Liabilities held for sale		-	-
Non-current liabilities maturing within one year		-	-
Other current liabilities		23,018.42	20,779.68
Total current liabilities		441,775,315.95	541,977,221.36
Non-current liabilities:			
Long-term borrowings		-	-
Bonds payable		-	-
Including: preferred stocks		-	-
Perpetual bonds		-	-
Lease liabilities		-	-
Long-term payables		-	-
Long-term employee compensation payable		-	-
Estimated liabilities		-	-
Deferred income		-	-
Deferred income tax liabilities		-	-
Other non-current liabilities		-	-
Total non-current liabilities		-	-
Total liabilities		441,775,315.95	541,977,221.36
Shareholders' equity			
Share capital		119,375,000.00	119,375,000.00
Other equity instruments		-	-
Including: preferred stocks		-	-
Perpetual bonds		-	-
Capital reserves		958,565,294.29	958,565,294.29
Less: treasury stock		-	-
Other comprehensive income		9,800.00	9,800.00
Special reserves		430,254.50	612,361.09
Surplus reserves		125,686,000.00	125,686,000.00
Undistributed profits		-1,178,011,724.55	-1,196,622,075.22
Total shareholders' equity		26,054,624.24	7,626,380.16
Total liabilities and shareholders' equity		467,829,940.19	549,603,601.52

(The accompanying notes to the financial statements form an integral part of the consolidated financial statements)

Legal Representative:

Accounting Principal:

Head of the Accounting Department:

Parent Company's Income Statement

For the Year Ended December 31, 2022

Prepared by: Chongqing Jianshe Vehicle System Co., Ltd.

(Amounts are expressed in RMB unless otherwise stated)

Item	Note 12	Year 2022	Year 2021
I. Operating revenue	12.4	255,751,276.44	505,387,254.89
Less: Operating costs	12.4	259,112,698.56	509,519,813.11
Taxes and surcharges		565,321.94	2,476,585.14
Selling and distribution expenses		390,581.47	415,349.38
General and administrative expenses		28,175,164.70	35,954,807.78
Research and development expenses		12,161.64	98,668.74
Financial expenses		-1,437,911.62	658,011.46
Including: interest expenses		-	765,967.92
Interest income		132,857.64	64,826.78
Plus: Other income		990,023.53	59,403.42
Investment income ("-" for losses)	12.5	8,128,052.32	15,770,549.70
Including: income from investment in associates and joint ventures		8,128,052.32	15,770,549.70
Gains from derecognition of financial assets measured at amortized cost		-	-
Gains from net exposure hedging ("-" for losses)		-	-
Gains from changes in fair value ("-" for losses)		-	-
Losses from credit impairment ("-" for losses)		-	237,752.50
Losses from asset impairment ("-" for losses)		-	-
Gains from disposal of assets ("-" for losses)		40,420,431.93	1,598,662.50
II. Operating profits ("-" for losses)		18,471,767.53	-26,069,612.60
Plus: Non-operating revenue		138,583.14	202,347.24
Less: Non-operating expenses		-	-
III. Total profits ("-" for total losses)		18,610,350.67	-25,867,265.36
Less: Income tax expenses		-	-
IV. Net profit ("-" for net loss)		18,610,350.67	-25,867,265.36
(I) Net profit from continued operation ("-" for net loss)		18,610,350.67	-25,867,265.36
(II) Net profits from discontinued operation ("-" for net losses)			
V. Other comprehensive income, net of tax		-	-
(I) Other comprehensive income that cannot be reclassified into profit or loss		-	-
1. Net Changes in re-measurement of the defined benefit plan			
2. Other comprehensive income that cannot be transferred to profit or loss under the equity method			
3. Changes in fair value of other equity instrument investments			
4. Changes in the fair value of the Company's own credit risk			
5. Others			
(II) Other comprehensive income that will be reclassified into profit or loss		-	-
1. Other comprehensive income that can be transferred to profit or loss under the equity method			
2. Changes in fair value of other creditor's right investments			
3. Amount of financial assets reclassified into other comprehensive income			
4. Provision for credit impairment of other creditor's right investments			
5. Cash flow hedging reserve			
6. Differences arising from translation of foreign-currency financial statements			
7. Disposal of the investment income generated by subsidiaries in a package before the loss of control			
8. Other assets converted into investment properties measured using the fair value model			
9. Others			
VI. Total comprehensive income		18,610,350.67	-25,867,265.36
VII. Earnings per share:			
(I) Basic earnings per share			
(II) Diluted earnings per share			

(The accompanying notes to the financial statements form an integral part of the consolidated financial statements)

Legal Representative:

Accounting Principal:

Head of the Accounting Department:

Parent Company's Statement of Cash Flows

For the Year Ended December 31, 2022

Prepared by: Chongqing Jianshe Vehicle System Co., Ltd.

(Amounts are expressed in RMB unless otherwise stated)

Item	Note 12	Year 2022	Year 2021
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		144,583,207.21	168,800,813.85
Refund of taxes and surcharges		-	-
Cash received from other operating activities		6,939,605.77	6,232,085.99
Sub-total of cash inflows from operating activities		151,522,812.98	175,032,899.84
Cash paid for goods purchased and services received		149,508,190.51	150,998,598.56
Cash paid to and on behalf of employees		34,840,152.31	37,808,659.45
Cash paid for taxes and surcharges		9,780,875.37	5,495,048.13
Cash paid for other operating activities		7,407,611.52	9,559,906.59
Sub-total of cash outflows from operating activities		201,536,829.71	203,862,212.73
Net cash flows from operating activities		-50,014,016.73	-28,829,312.89
II. Cash flows from investing activities:			
Cash received from disinvestment		-	-
Cash received from investment income		-	-
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		153,507,597.36	1,609,454.58
Net cash received from disposal of subsidiaries and other business units		-	-
Cash received from other investing activities		-	-
Sub-total of cash inflows from investing activities		153,507,597.36	1,609,454.58
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets		1,890,939.45	4,506,429.25
Cash paid for investments		-	-
Net cash paid to acquire subsidiaries and other business units		-	-
Cash paid for other investing activities		-	-
Sub-total of cash outflows from investing activities		1,890,939.45	4,506,429.25
Net cash flows from investing activities		151,616,657.91	-2,896,974.67
III. Cash flows from financing activities:			
Cash received from absorption of investments		-	-
Cash received from borrowings		-	15,000,000.00
Cash received from other financing activities		233,343,500.00	365,599,500.00
Sub-total of cash inflows from financing activities		233,343,500.00	380,599,500.00
Cash paid for debts repayments		-	15,000,000.00
Cash paid for distribution of dividends and profits or payment of interest		-	765,967.92
Cash paid for other financing activities		317,460,000.00	332,000,115.42
Sub-total of cash outflows from financing activities		317,460,000.00	347,766,083.34
Net cash flows from financing activities		-84,116,500.00	32,833,416.66
IV. Effect of fluctuation in exchange rate on cash and cash equivalents			
V. Net increase in cash and cash equivalents		17,486,141.18	1,107,129.10
Plus: beginning balance of cash and cash equivalents		2,146,167.36	1,039,038.26
VI. Ending balance of cash and cash equivalents		19,632,308.54	2,146,167.36

(The accompanying notes to the financial statements form an integral part of the consolidated financial statements)

Legal Representative:

Accounting Principal:

Head of the Accounting Department:

Parent Company's Statement of Changes in Shareholders' Equity

For the Year Ended December 31, 2022

Prepared by: Chongqing Jianshe Vehicle System Co., Ltd

(Amounts are expressed in RMB unless otherwise stated)

Item	Year 2022						
	Share capital	Other equity instruments			Capital reserves	Less: treasury stock	Other comprehensive income
		Preferred stock	Perpetual bonds	Others			
I. Balance as at December 31, 2021	119,375,000.00	-	-	-	958,565,294.29	-	9,800.00
Plus: changes in accounting policies							
Adjustments for correction of accounting errors in prior year							
Others							
II. Balance as at January 1, 2022	119,375,000.00	-	-	-	958,565,294.29	-	9,800.00
III. Increase/decrease in 2022							
(I) Total comprehensive income							
(II) Capital contributed or reduced by shareholders							
1. Common stock contributed by shareholders							
2. Capital contributed by the holders of other equity instruments							
3. Amounts of share-based payments recognized in shareholders' equity							
4. Others							
(III) Profit distribution							
1. Withdrawal of surplus reserves							
2. Profit distributed to shareholders							
3. Others							
(IV) Internal carry-forward of shareholders' equity							
1. Conversion of capital reserves into paid-in capital							
2. Conversion of surplus reserves into share capital							
3. Surplus reserves offsetting losses							
4. Carry-forward of changes in the defined benefit plan for retained earnings							
5. Carry-forward of other comprehensive income for retained earnings							
6. Others							
(V) Special reserves							
1. Amount withdrawn in 2022							
2. Amount used in 2022							
(VI) Others							
IV. Balance as at December 31, 2022	119,375,000.00	-	-	-	958,565,294.29	-	9,800.00

(The accompanying notes to the financial statements form an integral part of the consolidated financial statements)

Legal Representative:

Accounting Principal:

Head of the Accounting Department:

(Amounts are expressed in RMB unless otherwise stated)

(The accompanying notes to the financial statements form an integral part of the consolidated financial statements)

Head of the Accounting Department:

Chongqing Jianshe Vehicle System Co., Ltd.
Notes to the Financial Statements
For the Year Ended December 31, 2022

1 Company profile

1.1 The Company's place of registration, organizational form and address of headquarters

Chongqing Jianshe Vehicle System Co., Ltd. (hereinafter referred to as "the Company"), whose original name was Chongqing Jianshe Motorcycle Co., Ltd., was established in July 1995 by Jianshe Industry (Group) Co., Ltd. and China North Industries Shenzhen Corp. The unified social credit code/registration No. of the Company is 915000007474824231. The Company was listed on the Shenzhen Stock Exchange in July 1995.

On December 27, 2017, the Company announced that it had completed the relevant industrial and commercial registration procedures for the change of its full name in Chinese, and obtained the Notice of Approval of Change Registration from Chongqing Administration for Industry and Commerce (YGSWZBD [2017] No.1206-1), the renewed Business License and the approval documents of Shenzhen Stock Exchange. The company name was changed from Chongqing Jianshe Motorcycle Co., Ltd. to Chongqing Jianshe Vehicle System Co., Ltd. The abbreviation of the Company was changed from "Jianmo B" to "Jianche B", and the company stock code 200054 remained unchanged.

The former controlling shareholder, Chongqing Jianshe Mechanical & Electrical Equipment Co., Ltd. (hereinafter referred to as "Jianshe Mechanical & Electrical"), concluded the Equity Transfer Agreement of State-owned Listed Companies with China South Industries Group Corporation (hereinafter referred to as "CSGC") on October 22, 2018, that is, Jianshe Mechanical & Electrical agreed to transfer 84,906,250 shares of its state-owned legal person shares to CSGC, accounting for 71.13% of the total share capital of the Company.

The Company received the Jianchen Letter of Confirmation for Securities Transfer Registration issued by China Securities Depository and Clearing Co., Ltd., Shenzhen Branch on December 21, 2018, and the registration formalities for the equity transfer under this agreement have been completed at China Securities Depository and Clearing Co., Ltd., Shenzhen Branch. Chongqing Jianshe Mechanical & Electrical Equipment Co., Ltd. no longer holds the shares of the Company, and CSGC has become the controlling shareholder of the Company, holding 84,906,250 shares of the Company, accounting for 71.13%. The shares are legal person shares of the sponsor.

The parent company and actual controller of the Company is China South Industries Group Corporation, and the ultimate controller is the State-owned Assets Supervision and Administration Commission of the State Council.

As of December 31, 2022, the total share capital cumulatively issued by the Company was 119,375,000 shares. The registered capital was RMB119,375,000. Its place of registration is No.1 Jianshe Avenue, Huaxi Industrial Park, Banan District, Chongqing. The address of the headquarters is in Banan District, Chongqing. Legal representative: Yan Xuechuan.

1.2 Business nature and main business activities of the Company

Business scope of the Company: general items: research and development, processing and manufacturing of motorcycles, auto parts, accessories and mechanical products and related technical services, design and manufacturing of tooling and molds and related technical services (excluding those items subject to special national provisions); research and development, production and sales of motorcycle engines; research, development and processing of mechanical and electrical products, household appliances, bicycles and environmental protection products; import, wholesale, retail and commission agency (except for auction) of similar goods (except special goods) of the above products.

The Company operates in the manufacturing industry.

1.3 Scope of consolidated financial statements

The Company has a total of 2 subsidiaries included in the scope of consolidation in 2022. See Note 7 Equity in other entities for details. There was no change in the entities included in the scope of consolidated financial statements in the current period compared with the previous period.

1.4 Approval and disclosure of the financial statements

The financial statements were approved by the board of directors of the Company for disclosure on April 27, 2023.

2 Preparation basis for financial statements

2.1 Basis for the preparation of the financial statements

According to actually occurred transactions and events, the Company conducts the recognition and measurement in accordance with the Accounting Standards for Business Enterprises - Basic Standards and all the specific accounting standards for enterprise, Application Guidance to the Accounting Standards for Business Enterprises, the interpretation of the Accounting Standards for Business Enterprises and other relevant provisions (hereinafter referred to as the "Accounting Standards for Business Enterprises"). On this basis, the Company prepares the financial statements in combination with the disclosure provisions of *the Rules for the Compilation and Submission of Information Disclosure by Companies Offering Securities to the Public No. 15 - General Requirements for Financial Reports* (revised in 2014) issued by the China Securities Regulatory Commission.

2.2 Going concern

The Company has assessed the going-concern ability for 12 months as of the end of the reporting period, and has no matter or situation bringing material doubt to the going-concern ability. Therefore, the financial statements are prepared on the basis of going-concern assumption.

2.3 Accounting basis and measurement principle

The Company's accounts are prepared on an accrual basis. Except for investment properties and certain financial instruments measured at fair value, the measurement of items in the financial statements is made at the historical cost. In case of asset impairment, the corresponding provision for impairment should be made according to relevant provisions.

3 Principal accounting policies and accounting estimates

3.1 Statement on compliance with Accounting Standards for Business Enterprises

The financial statements prepared by the Company meet the requirements of the Accounting Standards for Business Enterprises, and truly and completely reflect relevant information of the Company during the reporting period, such as financial position, operation results and cash flows.

3.2 Accounting period

The accounting year is from January 1 to December 31 in calendar year.

3.3 Operating cycle

The operating cycle refers to the cycle from the Company's purchase of assets for processing to the realization of cash or cash equivalents. The Company takes 12 months as an operating cycle, and as the classification standard for the liquidity of assets and liabilities.

3.4 Functional currency

RMB is adopted as the functional currency.

3.5 Accounting treatment methods for business combinations under common control and not under common control

3.5.1 If the terms, conditions and economic impact of the transactions during the business combination realized by stages meet one or more of the following circumstances, the multiple transactions will be subject to accounting processing as a package deal:

- (1) The transactions are concluded at the same time or under the consideration of mutual effect;
- (2) These transactions as a whole can reach a complete business result;
- (3) The occurrence of a transaction depends on that of other transaction or more; and/or
- (4) A single transaction is uneconomical but it is economical when considered together with other transactions.

3.5.2 Business combination under common control

For assets and liabilities obtained through business combination by the Company, they are measured at the book value of the assets and liabilities (including the goodwill formed by the acquisition of the combined party by the ultimate controller) in the consolidated financial statements of the ultimate controller on the combination date. The stock premium in capital reserves is adjusted according to the difference between the book value of net assets acquired through combination and the book value of consideration paid for the combination (or total par value of shares issued). If the stock premium in capital reserves is insufficient to cover the difference, the remaining amount will be charged against retained earnings.

Where there is contingent consideration and it is required to recognize estimated liabilities or assets, the capital reserve (capital premium or stock premium) is adjusted according to the difference between the estimated liabilities or assets and subsequent consideration, if any; if the capital reserve is insufficient, the retained earnings shall be adjusted.

The business combination not under common control finally realized through multiple transactions belongs to a package of transactions, the Company should account for various transactions as a transaction with control; if not belong to a package of transactions, the capital reserve will be adjusted at the difference between the initial investment cost of the long-term equity investment on the combination date and the sum of the book value of the long-term equity investment before combination and the book value of the consideration newly paid by shares acquired on the date when the control is obtained; and if the capital reserve is insufficient for write-downs, the retained earnings will be adjusted. For equity investments held before the combination date, other comprehensive income measured at equity method or confirmed by financial instruments and measured at accounting guidelines will not be accounted for until on disposal of such investment, and its accounting treatment will be made by using the same basis for the investee to directly dispose the relevant assets or liabilities; changes in other owners' equity other than net profit or loss, other comprehensive income and profit distribution in net asset of the investee recognized by using the equity method will not be accounted for until on disposal of such investment, and then be carried forward to the current profit or loss.

3.5.3 Business combination not under common control

The acquisition date refers to the date on which the Company actually obtains control of the acquiree, that is, the date on which the acquiree's control over net assets or production and operation decisions is transferred to the Company. The Company generally believes that the control has been transferred of all the following conditions are met simultaneously:

- ① The Company's combination contract or agreement has been approved by the internal authorities of the Company.
- ② Where the business combinations matters shall be approved by the relevant national competent departments, the approval has been obtained.
- ③ The necessary property rights transfer formalities have been handled.
- ④ The Company has paid most of the combination price and has the ability to repay the remaining payment in a planned way.
- ⑤ The Company actually has taken control of the acquiree's financial and operating policies and enjoys the corresponding benefits and bears the corresponding risks.

The Company shall, on the acquisition date, measure the assets surrendered and liabilities incurred or assumed as a consideration of business combination at their fair values. The difference between the fair value and their book value will be included into the current profit or loss.

The Company recognizes the difference of the combination cost in excess of the fair value of the net identifiable assets acquired from the acquiree as goodwill, and recognizes the difference of the combination cost in short of the fair value of the net identifiable assets acquired from the acquiree in the current profit or loss after review.

If the business combination not under common control realized through multiple transactions and by stages belongs to a package of transactions, the Group should account for various transactions as a transaction with control; if not belong to a package of transactions, and equity investment held before the date of combination is accounted for at equity method, the sum of book value of investment in equity of the acquiree held by the acquirer before the acquisition date and the added investment costs on the acquisition date is recognized as the initial investment cost of such investment; for other comprehensive income recognized from accounting of the equity investments held before acquisition date and under the equity method, accounting treatment should be made by using the same basis for the investee to directly dispose the relevant assets or liabilities on disposal of such investment. If equity investment held before the combination date is recognized by financial instruments and measured according to measurement standards, the sum of book value of investment in equity on the combination date and the added investment costs is recognized as the initial investment cost on the combination date. The difference between the fair value and the book value of previously held equity and the cumulative change in fair value originally recognized in other comprehensive income will be fully transferred to the current investment income on the date of combination.

3.5.4 Related expenses for business combination

The intermediary expenses including expenses on audit, legal service, and evaluation and consultation for business combination and other directly relevant expenses are included in the current profit or loss when they occur; the transaction expenses on issuing equity securities for business combination may be directly included in equity transactions and be offset from equity.

3.6 Preparation method of consolidated financial statements

3.6.1 Consolidation scope

The scope of consolidation for the Company's consolidated financial statements is determined on the basis of control, and all its subsidiaries (including the independent subject that is under control of the Company) are included in the consolidated financial statements.

3.6.2 Procedures for consolidation

The Company prepares the consolidated financial statements based on financial statements of itself and its subsidiaries and according to other relevant information. Upon the preparation of consolidated financial statements, the Company shall take the enterprise group as a whole accounting entity, and reflects the overall financial position, operating results and cash flows of the enterprise group in accordance with relevant requirements for recognition, measurement and presentation as stated in the Accounting Standards for Business Enterprises as well as uniform accounting policies.

All the subsidiaries within the scope of consolidation for the consolidated financial statements adopt the same accounting policies and accounting periods as those of the Company. If the accounting policies or accounting periods of a subsidiary are different from those of the Company, the consolidated financial statements of the subsidiary, upon preparation, will be adjusted according to the accounting policies and accounting periods of the Company.

When preparing the consolidated financial statements, the impacts of the Company and its subsidiaries or the internal transactions between the subsidiaries on the consolidated balance sheet, consolidated income statement, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity shall be offset. If assessments for the same transaction from the enterprise group's consolidated financial statements and the Company or its subsidiaries as the accounting entity are not the same, such transaction will be adjusted from the enterprise group.

The share of owners' equity, current net profit or loss and current comprehensive income of subsidiaries attributable to minority owners are respectively and separately presented under the owner's equity in the consolidated balance sheet, the net profit in the consolidated income statement, and the total comprehensive income in the consolidated income statement. If the current loss shared by a minority shareholder of a subsidiary exceeds the balances arising from the shares enjoyed by the minority shareholder in the owners' equity of the subsidiary at the beginning of the period, minority equity will be written down accordingly.

For the subsidiaries acquired through business combination under common control, adjustment to their financial statements is made based on the book values of its assets and liabilities (including goodwill formed in the acquisition of these subsidiaries by the ultimate controller) as presented in the financial statements of the ultimate controller.

For the subsidiaries acquired through business combination not under common control, adjustments to their financial statements are made based on the fair values of net identifiable assets on the acquisition date

(1) Increase of subsidiaries or business

During the reporting period, where the Company acquired subsidiaries or business from the business combination under common control, the beginning balance in the consolidated balance sheet is adjusted; the revenue, expenses and profits of the newly acquired subsidiaries or business from the beginning of the period for business combination to the end of the reporting period are included in the consolidated income statement; the cash flows of the same for the aforesaid period are included in the consolidated statement of cash flows. Relevant items in the comparative financial statements of the subsidiaries are adjusted accordingly, as if the reporting entity after the business combination exists as of the time when the ultimate controller has the control.

Where control can be exercised on the investee under common control for additional investment or other reasons, adjustment is made as if all parties involved in the combination exist at the beginning of the control by the ultimate controller. Equity investments held before the control over the combined party is obtained, the related profits or losses, other comprehensive income as well as other changes in net assets recognized from the later between the date when the original equity is obtained and the date when the acquirer and the acquiree are under common control to the combination date will respectively write down the beginning retained earnings or the current profit or loss during the period for comparing financial statements.

During the reporting period, if the Company acquired subsidiaries or business from the business combination not under common control, the beginning balance in the consolidated balance sheet will not be adjusted. The revenue, expenses and profits of the newly acquired subsidiaries or business from the acquisition date to the end of the reporting period will be included in the consolidated income statement; the cash flows of the same for the aforesaid period will be included in the consolidated statement of cash flows.

Where the Company can control the investee not under common control for additional investments, it shall re-measure equity of the acquiree held before the acquisition date at the fair value of such equity on the acquisition date and include the difference between the fair value and book value in the current investment income. Where equity of the acquiree held before the acquisition date involves in other comprehensive income accounted for under equity method and other changes in owners' equity other than net profit or loss, other comprehensive income and profit distribution, the relevant other comprehensive income and other changes in owners' equity shall be transferred to the investment income in the year which the acquisition date falls in, except for other comprehensive income from changes arising from re-measurement of net liabilities or net assets of defined benefit plan by the investee.

(2) Disposal of subsidiaries or business

1) General treatment methods

During the reporting period, where the Company disposes a subsidiary or business, the revenues, expenses and profits of the subsidiary or business from the beginning period to the disposal date shall be included in the consolidated cash flow statement; cash flows of the subsidiary or the business from the beginning period to the disposal date shall be included in the consolidated cash flow statement.

When the Company loses the control over the investee due to disposal of partial equity investment or other reasons, the remaining equity investment after the disposal should be remeasured by the Company at the fair value thereof on the date of losing the control. The difference between the sum of the equity disposal consideration and the fair value of the remaining equity and the sum of the share calculated at the original shareholding ratio in net assets enjoyed in the original subsidiary and continuously calculated from the acquisition date or combination date and the goodwill will be included in the investment income for the period where the control is lost. Other comprehensive incomes associated with the equity investments of the original subsidiary, or the changes in owners' equity other than net profit or loss, other comprehensive income and profit distribution, shall be transferred into investment income of the period when control is lost, except for other comprehensive income from the change in net liability or net asset due to the investor's re-measurement of defined benefit plan.

2) Disposal of subsidiaries by stages

If the control is lost due to disposal of the equity investments in subsidiaries through multiple transactions by stages, and the terms, conditions and economic impact of the transactions related to the disposal of equity investments in subsidiaries meet one or more of the following circumstances, it usually indicates that multiple transactions will be subject to accounting processing as a package deal:

- A. The transactions are concluded at the same time or under the consideration of mutual effect;
- B. These transactions as a whole can reach a complete business result;
- C. The occurrence of a transaction depends on that of other transaction or more; and/or
- D. A single transaction is uneconomical but it is economical when considered together with other transactions.

Where various transactions of disposal of equity investments in subsidiaries until loss of the control belong to a package deal, accounting treatment shall be made by the Company on the transactions as a transaction to dispose subsidiaries and lose the control; however, the difference between each disposal cost and net asset share in the subsidiaries corresponding to each disposal of investments before loss of the control should be recognized as other comprehensive income in the consolidated financial statements and should be transferred into the current profit or loss at the loss of the control.

If the disposal of equity investment in subsidiaries and other transactions until the control loses are not package transactions, before the control loses, related policies governing the partial disposal of equity investments in subsidiaries without losing control will apply; when the control loses, general accounting method for the disposal of subsidiaries will govern.

- (3) Purchase of minority equity of subsidiaries
 The share premium in the capital reserves under the consolidated balance sheet will be adjusted at the difference between the long-term equity investment acquired by the Company for the purchase of minority interest and the share of net assets calculated constantly from the acquisition date (or combination date) according to the newly increased shareholding ratio. If the share premium is insufficient to offset, retained earnings will be adjusted.
- (4) Partial disposal of equity investments in subsidiaries without losing control
 The equity premium of capital reserves in the consolidated balance sheet will be adjusted according to the difference between the disposal price obtained for partial disposal of long-term equity investments in subsidiaries in the case of not lose control and the share of net assets of subsidiaries calculated from the acquisition date or the combination date corresponding to the disposal of long-term equity investments; if the equity premium of capital reserves is insufficient, the retained earnings will be adjusted.

3.7 Classification of joint venture arrangements and accounting treatment methods of joint operation

3.7.1 Classification of joint venture arrangements

According to the structure, legal form, terms of joint arrangement, other relevant facts and circumstances, the Company divides the joint venture arrangements into joint operation and joint ventures.

Joint venture arrangements that have not been reached through separate entities are classified as joint operations; joint venture arrangements that have been reached through separate entities are generally classified as joint ventures; however, there is conclusive evidence that the joint venture arrangements that meet any of the following conditions and comply with the relevant laws and regulations shall be classified as joint operations:

- (1) the legal form of the joint venture arrangement indicates that the joint venturer has rights and obligations for the relevant assets and liabilities respectively in the arrangement;
- (2) the contract terms of the joint venture arrangement indicates that the joint venturer has rights and obligations for the relevant assets and liabilities respectively in the arrangement;
- (3) other relevant facts and circumstances indicate that the joint venturer has rights and obligations for the relevant assets and liabilities respectively in the arrangement, and if the joint venturer enjoys almost all the outputs related to the joint venture arrangement, the settlement of the liabilities in the arrangement continues to depend on the support from the joint venturer.

3.7.2 Accounting treatment methods of joint operation

The Company recognizes the following items related to its share of benefits in the joint operation and conduct accounting treatment in accordance with relevant accounting standards for business enterprises:

- (1) Assets it solely holds and its share of jointly-held assets based on its percentage;
- (2) Liabilities it solely assumes and its share of jointly-assumed liabilities based on its percentage;
- (3) Revenues from sale of output enjoyed by it from the joint operation;

(4) Revenues from sale of output from the joint operation based on its percentage; and

(5) Separate costs and costs for the joint operation based on its percentage.

Where the Company, invests assets in or sells assets to the joint operation (excluding the assets constituting business), before such assets are sold to a third party via the joint operation, the Company shall only recognize the part in the profits and losses arising from such transaction attributable to other party to the joint operation. If the assets invested or sold meet the asset impairment losses stipulated in *the Accounting Standards for Business Enterprises No. 8 – Impairment of Assets*, the Company shall confirm the losses in full.

Where the Company, purchases assets from the joint operation (excluding the assets constituting business), before such assets are sold to a third party, the Company shall only recognize the part in the profits and losses arising from such transaction attributable to other party to the joint operation. If the assets purchased meet the asset impairment losses stipulated in *the Accounting Standards for Business Enterprises No. 8 – Impairment of Assets*, the Company shall recognize the losses according the shares it shall assumed.

Where the Company does not enjoy joint control to the joint operation, if it enjoys the related assets of the joint operation and assumes the related liabilities, accounting treatment shall be subject to the above principles; otherwise, accounting treatment shall be carried out according to the relevant accounting standards for business enterprises.

3.8 Recognition criteria of cash and cash equivalents

For the purpose of preparing the statement of cash flows, the term "cash" refers to the cash on hand and the unrestricted deposit of the Company. The term "cash equivalents" refers to short-term (maturing within three months from the acquisition date) and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

3.9 Foreign currency transactions and translation of foreign currency statements

3.9.1 Foreign currency transactions

At the initial recognition, foreign currency transactions are translated into RMB for recording purpose using the current average exchange rate at the spot rate on the transaction date.

The foreign currency monetary items on the balance sheet date are translated at the spot exchange rate on the balance sheet date. The exchange differences arising therefrom, except for the exchange difference from foreign currency special loans related to the acquisition and construction of assets that meet the capitalization conditions treated in accordance with the capitalization principle of borrowing expenses, are included in the current profit or loss. The foreign currency non-currency items calculated on historical cost basis are still translated at spot rate on the date of transaction, not changing the amount of its recording currency.

Foreign currency non-monetary items measured at fair value shall be translated into RMB at the spot exchange rates on the day when the fair value is determined. The difference between the functional currency and previous functional currency after translation is taken as fair value changes (including fluctuation in exchange rate) and included in the current profit or loss or recognized as other comprehensive income.

3.10 Financial instruments

When the Company becomes a party to a financial instrument contract, a financial asset or financial liability should be recognized.

Effective interest method refers to the method of calculating the amortized cost of a financial asset or financial liability and of apportioning interest income and interest expenses in relevant accounting periods.

Effective interest rate refers to the interest rate used to discount the estimated future cash flows of financial asset or financial liability during the expected duration into the book balance of such financial asset or the amortized cost of such financial liability. When determining the effective interest rate, the Company will estimate the expected cash flows pursuant to all contractual terms of financial assets or financial liabilities (including prepayment, contract renewal, call option and other similar options) and without regard to expected credit losses.

The amortized cost of a financial asset or financial liability is the amount initially recognized for that financial asset or financial liability less the principal repaid, plus or minus the cumulative amortization of the difference between the amount initially recognized and the amount at maturity using the effective interest method, less the cumulative loss allowance (for financial assets only).

3.10.1 Classification, recognition and measurement of financial assets

The Company, according to the business model of managing financial assets and the contractual cash flow characteristics of financial assets, classifies financial assets into:

- (1) Financial assets measured at amortized cost.
- (2) Financial assets measured at fair value through other comprehensive income.
- (3) Financial assets measured at fair value through the current profit or loss.

Financial assets are measured at their fair values at the initial recognized. However, if the accounts receivable or notes receivable arising from the sales of goods or rendering of services fail to cover the significant financing component or the financing component over one year will not be taken into account therefor, the initial measurement will be made at the transaction price.

Transaction expenses related to financial assets measured at fair value through current profit or loss are directly included in the current profit or loss, and those related to financial assets in other kinds are included in the initially recognized amounts of such financial assets.

Subsequent measurement of financial assets depends on their classification: When and only if the Company changes its business model for managing financial assets, all relevant financial assets affected can be reclassified.

- (1) Financial assets classified to be measured at amortized cost

Where the contractual terms of a financial asset provide that the only cash flows arising on a specific date are payments of principal and interest based on the principal amount outstanding, and the business model for managing the financial asset is to collect the contractual cash flows, the Company classifies the financial asset as a financial asset measured at amortized cost. The Company's financial assets classified to be measured at amortized cost include monetary funds, notes receivable and accounts receivable, other receivables, long-term receivables and creditor's right investment.

The Company recognizes the interest income of such financial assets at effective interest method and subsequently measures them at the amortized cost. Gains and losses arising from impairment, derecognition or modification should be included in the current profit or loss. Except for the following cases, the Company calculates interest income based on the book balance of financial asset multiplied by the effective interest rate:

- 1) For purchased or original financial assets that have suffered credit impairment, from the initial recognition, the interest income is determined by the Company based on the amortized cost of the financial asset and the effective interest rate adjusted by credit.
- 2) For purchased or original financial assets that have not suffered credit impairment but have suffered credit impairment in the subsequent period, the interest income is determined by the Company based on the amortized cost of the financial asset and the effective interest rate. If the financial instrument has no credit impairment due to the improvement of its credit risk in the subsequent period, the Company will determine the interest income based on the book balance of financial asset multiplied by the effective interest rate.

- (2) Financial assets classified to be measured at fair value through other comprehensive income

Where the contractual terms of the financial assets stipulate that the cash flow generated on a specific date is only the payment for the principal and the interest based on the outstanding principal amount, and the business model for managing the financial asset aims at collecting contractual cash flows and selling such financial asset, the Company classifies the financial asset as the financial asset measured at fair value through other comprehensive income.

Interest income from such financial assets will be recognized by using the effective interest method. Except that the interest income, impairment losses and exchange differences are recognized as the current profit or loss, changes in other fair values are included in other comprehensive income. When a financial asset is derecognized, the accumulated gains or losses previously included in other comprehensive income should be transferred from other comprehensive income and included in the current profit or loss.

Notes receivable and accounts receivable measured at fair value through other comprehensive income are presented as the receivables financing, while other financial assets are presented as other creditor's right investments; in which, other creditor's right investments maturing within one year as of the balance sheet date are presented as the non-current assets maturing within one year, and other creditor's right investments originally maturing within one year are presented as other current assets.

- (3) Financial assets designated to be measured at fair value through other comprehensive income

At the initial recognition of the financial assets designated to be measured at fair value through other comprehensive income, the Company may irrevocably designate the equity instrument investments not held for trading as financial assets measured at fair value through other comprehensive income on a basis of individual financial asset.

The changes in the fair value of such financial assets are included in other comprehensive income, and no provision for impairment is required. At the derecognition of such financial assets, the accumulated gains or losses previously included in other comprehensive income are transferred from other comprehensive income to retained earnings. During the period when the Company holds the investment in equity instrument, the Company's right to receive dividends has been established. Revenues from dividends are recognized and included in the current profit or loss when economic benefits related to the dividends are likely to flow into the Company and the amount of the same can be measured reliably. The Company presents such financial assets in other investment in equity instruments.

If the investment in equity instrument meets one of the following conditions, it belongs to the financial assets measured at fair value through the current profit or loss: the purpose of the acquisition of the financial assets is mainly for selling in the near future; at the initial recognition, it is a part of the identifiable financial asset instrument portfolio under the centralized management, and there is the objective evidence that a short-term profit model actually existed in the near future; it belongs to derivative instruments (except for those meeting the definition of a financial guarantee contract and designated as effective hedging instruments).

- (4) Financial assets classified to be measured at fair value through the current profit or loss

The financial assets, not qualified for being classified to be measured at amortized cost or fair value through other comprehensive income, and not designated to be measured at fair value through other comprehensive income, are classified as financial assets measured at fair value through the current profit or loss.

Such financial assets are subsequently measured by the Company at fair value. Gains or losses from changes in fair value as well as dividends and interest income related to such financial liabilities are included in the current profit or loss.

The Company presents such financial assets in the financial assets held for trading and other non-current financial assets according to their liquidity.

- (5) Financial assets designated to be measured at fair value through the current profit or loss

At the initial recognition, in order to eliminate or significantly reduce accounting mismatches, the Company may irrevocably designate such financial assets as financial assets measured at fair value through the current profit or loss on a basis of individual financial asset.

Where a mixed contract includes one embedded derivative or more, and the main contract does not belong to any financial asset mentioned above, the Company may designate such mixed contract in whole as the financial instrument measured at fair value through the current profit or loss. Except that:

- 1) The embedded derivative will not materially change the cash flow of the mixed contract.

- 2) At the initial confirmation on whether the similar mixed contract need to be split, it takes little analysis to make clear that the embedded derivative contained in such mixed contract should not be split. If the right to repayment in advance of embedded loans allows the holder to make the repayment of loans in advance at the amount close to the amortized cost, such right to repayment in advance should not be split.

Such financial assets are subsequently measured by the Company at fair value. Gains or losses from changes in fair value as well as dividends and interest income related to such financial liabilities are included in the current profit or loss.

The Company presents such financial assets in the financial assets held for trading and other non-current financial assets according to their liquidity.

3.10.2 Classification, recognition and measurement of financial liabilities

The Company classifies the financial instruments or their components as financial liabilities or equity instruments at the time of the initial recognition, in accordance with contractual terms of financial instruments issued and economic substance reflected and not only legal form, in combination with the definition of financial liabilities and equity instruments. Upon initial recognition, financial liabilities are classified into: financial liabilities measured at fair value through current profit or loss, other financial liabilities and derivative instruments designated as effective hedging instruments.

Financial liabilities are measured at their fair values at the initial recognition. For financial liabilities measured at fair value through the current profit or loss, the relevant transaction expenses are directly included in the current profit or loss; for other types of financial liabilities, the relevant transaction expenses are included in the initial recognition amount.

Subsequent measurement of financial liabilities depends on the classification thereof:

- (1) Financial liabilities measured at fair value through the current profit or loss
Such financial liabilities include the financial liabilities held for trading (including the derivative instruments belong to financial liabilities) and financial liabilities designated to be measured at fair value through the current profit or loss at initial recognition.

Financial liabilities meeting one of the following conditions belong to the financial liabilities held for trading: the purpose of bearing relevant financial liabilities is mainly for sales or repurchase the near future; such financial liabilities belong to the portfolio of identifiable financial instruments under centralized management, and there is the objective evidence that any enterprise has adopted the short-term profiting manner recently; such financial liabilities belong to other derivative instruments than those designated to be the effective hedging instruments and those complying with financial guarantee contracts. Financial liabilities held for trading (including derivative instruments belonging to financial liabilities) are subsequently measured at fair value. Except for hedge accounting, all changes in fair value are included in the current profit or loss.

At the initial recognition, in order to provide more relevant accounting information, the Company irrevocably designates the financial liabilities meeting one of the following conditions as financial liabilities measured at fair value through the current profit or loss:

- 1) Such designation can eliminate or significantly reduce the accounting mismatch.

- 2) According to the enterprise risk management or investment strategies specified in formal written documents, the management and performance evaluation of financial liability portfolios or portfolios of financial assets and financial liabilities is carried out based on fair value, and the report to key officer in the enterprise is made based on such management and performance evaluation.

The Company makes subsequent measurement of such financial liabilities at fair value. Except that the changes in fair value caused by changes in the Company's own credit risk are included in other comprehensive income, other changes in fair value are included in the current profit or loss. Unless the changes in fair value caused by changes in the Company's own credit risk are included in other comprehensive income or will amplify the accounting mismatch in profit or loss, the Company includes all changes in fair value (including the affected amount of changes in its own credit risk) in the current profit or loss.

(2) Other financial liabilities

The financial liabilities other than the following ones, are classified by the Company as the financial liabilities measured at amortized cost, and are subsequently measured at the at amortized cost by using the effective interest method. Gains or losses on derecognition or amortization are included in the current profit or loss.

- 1) Financial liabilities measured at fair value through the current profit or loss.
- 2) Financial liabilities arising from such situation that the transfer of financial assets fails to meet the conditions for derecognition or the financial assets are continuously transferred.
- 3) Financial guarantee contracts that do not fall into the first two circumstances of this article, and loan commitments that do not fall into 1) circumstance of this article at the rate lower than the market interest rate.

Financial guarantee contracts refer to contracts that require the issuer to pay a specific amount to the contract holder who has suffered a loss when a specific debtor fails to repay the debt in accordance with clauses for the original or modified debt instrument upon maturity. As for the financial guarantee contracts of financial liabilities that are not designated to be measured by fair value through the current profit or loss, upon the initial recognition, they are measured at the amount of provision for losses or the balance of initially recognized amount deducting accumulated amortization amount during the guarantee period.

3.10.3 Derecognition of financial assets and financial liabilities

- (1) Financial assets are derecognized when they meet one of the following conditions, that is, they will be written off from their accounts or the balance sheet:
 - 1) The contractual rights for collecting the cash flows of such financial assets are terminated.
 - 2) Such financial assets have been transferred, meeting the requirement for derecognition of financial assets.
- (2) Derecognition criteria of financial liabilities

When the present obligation of any financial liability is relieved in all or in part, the financial liability should be derecognized in all or in part.

Where the Company enters into an agreement with a creditor so as to substitute the original financial liability by undertaking the new financial liability, and the new financial liability and the original financial liability are substantially different in terms of the contract clauses or the Company has substantially changed the contract clauses for the original financial liability (or any part thereof), the original financial liability should be derecognized while the new financial liability should be recognized. Meanwhile, the difference between the book value and the considerations paid (including non-cash assets surrendered or new financial liabilities assumed) should be included in the current profit or loss.

Where the Company redeems a part of its financial liabilities, the Company should allocate the entire book value of the financial liabilities based on the proportions of fair values of the financial liabilities continuously recognized and the financial liabilities derecognized on the redemption date in the entire fair value. The difference between the book value allocated for the financial liabilities derecognized and the consideration paid (including non-cash assets surrendered and the new liabilities assumed) should be included in the current profit or loss.

3.10.4 Recognition basis and measurement method of the transfer of financial assets

At the transfer of financial assets, the Company should evaluate the degree in reserving risks and rewards related to the ownership of the financial assets, and make relevant treatment respectively based on the following circumstances:

- (1) If nearly all of the risks and rewards related to the ownership of the financial assets have been transferred, the Company will derecognize such financial assets, and recognize the right and obligation generates or reserved in the course of transfer as an asset or a liability.
- (2) If nearly all of the risks and rewards related to the ownership of the financial assets have been reserved, the Company will continuously recognize the financial assets.
- (3) If the Company neither transfers nor reserves nearly all of the risks and rewards related to the ownership of the financial assets (i.e., other circumstances than item (1) or (2) herein), the Company will make relevant treatments in the following circumstances based on whether it has reserved the control over financial assets:
 - 1) If the Company fails to reserve the control over the financial assets, it will derecognize such financial assets, and separately recognize the right and obligation generating or reserved in the course of transfer as an asset or a liability.
 - 2) If the Company reserves the control over the financial asset, it will continue to recognize relevant financial assets based on the degree of continuous involvement in transferred financial assets; and recognize relevant liabilities accordingly. The degree of continuous involvement in transferred financial assets refers to the degree in undertaking the risk in fair value change of or reward for the transferred financial assets by the Company.

In determining whether the transfer of a financial asset meets the above derecognition conditions of financial assets, the principle of substance over form will be adopted. The Company divides the transfer of financial assets into overall transfer and partial transfer.

- (1) Where the entire transfer of financial assets meets the derecognition conditions, the difference of the following two amounts is included in the current profit or loss:
 - 1) The book value of the transferred financial assets on the date of derecognition.
 - 2) The sum of the consideration received from the transfer of financial assets and the amount of the derecognized part corresponding to the accumulated amount of the changes in fair value originally and directly recorded into other comprehensive income (financial assets involving transfer refer to the financial assets measured at fair value through other comprehensive income).
- (2) If the partial transfer of financial assets overall satisfies the criteria for derecognition, the entire book value of the transferred financial assets should be split into the derecognized part and continuously-recognized part (in such case, the reserved service assets should be deemed as a part of the continuously-recognized financial assets) according to their respective fair value on the transfer date and the difference between the following two amounts should be included in the current profit or loss:
 - 1) The book value of the derecognized financial assets on the date of derecognition.
 - 2) The sum of the consideration received for the derecognized part and the amount of the derecognized part corresponding to the accumulated amount of the changes in fair value originally included in other comprehensive income (financial assets involving transfer refer to the financial assets measured at fair value through other comprehensive income).

Where the transfer of financial assets does not meet the derecognition criteria, the financial assets shall continue to be recognized, and the consideration received will be recognized as a financial liability.

3.10.5 Determination method for the fair value of financial assets and financial liabilities

The fair value of a financial asset or financial liability, for which there is an active market, is determined at the price quoted in the active market, unless the financial asset has a restricted period for assets. For the financial assets with a restricted period for sales of assets, the fair value is determined at prices quoted in the active market deducting the amount of compensation for risks borne by the market participant, as they are unable to sell such financial assets in the open market within the specified period. The price quoted in the active market includes the quoted price for relevant assets or liabilities that are easy to regularly obtain from exchanges, dealers, brokers, industry groups, pricing agencies or regulators, and it can represent the market transaction that actually and frequently occur on the basis of fair transaction.

For financial assets initially obtained or derived or financial liabilities assumed, their fair values are determined based on the market transaction price.

The fair value of a financial asset or financial liability, for which there is no active market, is determined by using valuation techniques. At the time of valuation, the Company adopts the techniques that are applicable in the current situation and supported by enough available data and other information, selects the input values that are consistent with the features of assets or liabilities as considered by market participants in relevant asset or liability transactions, and gives priority to use relevant observable input values as soon as possible. The unobservable input values may be used only when the observable input values are unable or impractical to be obtained.

3.10.6 Impairment of financial instruments

The Company, based on the expected credit loss, made the impairment accounting treatment for financial assets classified to be measured as at amortized cost, financial assets classified to be measured at fair value through other comprehensive income, lease receivables, contract assets and financial guarantee contracts, and recognized the loss provisions thereof.

The expected credit loss refers to the weighted average of the credit losses of financial instruments that are weighted by the risk of default. Credit loss refers to the difference between all contractual cash flows receivable from the contract and discounted at the original actual interest rate and all cash flows expected to be received by the Company, that is, the present value of all cash shortages. The financial assets purchased by the Company or originated with credit impairment should be discounted at the actual interest rate upon credit adjustment of financial assets.

For the purchased or original financial assets with credit impairment, the provision for losses is made on the balance sheet date based on the accumulated changes in the expected credit loss over the whole duration after the initial recognition. On each balance sheet date, the amount of change in the expected credit loss over the whole duration is included in the current profit or loss as impairment gain or loss. Even through the expected credit loss over the whole duration determined on such balance sheet date is less than the expected credit loss reflected via the estimate of cash flows at the initial recognition, the favorable change in expected credit loss is recognized as impairment gain.

For other financial assets than the financial assets adopting the simplified measurement method and the purchased or original financial assets with credit impairment, the Company makes assessment on each balance sheet date on whether the credit risk of relevant financial instrument has increased significantly after the initial recognition, makes the provision for loss thereof, and recognizes the expected credit loss and changes thereof:

- (1) If the credit risk of a financial instrument has not increased significantly since the initial recognition, standing at the stage I, the Company will measure the provision for the expected credit loss of the financial instrument for the reserved next 12 months, and calculate the interest income based on the book balance of the financial instrument and the effective interest rate.
- (2) If the credit risk of a financial instrument has increased significantly without credit impairment since the initial recognition, standing at the stage II, the Company will measure the provision for the expected credit loss of the financial instrument during the whole duration, and calculate the interest income based on the book balance of the financial instrument and the effective interest rate.

- (3) If the financial instrument has had the credit impairment since the initial recognition, standing at the stage III, the Company will measure the provision for the expected credit loss of the financial instrument during the entire duration, and calculates the interest income based on the amortized cost of the financial instrument and the effective interest rate.

The amount increased or reversed of provision for credit loss on financial instruments are included in the current profit or loss as the impairment loss or gain. Except for financial assets classified to be measured at fair value through other comprehensive income, the provision for credit loss is used to offset the book balance of financial assets. For financial assets classified to be measured at fair value through other comprehensive income, the Company recognizes its provision for credit loss in other comprehensive income, without reducing the book value of such financial assets presented in the balance sheet.

In the previous accounting period, the Company has measured the provision for loss at the amount equivalent to the expected credit loss in the whole duration. However, on the current balance sheet date, if the financial instrument no longer belongs to the circumstance under which the credit risk has significantly increased since initial recognition, the Company will measure the provision for loss of the financial instrument at an amount equivalent to the expected credit loss in the next 12 months on the current balance sheet date, and the amount reversed of provision for loss arising therefrom is included in the current profit or loss as impairment gains.

- (1) Credit risk has increased significantly

The Company, by use of reasonable and evidence-based forward-looking information, determines whether the credit risk of the financial instrument has increased significantly by comparing the default risk of the financial instrument on the balance sheet date with that on the initial recognition date. For financial guarantee contracts, when the Company implements the provisions on impairment of financial instruments, the date when the Company becomes a party to the irrevocable commitment is taken as the initial recognition date.

The Company will consider the following factors when assessing whether the credit risk has increased significantly:

- 1) Whether the debtor's operating results have changed significantly or are expected to change significantly;
- 2) Whether the debtor's regulatory, economic or technical environment has undergone significant adverse changes;
- 3) Whether the value of the collateral used as debt pledge or the quality of guarantee or credit enhancement provided by any third party has had significant changes that are expected to reduce the economic motivation of the debtor to repay within the period specified in the contract or affect the probability of default;
- 4) Whether the debtor's expected performance and repayment behavior have changed significantly;
- 5) Whether the Company's credit management methods for the financial instrument have changed.

If the Company judges that the financial instrument only has a lower credit risk on the balance sheet date, it will assume that the credit risk of such financial instrument has not increased significantly since the initial recognition. If the default risk of a financial instrument is low, the borrower's ability to perform its contractual cash flow obligations in a short term will be strong, and even if the economic situation and operating environment are adversely changed over a long period, it will not necessarily reduce the borrower's ability to perform its contractual cash flow, and such financial instrument is considered to have a lower credit risk.

(2) Financial assets with credit impairment

When one or more events that adversely affect the expected future cash flows of a financial asset occur, the financial asset becomes a financial asset with credit impairment. Evidence that credit impairment has occurred in financial assets includes the following observable information:

- 1) The issuer or debtor suffers severe financial difficulties;
- 2) The debtor breaches the relevant contract terms, such as default or delay in the interest payment or principal repayment;
- 3) The creditor gives concessions to the debtor in any other circumstances for economic or contractual considerations relating to the financial difficulties of the debtor;
- 4) The debtor is likely to go bankrupt or carry out other financial restructuring;
- 5) The financial difficulties of the issuer or the debtor have caused the active market of the financial asset to disappear; and
- 6) Purchasing or originating a financial asset at a substantial discount that reflects the fact that a credit loss has occurred.

Credit impairment of financial assets may be caused by the joint action of multiple events, and may not be caused by separately identifiable events.

(3) Determination of expected credit loss

In assessing the expected credit loss, based on the expected credit loss on financial instruments upon the individual and portfolio assessment, the Company may consider reasonable and evidence-based information about past events, current conditions and future economic conditions.

The Company classifies financial instruments into different portfolios based on the common credit risk characteristics. Common credit risk characteristics adopted by the Company include: types of financial instruments, aging portfolio, etc. For the individual assessment criteria and portfolio credit risk characteristics of relevant financial instruments, please refer to the accounting policies for relevant financial instruments.

The Company determines the expected credit losses of related financial instruments according to the following methods:

- 1) For financial assets, the credit loss refers to the present value of the difference between the contractual cash flow receivable and the expected cash flow.

- 2) For leasing receivables, the credit loss is the present value of the difference between the contract cash flow collected and the cash flow expected to be collected by the Company.
- 3) For financial guarantee contracts, the credit loss refers to present value of the difference between the estimated payment to be paid by the Company for the credit losses incurred by the contract holder and the Company's amount receivable from the contract holder, debtor or any other party.
- 4) For financial assets that have suffered the credit impairment on the balance sheet date, and the credit impairment does not be caused by the purchase of or generating from such financial assets, the credit loss refers to the difference between the book balance of the financial asset and the present value of the estimated future cash flows discounted at the original effective interest rate.

Factors reflected via the method adopted by the Company for the measurement of the expected credit loss of financial instrument include: Unbiased probability weighted average amount determined by assessing a series of possible results; the time value of money; unnecessary additional cost which should not be paid on the balance sheet date or the reasonable and well-founded information on the previous matters which can be obtained by effort, the current conditions and the forecast of future economic conditions.

- (4) Write-down of financial assets
If the Company no longer reasonably expects that the contractual cash flow of the financial asset can be fully or partially recovered, the book balance of the financial asset will be directly written down. Such write-down constitutes the derecognition of relevant financial assets.

3.10.7 Offset of financial assets and financial liabilities

Financial assets and financial liabilities are respectively presented in the balance sheet without the mutual offset. However, if they meet the following conditions at the same time, they will be presented in the balance sheet at the net amount after offset:

- (1) The Company has the legal right to offset the recognized amount, and such right is currently executable; and
- (2) The Company intends to make settlement at net amount, or to realize such financial assets and liquidate such financial liabilities at the same time.

3.11 Notes receivable

See the Note 3.10.6 "Impairment of financial instruments" for the determination method and accounting treatment method adopted by the Company for the expected credit loss of notes receivable.

If the Company fails to assess the sufficient evidence for expected credit loss at the reasonable cost for any individual financial instrument, the Company should, by reference to the historical experience in credit loss and in light of the current conditions and the judgment on the future economic conditions, divide notes receivable into several portfolios based on the credit risk characteristics, to calculate the expected credit loss on the basis of portfolio. Portfolios are determined based on:

Portfolio name	Basis for portfolio determination	Provision method
Portfolio of risk-free bank acceptance bill	By acceptance unit rating	The provision for bad debts is made with reference to historical credit loss experience, in combination with current conditions and expectations of future economic conditions.
Commercial acceptance bills		Based on the historical experience in credit loss and in light of the current situation and the prediction of future economic position, preparing the comparison table of expected credit loss ratios over aging and the whole duration of these notes receivable to calculate the expected credit loss.

3.12 Accounts receivable

For accounts receivable, whether or not they contain significant financing components, the Company always measures the loss reserves according to the amount equivalent to the expected credit loss in the whole duration. The increase or reversal of loss reserves thus arising therefrom shall be included in the current profit or loss as the impairment loss or profit.

The Company determines expected credit loss on a single basis for accounts receivable for which there is objective evidence that credit impairment has occurred and for which there is a reasonable assessment of expected credit loss individually.

The Company combines the accounts receivable according to similar credit risk characteristics (aging), and based on all reasonable and supportable information (including forward-looking information), makes provision for the bad debts of accounts receivable according to the aging and lifetime expected credit loss comparison table.

See the Note 3.10.6 "Impairment of financial instruments" for the determination method and accounting treatment method adopted by the Company for the expected credit loss of accounts receivable.

3.13 Receivables financing

Notes receivable classified as measured at fair value through other comprehensive income with maturities within one year (inclusive) from the date of initial recognition are presented as receivables financing; and those with maturities of more than one year from the date of initial recognition are presented as other creditor's right investments. See the Note (XI) for its relevant accounting policies.

3.14 Other receivables

See the Note 3.10.6 "Impairment of financial instruments" for the determination method and accounting treatment method adopted by the Company for the expected credit loss of other receivables.

If the Company fails to assess the sufficient evidence for expected credit loss at the reasonable cost for any individual financial instrument, the Company should, by reference to the historical experience in credit loss and in light of the current conditions and the judgment on the future economic conditions, divide other receivable into several portfolios based on the credit risk characteristics, to calculate the expected credit loss on the basis of portfolio. Portfolios are determined based on:

Portfolio name	Basis for portfolio determination	Provision method
Portfolio 1: Receivables from related parties within the scope of consolidation	Nature of payment	The provision for bad debts is made with reference to historical credit loss experience, in combination with current conditions and expectations of future economic conditions.
Portfolio 2 (Aging portfolio)		Based on the historical experience in credit loss and in light of the current situation and the prediction of future economic position, preparing the comparison table of expected credit loss ratios over aging and the whole duration to calculate the expected credit loss.

3.15 Inventories

3.15.1 Classification of inventories

Inventories refer to the finished goods or commodities to be sold, goods in the process of production, materials and suppliers used in the process of production or rendering of services, held by the Company during the routine business activities. Inventories mainly include raw materials, revolving materials, goods in process, stock commodities, goods dispatched, etc.

3.15.2 Method of measuring inventories

At the acquisition of inventories, the Company makes the initial measurement at cost, including the purchase cost, processing cost and others. The inventories are measured by the weighted-average system when dispatched.

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

After the comprehensive check of the inventories at the end of the period, the provision for inventory depreciation is made or adjusted at their costs or net realizable values, whichever are lower. In the normal production and operation process, for merchandise inventories for direct sale, including finished goods, stock commodities and materials for sale, their net realizable values are recognized at the estimated selling prices minus the estimated selling expenses and the relevant taxes and surcharges; for material inventories required to be processed, their net realizable values are recognized at the estimated selling prices of finished goods minus estimated costs until completion, estimated selling expenses and relevant taxes and surcharges. For inventories held to under any sales contract or service contract, their net realizable values are calculated based on the contract price. If the quantity of inventories held by the Company is more than that ordered in sales contract, the net realizable value of the excess inventories will be calculated based on general selling price.

The provision for inventory depreciation is made on an individual basis at the end of the period. For inventories with large quantities and relatively low unit prices, the provision for inventory depreciation is made on a category basis. For inventories related to the product portfolios manufactured and sold in the same area, of which the final usage or purpose is identical or similar thereto, and which is difficult to separate from other items for measurement purposes, the provision for inventory depreciation is made on a portfolio basis.

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

3.15.4 Inventory system

Inventory system of the inventories is perpetual inventory system.

3.15.5 Amortization method for low-cost consumables and packaging materials

- (1) One-off write-off method is adopted for low-cost consumables.
- (2) Revolving packaging materials shall be included in costs by several times according to expected number of uses.

3.16 Contract assets

If the Company enjoys the right to charge consideration as it has transferred goods to relevant customer, and the right depends on other factors except for the time lapses, such right will be recognized as the contract asset. The unconditional right (only depending on the time lapses) to charge consideration from the customer, possessed by the Company, is separately presented as receivables.

See the Note 3.10.6 "Impairment of financial instruments" for the determination method and accounting treatment method adopted by the Company for the expected credit loss of contract assets.

3.17 Held for sale

3.17.1 Recognition criteria for classification as held for sale

The Company recognizes non-current assets or disposal groups that meet both of the following conditions as components held for sale:

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

The determined purchase commitment refers to the legally binding purchase agreement signed by and between the Company and other parties. The agreement covers significant clauses in aspects such as transaction price and time and sufficiently severe breaches and penalty, making slim possibility for the agreement being re-adjusted or canceled.

3.17.2 Accounting method for held for sale

If the Company does not provide depreciation or amortization for non-current assets or disposal groups held for sale and the book value is higher than the net amount of fair value less disposal expenses, the Company shall write down the book value to the net amount of fair value less disposal expenses, and the written down amount shall be recognized as an asset impairment loss and included in the current profit or loss, while providing for the impairment of assets held for sale.

For non-current assets or disposal groups that are classified as held for sale on the acquisition date are measured at the lower of the initial measurement amount assuming they are not classified as held for sale or the net fair value less disposal expenses.

The above principles apply to all non-current assets, except for investment real estate that is subsequently measured using the fair value model, biological assets that are measured using the net of fair value less disposal costs, assets formed from staff emoluments, deferred income tax assets, financial assets that are governed by the relevant accounting standards for financial instruments, and rights arising from insurance contracts that are governed by the relevant accounting standards for insurance contracts.

3.18 Other creditor's right investments

See the Note 3.10.6 "Impairment of financial instruments" for the determination method and accounting treatment method adopted by the Company for the expected credit loss of other creditor's right investments.

3.19 Long-term receivables

See the Note 3.10.6 "Impairment of financial instruments" for the determination method and accounting treatment method adopted by the Company for the expected credit loss of long-term receivables.

3.20 Long-term equity investments

3.20.1 Determination of initial investment cost

(1) For the specific accounting policies for long-term equity investments acquired through business combination, see the Note 3.5 "Accounting treatment methods for business combinations under common control and not under common control".

(2) Long-term equity investments acquired by other means

For long-term equity investments acquired from cash payment, the initial investment cost is the actually paid purchasing cost. The initial investment cost includes expenses, taxes and other necessary expenses directly related to obtaining the long-term equity investment;

For the long-term equity investment acquired from issuing equity securities, the initial investment cost is the fair value of the issued equity securities; transaction expenses on the issue or acquisition of the own equity instruments are deducted from the equity if they are directly attributable to the equity transaction.

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

The initial investment cost of the long-term equity investment acquired through the debt restructuring is determined based on the fair value thereof.

3.20.2 Subsequent measurement and recognition of gains and losses

(1) Cost method

For the long-term equity investments where the Company may have the control over investees, the cost method is adopted for accounting, the measurement is made based on the initial investment cost and the cost is adjusted via the additional investment or the divestment.

Except for the actual price paid for acquisition of investment or the cash dividends or profits contained in the consideration and declared but not yet distributed, the Company recognizes the current investment income based on the cash dividends or profits enjoyed by the Company and declared to be distributed by the investee.

(2) Equity method

The Company accounts for the long-term equity investments in associates and joint ventures by the equity method; some equity investments in associates therein indirectly held via the risk investment organization, mutual fund, trust company or the similar entity including the investment-linked insurance fund are measured at fair through the profit or loss.

If the initial investment cost of any long-term equity investment is in excess of the share of fair value of the net identifiable assets in the investee when the investment is made, the difference will not be adjusted to the initial cost of long-term equity investment; if the cost of initial investment is in short of the share of the fair value of the net identifiable assets in the investee when the investment is made, the difference will be included in the current profit or loss.

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

The Company should, based on the fair values of the investee's various identifiable assets at the time when relevant investment is made, recognize its share of the investee's net profits or losses, after adjusting the investee's net profit. The Company calculates its attributable share in the profit or loss from the unrealized internal transactions between the Company and its associates or joint ventures based on its attributable percentage and offset such share, and determines the investment income on that basis.

When the Company confirms that it should share losses incurred in the investee, treatment should be done in following sequence: first, writing down the book value of long-term equity investments. Secondly, where the book value thereof is insufficient to cover the share of losses, investment losses are recognized to the extent of book value of other long-term equities which form net investment in the investee in substance and the book value of long-term receivables shall be reduced. Finally, after all the above treatments, if the Company is still responsible for any additional liability in accordance with the provisions stipulated in the investment contracts or agreements, the Company will recognize an estimated liability based on its expected obligations, and include the estimated liability in the current investment loss.

Where the investee realizes profit during the following period, the Company make treatment for the profit after deducting such profit with the unrecognized loss-sharing amount in the order inverse to that mentioned above, i.e. writing off the recognized book balance of estimated liabilities and reversing the book value of other long-term equity substantially constituting the net investment in the investee and the book value of long-term equity investment, and recognizing the investment income after such reversal.

3.20.3 Conversion of the accounting method for long-term equity investments

- (1) Conversion from the measurement at fair value to the accounting by the equity method

Where the equity investment originally held by the Company, having no control or common control over or the significant impact on the investee and subject to the accounting treatment made according to the standards for recognition and measurement of financial instruments may have the significant influence on or the common control over the investee on account of additional investment and other reasons but cannot control the investee, the sum of fair value of originally held equity investment determined according to the *Accounting Standards for Business Enterprises No. 22 -- Recognition and Measurement of Financial Instruments* and the cost of newly-added investment should be taken as the initial investment cost of such equity investment calculated by the equity method.

The difference between the initial investment cost calculated by the equity method and the share calculated in the new shareholding ratio determined after the additional investment and enjoyed in the fair value of the investee's net identifiable assets on the date of additional investment (the latter is higher) should be used to adjust the book value of the long-term equity investment and included in the non-operating revenue for the current period.

- (2) Conversion from the measurement at fair value or accounting by the equity method to the accounting by the cost method

Where the equity investment originally held by the Company, having no control or common control over or the significant impact on the investee and subject to the accounting treatment made according to the standards for recognition and measurement of financial instruments, or the long-term equity investment originally held by the Company in associates and joint ventures may control the investee not under common control on account of such reasons as additional investment, at the preparation of the individual financial statements, the initial investment cost of such investment under the accounting by the cost method should be recognized at the sum of the book value of originally held equity investment and the cost of the newly-added investment.

For other comprehensive income that is recognized from the equity investment held before the acquisition date by using the equity method, the accounting treatment should be made on the basis the same as that for the direct disposal of related assets or liabilities by the investee at the disposal of such equity investment.

Where the equity investments held before the acquisition date are subject to the accounting treatment made according to the *Accounting Standards for Business Enterprises No. 22 -- Recognition and Measurement of Financial Instruments*, the accumulated changes in fair value originally included in other comprehensive income should be transferred in the current profit or loss when the accounting therefor is made by the cost method.

- (3) Conversion from accounting by the equity method to the measurement at fair value

In case the Company loses the common control over or the significant influence on the investee due to the disposal of part of equity investments or other reasons, the remaining equity after the disposal should be accounted for according to the *Accounting Standards for Business Enterprises No. 22 -- Recognition and Measurement of Financial Instruments*, and the difference between the fair value and the book value on the date of the loss of common control or significant influence should be included in the current profit or loss.

As to other comprehensive income recognized based on measurement of the original equity investment under the equity method, accounting treatment shall be made on the same basis as would be required if the investee had directly disposed of the assets or liabilities related thereto when measurement under the equity method is terminated.

- (4) Conversion from the cost method to the equity method

In case the Company loses the control over the investee due to the disposal of part of equity investment and other reasons, in the preparation of the individual financial statements, if the remaining equity has the common control over or significant influence on the investee, the accounting by the equity method should be made, and the adjustment should be made as if the remaining equity had been accounted for by the equity method at acquisition.

- (5) Conversion from the cost method to the measurement at fair value

In case the Company loses the control over the investee due to the disposal of part of equity investments or other reasons, in the preparation of individual financial statements, the remaining equity after disposal fails to have the common control over or the significant influence on the investee, the accounting treatment should be made according to the *Accounting Standards for Business Enterprises No. 22 -- Recognition and Measurement of Financial Instruments*, and the difference between the fair value and the book value thereof on the date of the loss of control should be included in the current profit or loss.

3.20.4 Disposal of long-term equity investments

For the disposal of long-term equity investments, the difference between the book value and the actual price thereof should be included in the current profit or loss. Where a long-term equity investment is accounted for under the equity method, accounting treatment should be made on the part that is originally included in other comprehensive income according to corresponding ratio by using the same basis for the investee to directly dispose of the relevant assets or liabilities when the investments are disposed of.

In case the terms, conditions and economic impact of the transactions related to the disposal of equity investments in subsidiaries meet one or more of the following circumstances, multiple transactions should be taken as a package deal for accounting treatment:

- (1) The transactions are concluded at the same time or under the consideration of mutual effect;
- (2) These transactions as a whole can reach a complete business result;
- (3) The occurrence of a transaction depends on that of other transaction or more; and/or

- (4) A single transaction is uneconomical but it is economical when considered together with other transactions.

Where the control over the original subsidiaries is lost due to the disposal of part of equity investments or other reasons, not belonging to a package deal, relevant accounting treatment should be made respectively for the individual financial statements and the consolidated financial statements:

- (1) In the individual financial statements, for disposal of equity, the difference between book value and the actual purchase price should be included in the current profit and loss. The remaining equity after the disposal that can exercise common control or exert significant influence over the investee shall be accounted for in the equity method, and such remaining equity shall be adjusted as if it had been accounted for in the equity method since the time of acquisition; the remaining equity after disposal that cannot exercise common control or exert significant influence over the investee shall be subject to accounting treatment according to the relevant provisions of the *Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments*, and the difference between the fair value on the date when the control is lost and the book value shall be included into the current profit or loss.
- (2) In the consolidated financial statements, for various transactions before loss of the control over the subsidiaries, the difference between the proceeds from disposal and the share of net assets of subsidiaries enjoyed the Company (continuously calculated from the acquisition date or the combination date) corresponding to the disposal of long-term equity investments, shall be charged against capital reserves (share premium); when the capital reserves is insufficient to offset, the retained earnings shall be adjusted. When the Company loses the control over the subsidiaries, the remaining equity will be re-measured at its fair value on the date of loss of the control. The difference of total amount of the consideration from disposal of equities plus the fair value of the remaining equities less the shares calculated at the original shareholding ratio in net asset of the original subsidiary which are continuously calculated as of the acquisition date is included in the investment income of the period at the loss of control and at the same time offset the goodwill. Other comprehensive income associated with the equity investments of the original subsidiary, is transferred into investment income of the period when control is lost.

Where the transactions of disposal of equity investments in subsidiaries until the loss of control over belong to a package of transactions, and the transactions will be accounted for as a transaction of disposal of equity investments in subsidiaries until the loss of control; individual financial statements and consolidated financial statements will be respectively accounted for:

- (1) In the individual financial statements, the difference between each disposal cost and book value of long-term equity investments corresponding to each disposal of equity before loss of the control should be recognized as other comprehensive income and should be transferred into the current profit or loss on the loss of the control.
- (2) In the consolidated financial statements, the difference between each disposal cost and net asset share in the subsidiaries corresponding to each disposal of investments before loss of the control should be recognized as other comprehensive income and should be transferred into the current profit or loss on the loss of the control.

3.20.5 Judgment criteria for joint control and significant influence

If the Company jointly controls an arrangement with other participants in accordance with the relevant agreement, and the decision-making of activities having a significant impact on the return on the arrangements is required to be unanimously agreed by participants sharing control, which is deemed that the Company and other participants jointly control an arrangement, such arrangement belongs to joint venture arrangement.

If joint venture arrangements are made by a separate entity, the Company is entitled to the net assets of such separate body according to relevant agreement, such separate entity is joint venture and measured at the equity method. If the Company is not entitled to the net assets of such separate entity according to relevant agreement, such separate entity is joint venture and the Company confirms the projects relating to share in interest of joint operation, and conduct accounting treatment in accordance with the related provisions of the Accounting Standards for Business Enterprises.

Significant influence refers to the power of the investor to participate in making decisions on the financial and operating policies of the investee, but not the power to control, or jointly control, the formulation of such policies with other parties. Through one or more of the following circumstances, and comprehensively considering all the facts and circumstances, the Company judges that it has a significant impact on the investee: (1) representatives in the board of directors or similar organ of power of the investee; (2) the process of preparing financial and operating policies the investee; (3) significant transactions with the investee; (4) managers dispatched to the investee; (5) key technical information provided to the investee.

3.21 Investment properties

Investment properties refer to the properties that are held for the purposes of earning rental income, capital appreciation, or for combination thereof, including land use rights that have been leased out; land use rights which are held and to be leased out after appreciation and structures leased. Furthermore, as for the unoccupied constructions which are held for operating lease, if the board of directors (or similar institution) makes a written resolution which clearly states that the aforesaid construction is used for operating lease and the intent for holding such construction will not change in the short-term future, such construction will be presented as investment property.

The costs of the investment property of the Company shall be taken as its entry value, and the cost of an investment property by acquisition consists of the acquisition price, relevant taxes, and other expenses directly relegated to the asset; the cost of a self-built investment property composes of the necessary expenses for building the asset to the hoped condition for use.

The Company's investment properties are subsequently measured at cost model, and the depreciation or amortization will be withdrawn according to relevant regulations on fixed assets and intangible assets.

When an investment property is changed for self-use, upon change, the investment property shall be converted into fixed assets or intangible assets. When the self-use property is changed to earn rentals or for capital appreciation, upon change, fixed assets or intangible assets shall be converted into investment property. In case of the conversion, the book value of such investment property before the conversion is regarded as the entry value of the same after the conversion.

When an investment property is being disposed or permanently withdrawn from use and no future economic benefits are expected from the disposal, the investment property shall be derecognized. The difference of the revenue from disposal of investment properties such as sales, transfer, retirement or damage deducting their book value and related taxes should be included into the current profit or loss.

3.22 Fixed assets

3.22.1 Recognition criteria of fixed assets

Fixed assets are tangible assets that are held for the purpose of producing goods, providing services, leasing or operating management, and having a life span of more than one fiscal year. Fixed assets are recognized when they simultaneously meet the following conditions:

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

3.22.2 Initial measurement of fixed assets

The fixed assets of the Company shall be initially measured at cost.

- (1) Specifically, the costs of fixed assets externally purchased include purchase price, import duties and other related taxes and surcharges, and any other expenditures for making the assets reach working condition for their intended use.
- (2) The costs of self-built fixed assets consist of necessary expenditures incurred before preparing the asset to reach the condition for its intended use;
- (3) For fixed assets invested by an investor, the initial cost is the value stipulated in the investment contract or agreement unless the value stipulated in the contract or agreement is unfair;
- (4) If the payment for a fixed asset is delayed beyond the normal credit conditions and it is of the financing nature, the cost of the fixed asset shall be determined on the basis of the current value of the purchase price. The difference between the cost actually paid and the present value of purchase price will be capitalized and included into the current profit or loss in the credit period.

3.22.3 Subsequent measurement and disposal of fixed assets

- (1) Depreciation of fixed assets

The depreciation of fixed assets shall, within estimated useful lives, be made at their book-entry values less estimated net residual value. For the fixed assets with provision for impairment made, the amount of depreciation will be determined according to the book value after deduction of the provision for impairment and the remaining useful life in the future. No provision for fixed assets which are fully depreciated and remain in use.

The Company determines the useful life and estimated net residual value of a fixed asset according to its nature and using status, and reviews the useful life, estimated net residual value and depreciation method of the fixed assets at the end of the year. If there is any difference between the reviewing results and the original estimated data, the Company will make some adjustments accordingly.

Depreciation method, depreciation life and annual depreciation rate of various fixed assets are listed as follows:

Type	Depreciation method	Depreciation life (year)	Residual value rate (%)	Annual depreciation rate (%)
Buildings and constructions	Straight-line method	25-35	3	2.77-3.88
Machinery equipment	Straight-line method	7-15	3	6.47-13.86

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Type	Depreciation method	Depreciation life (year)	Residual value rate (%)	Annual depreciation rate (%)
Transportation equipment	Straight-line depreciation	8-10	3	9.70-12.13
Other equipment	Straight-line method	5-10	3	9.70-19.40

- (2) Subsequent expenditure of fixed assets
If the subsequent disbursement relevant to a fixed asset meets the recognition criteria on the fixed asset, it is included in the cost of fixed asset; otherwise, it is included in the current profit or loss.
- (3) Disposal of fixed assets
When fixed assets are disposed of or are expected to fail to generate economic benefits after the use or disposal, the fixed assets shall be derecognized. The incomes from sales, transfer, scrapping or damages of fixed assets after deducting their book values and relevant taxes and surcharges are included in the current profit or loss.

3.23 Construction in progress

3.23.1 Initial measurement of construction in progress

The Company's self-built construction on progress is valued at the actual cost which consists of all necessary expenditures incurred before the assets for such construction reaching to the predetermined serviceable condition, including all types of necessary expenditures incurred during the construction period, the capitalized borrowing costs incurred prior to the time when the construction is brought to the expected conditions for use and other relevant costs, etc.

3.23.2 Criteria and timing for conversion of the construction in progress into the fixed assets

For construction in progress, the book-entry values of the fixed assets are stated at total expenditures incurred before such assets reach the working condition for their intended use. Where the construction in progress has reached the predetermined serviceable condition but the completion of settlement has not been handled, the estimated construction value shall be transferred into the fixed assets based on construction budget, cost or actual cost of construction, etc. as of the day reaching the predetermined serviceable condition, and the depreciation of fixed assets shall be made according to the Company's policy on fixed assets depreciation; when the completion of settlement is finished, the original estimated value shall be adjusted at the actual cost, but the depreciation already withdrawn shall not be adjusted.

3.24 Borrowing costs

3.24.1 Recognition principles of capitalization of borrowing costs

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

Assets eligible for capitalization refer to fixed assets, investment properties, inventories and other assets which may reach their intended use or sale status only after long-time acquisition and construction or production activities.

Borrowing costs are capitalized when they simultaneously meet the following conditions:

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

3.24.2 Capitalization period of borrowing costs

Capitalization period refers to the period from the beginning of capitalization to the cease of capitalization, excluding the period of capitalization suspension of borrowing costs.

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

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

If all parts of the acquired and constructed or produced assets are completed but the assets cannot be used or sold externally until overall completion, the capitalization of borrowing costs should be ceased at the time of overall completion of the said assets.

3.24.3 Period of capitalization suspension of borrowing costs

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

3.24.4 Calculation method of capitalization amount of borrowing costs

The special borrowings' interest expenses (excluding the interest income from unused borrowings deposited in the bank or the investment income from the temporary investment) and auxiliary expenses, before the acquired and constructed or produced assets meeting with the capitalization conditions are eligible for the intended use, shall be capitalized.

The interest amount of general borrowings to be capitalized should be calculated by multiplying the weighted average of asset disbursements of the part of accumulated asset disbursements exceeding special borrowings by the capitalization rate of used general borrowings. The capitalization rate is calculated by weighted average interest rate of general borrowings.

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

3.25 Right-of-use assets

The Company initially measures the right-of-use assets at cost. Such costs include:

1. The initial measurement amount of lease liabilities;
2. In case of any lease incentives, relevant amount of the lease incentives enjoyed shall be deducted from the lease payment paid on or before the commencement date of the lease term;
3. The initial direct costs incurred by the Company;
4. The costs incurred of the Company for demolishing and removing leased assets, restoring the site where the leased assets are located, or restoring the leased assets to the state agreed in the lease term, excluding the costs incurred for the production of inventories.

After the commencement date of the lease term, the Company carries out subsequent measurement of right-of-use asset using the cost method.

If there is a reasonable assurance that the ownership of leased assets can be acquired when the lease term expires, the Company makes the provision during the remaining useful life for the leased assets. If there is no reasonable assurance that the ownership of the leased assets can be acquired when the lease term expires, the Company makes the provision over the lease term or the remaining useful life for the leased assets, whichever is shorter. For the right-of-use assets with provision for impairment made, the depreciation will be made according to the book value after deduction of the provision for impairment and by reference to the above principle.

3.26 Intangible assets and development expenses

The intangible assets refer to the identifiable non-monetary assets which have no physical shape and are possessed or controlled by the Company.

3.26.1 Initial measurement of intangible assets

The costs of externally acquired intangible assets comprise their purchase prices, related taxes and surcharges and any other directly attributable expenditure incurred to prepare the assets for their intended use. If the payment for an intangible asset is delayed beyond the normal credit conditions and it is of the financing nature, the cost of the intangible asset shall be determined on the basis of the present value of the purchase price.

The intangible assets acquired and used by the debtor to repay debt in debt restructuring should be recorded at the fair value of the intangible assets. The difference between the book value of restructured debts and the fair value of intangible assets used to repay debt should be included in the current profit or loss.

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

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

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

3.26.2 Subsequent measurement of intangible assets

The useful lives of intangible assets are analyzed and judged by the Company upon acquisition, and the intangible assets are divided into the intangible assets with definite useful lives and intangible assets with indefinite useful life.

(1) Intangible assets with definite useful life

For intangible assets with definite useful lives, the Company shall adopt the straight-line method for amortization within the period during which they can bring economic benefits to the Company. Estimated useful life and basis of intangible assets with definite useful lives as follows:

Item	Estimated useful lives	Basis
Land use right	30 -50 years	Estimated useful life
Patent rights	5 years	Estimated useful life
Software	5 years	Estimated useful life

At the end of each reporting period, the Company shall review the useful lives and amortization method of intangible assets with definite useful lives. If there is any difference between the review results and the original estimated data, the Company will make adjustments accordingly.

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

(2) Intangible assets with indefinite useful lives

In case of the period when the intangible assets generate economic benefit for enterprise cannot be forecasted, the intangible assets shall be deemed as the intangible assets with indefinite useful lives.

The intangible assets with indefinite useful lives shall not be amortized during the holding period. The useful lives of the intangible assets shall be reviewed at the end of each period. If the useful lives of the intangible assets are still uncertain after review at the end of the period, an impairment test shall be continuously carried out during each accounting period.

3.26.3 Specific criteria for classifying research and development stages of internal research and development projects of the Company

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

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

Expenditures in the research stage of an internal research and development project are included in the current profit or loss when incurred.

3.26.4 Specific criteria for qualifying expenditure on the development stage for capitalization

The Company classifies the expenditures for its internal research and development projects into research expenditures and development expenditures. Expenditures in the research phase should be included in the current profit or loss when they are incurred.

The expenditures in development phase will be capitalized only when all of the following conditions are satisfied simultaneously: It is feasible technically to finish intangible assets for use or sale; it is intended to finish and use or sell the intangible assets; the usefulness of methods for intangible assets to generate economic benefits shall be proved, including being able to prove that there is a potential market for the products manufactured by applying the intangible assets or there is a potential market for the intangible assets itself or the intangible assets will be used internally; with the support of sufficient technologies, financial resources and other resources, it is able to finish the development of the intangible assets, and it is able to use or sell the intangible assets; and the expenditure attributable to the intangible asset during its development phase can be measured reliably. The development expenditures that do not meet the above conditions are included in the current profit or loss.

The Company's corresponding items will, after satisfying the above conditions, passing the studies on technical feasibility and economic feasibility, and obtaining project approval, enter into the development phase.

3.27 Impairment of long-term assets

The Company assesses whether there is any indication that long-term assets may be impaired on the balance sheet date. If any indication shows the impairment of long-term assets, the Company shall, on the basis of single item assets, estimate the recoverable amount. Where it is difficult to do so, it shall determine the recoverable amount of the group assets on the basis of the asset group to which the asset belongs.

The recoverable amount of assets is the higher of their fair values less costs to sell and the present values of the future cash flows expected to be derived from the assets.

The measurement results of recoverable amount show that, if the recoverable amounts of assets are lower than their book values, the book values of the assets shall be written down to their recoverable amounts. The write-down amount is recognized as asset impairment losses and included in the current profit or loss, while the provisions for asset impairment are made accordingly. Losses from asset impairment shall not be reversed in subsequent accounting periods once recognized.

After asset impairment losses are recognized, the depletion or amortization charges for the impaired assets shall be accordingly adjusted in future periods to amortize their adjusted book value of assets (less their estimated net residual values) over their remaining useful lives on a systematic basis.

An impairment test shall be conducted each year for the goodwill from business combination and intangible assets with indefinite useful lives whether there is any indication of impairment.

During impairment test of goodwill, the book value of goodwill shall be amortized to asset group or asset group combination anticipated to benefit from the synergistic effect of business combination. When making an impairment test on the relevant asset groups or combination of asset groups containing goodwill, if any indication shows that the asset groups or combinations of asset groups may be impaired, the Company shall first conduct an impairment test on the asset groups or combinations of assets groups not containing goodwill, calculate the recoverable amount and compare it with the relevant book value to recognize the

corresponding impairment loss. Then the Company shall conduct an impairment test on the assets groups or combinations of assets groups containing goodwill, and compare the book value of these assets groups or combinations of assets groups (including the book value of the goodwill apportioned thereto) with the recoverable amount. Where the recoverable amount of the relevant assets groups or combinations of assets groups is lower than the book value thereof, the Company shall recognize the impairment loss of the goodwill.

3.28 Long-term deferred expenses

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

3.29 Contract liabilities

The obligation of transferring goods to customers for the consideration received or receivable from customers shall be presented as contract liabilities.

3.30 Employee compensation

Employee compensations refer to multiform remuneration or compensation offered of the Company in order to get services provided by its employees or sever the labor relation. Employee compensation mainly includes short-term employee compensation, post-employment benefits, dismissal benefits and other long-term employee benefits.

3.30.1 Short-term compensation

Short-term compensation refers to an employee remuneration paid to employees in full within 12 months after the end of annual report period rendering relevant services by employees, except for the post-employment benefits and dismissal benefits. During the accounting period of an employee providing services, the Company recognizes the employee compensation payable as liabilities and include them in related assets cost and expenses in accordance with beneficiaries of the services offered by the employee.

3.30.2 Post-employment benefits

Post-employment benefits refer to all kinds of remuneration and benefits payable for the Company in order to obtain services provided by employees and will pay to its employees after they retire or sever the labor relation with the Company, excluding the short-term remuneration and dismissal benefits.

Post-employment benefit plans of the Company can be divided into the defined contribution plan and defined benefit plan.

Defined contribution plan for post-employment benefits mainly refers to participating in the social basic endowment insurance, unemployment insurance, etc., which are organized and implemented by local labor and social security institutions. During the accounting period when employees render services to the Company, the deposited amount payable calculated on the basis of the defined contribution plan is recognized as liabilities and included in the current profit and loss or related cost of assets.

The Company bears no other payment obligations after regularly paying the abovementioned amounts according to the standards prescribed by the State and annuity plan.

3.30.3 Dismissal benefits

Dismissal benefits refer to the compensation for terminating the labor relation with the employees prior to the expired date of the labor contract or for encouraging the employees to voluntarily accept the layoff paid by the Group to the employees. The dismissal benefits should be recognized as liabilities and recorded into the current profit or loss on an earlier date when the Company is unable to unilaterally withdraw the plan on the cancellation of labor relationship or the layoff proposal and when the Group recognizes the cost related to restructuring concerning payment of dismissal benefits.

The Company offers the early retirement benefits to employees who accept the arrangement of internal early retirement. Early retirement benefits refer to salaries to and social insurance premiums and others paid for employees who have not been in the state-specified retirement age, but are willing to quit their jobs approved by the Company's management. The Company will pay the early retirement benefits to early retired employees as of the day the early retirement arrangement begins till they are in the normal retirement age. For the early retirement benefits, the Company conducts the accounting treatment by comparing with the dismissal benefits. If the former conforms to the recognition criteria related to dismissal benefits, the Company recognizes salaries paid to and social insurance premiums paid for early retired employees as of day they stop providing services till the day they are qualified for enjoying the normal retirement as liabilities, and includes them in the current profit or loss all at once. Differences caused by changes in actuarial assumptions and adjustment on benefit standards relating to early retirement benefits are included in the current profit or loss when they occur.

3.30.4 Other long-term employee benefits

Other long-term employee benefits provided for employees by the Company in conformity with defined contribution plans should be accounted for according to the defined contribution plans. Others should be accounted for according to the defined benefit plans.

3.31 Estimated liabilities

3.31.1 Recognition criteria for estimated liabilities

Where the obligation related to contingency meets all the following conditions simultaneously, it may be recognized as estimated liabilities by the Company:

This obligation is a present obligation of the Company;

The performance of this obligation may very probably lead to the flow of economic interests out of the Company; and

The amount of the obligation can be measured reliably.

3.31.2 Measurement method of estimated liabilities

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

The Company, when determining the best estimate, has had a comprehensive consideration of risks with respect to contingencies, uncertainties and the time value of money. If the time value of money is significant, the best estimates shall be determined after discount of relevant future cash outflows.

The best estimate shall be accounted as follows in different circumstances:

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

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

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

3.32 Lease liabilities

The Company initially measures the Lease liabilities at the present value of the lease payments that have not been paid on the lease commencement date. When calculating the present value of minimum lease payment, the Company adopts the implicit rate of lease as the discount rate, but if the implicit rate of lease cannot be reasonably determined, the Company's incremental borrowing rate will be adopted as the discount rate. Lease payments include:

1. For fixed payments and substantial fixed payments after deducting the relevant amount of the lease incentive;
2. Variable lease payments depending on the index or ratio;
3. Exercise price of purchase option, provided that the Company reasonably determines that it will exercise the option;
4. Payment needs to be paid for executing the lease termination option, provided that it is reflected that the Company will execute the lease termination option during the lease term.
5. The payments expected to be payable based on the residual value of the guarantee provided by the Company;

The Company calculates the interest expense of the lease liability in each period during the lease term according to the fixed discount rate, and records it into the current profit or loss or the related asset costs.

The variable lease payments not included in the measurement of lease liabilities shall be included in the current profit or loss or the related asset costs when they actually occur.

3.33 Revenue

The Company's revenue mainly comes from the following business:

- (1) Key client 1
- (2) Client obtaining the goods after payment
- (3) Post-sales client

3.33.1 General principles of revenue recognition

The Company recognizes the revenue according to the transaction price allocated to such performance obligation when its performance obligations as stipulated in the contract are fulfilled, that is, when the customer obtained control of the related goods or services.

Performance obligations are the commitments in the contracts, in which the Company transfers clearly distinguishable goods or services to the customers.

Obtaining control of related goods refers to being able to dominate the use of the goods and obtain almost all economic benefits from them.

The Company evaluates a contract on contract commencement date, identifies each individual performance obligation contained in the contract, and determines whether each individual performance obligation is to be performed at a particular time or at a particular point in time. The Company recognizes revenue over a period in accordance with the performance progress if one of the following conditions is met and the performance obligation belongs to those within a certain period: (1) The customers obtain and consume the economic benefits brought by the Company's performance while the Company is performing the obligation; (2) The customers are able to control the goods under construction when the Company performs the obligations; (3) The goods produced by the Company during the performance have irreplaceable uses, and the Company has the right to receive payments for the portion of the performance that has been completed till now during the whole contract period. Otherwise, the revenue will be recognized at the certain time-point when the customer obtains the right of control over relevant goods or services.

For performance obligations to be performed within a certain period, the Company uses the input method to determine the appropriate performance progress based on the nature of the goods and services. The output method determines the performance progress based on the value of goods transferred to the customers (the input method is a method to determine the performance progress based on the Company's inputs to fulfill the performance obligation). When the performance progress cannot be reasonably determined, if the cost incurred is expected to be compensated, the Company recognizes the revenue according to the amount of the cost incurred until the performance progress can be reasonably determined.

3.33.2 Specific method for recognition of revenue

The recognition of revenue from sales of automotive air conditioners is divided by client group into three categories:

- (1) Large customers. The cooperation method is mainly based on the client's production demand, the company will ship the goods to the designated or cooperative third-party logistics company, and the third-party logistics company is responsible for storage and distribution services. Each month, the client issues a pending notice according to the actual consumption of the production plan, and the sales clerk issues an invoicing notice according to the client's pending notice and in combination with the client's consumption, contract unit price and other information, and the finance department issues an invoice to confirm the sales revenue.
- (2) Client obtaining the goods after payment. According to the client's demand and relevant invoicing information, after the client pays and confirms the payment, the sales personnel will ship and issue invoicing notice according to the unit price of the sales contract and the quantity demanded by the client, and the Finance Department will issue an invoice to confirm the sales revenue.
- (3) Post-sales client. The sales operation personnel will ship the goods to the clients in accordance with the contract and the client's demand, and after reaching the time point agreed in the contract, issue the invoicing notice in accordance with the contract unit price and the shipping quantity agreed with the clients, and the Finance Department will issue the invoice to confirm the sales revenue.

3.34 Government grants

3.34.1 Type

Government grants refer to the monetary or non-monetary assets obtained by the Company from the government for free. Government subsidies are divided into government subsidies related to assets and government subsidies related to income according to the nature of assistance objects specified in relevant government documents.

Asset-related government grants refer to government subsidies obtained by the Company for forming long-term assets by acquisition, construction or other manners. Income-related government grants refer to government grants excluding the asset-related government grants.

3.34.2 Recognition of government grants

Where there is strong evidence showing that at the end of the period, the Company is able to conform to conditions related to the financial support policy, and it is estimated that the Company may receive the financial support funds, the government grant is recognized when the amount receivable is confirming. Beyond that, the government grant is recognized when it is actually received.

If government grants are monetary assets, they shall be measured at the amount received or receivable. If government grants are non-monetary assets, they shall be measured at its fair value; and if the fair value cannot be obtained in a reliable way, they shall be measured at a nominal amount (RMB 1). Government grants measured at nominal amount are included in the current profit or loss.

3.34.3 Accounting treatment methods

The Company determines whether a particular type of government grant business should be accounted for under the gross method or the net method based on the substance of the economic business. Normally, the Company uses only one method for the same or similar government grant business and applies the method consistently to such business.

Asset-related government grants should be used to offset the book value of relevant assets or recognized as deferred income. Asset-related government grants are recognized as deferred income and included in profit or loss by stages under reasonable and systematic methods within the useful life of the assets constructed or purchased;

If income-related government grants are used to compensate the enterprise's relevant expenses or losses in future periods, such government grants should be recognized as deferred income, and shall be included into current profit or loss or offset relevant costs during the period of recognizing relevant costs or losses; if income-related government grants are used to compensate the enterprise's relevant expenses or losses incurred, such income-related government grants are directly included into the current profit or loss or offset relevant costs upon acquisition.

Government grants relevant to routine activities of the Company are included in other income or used to offset relevant costs. Government grants irrelevant to routine activities of the Company are included in the non-operating revenue and expenditure.

If the government grants in connection with the interest subsidies of policy-based preferential loans are received, the related borrowing costs will be offset; if a policy-based preferential loan rate is obtained from a lending bank, the amount of the borrowing actually received is used as the recorded value of the borrowings, and the related borrowing costs are calculated in accordance with the loan principal and the policy-based preferential loan rate.

If the recognized government grants need to be returned, the carrying value of the assets is adjusted if the book value of the relevant assets is offset upon initial recognition; if there is a balance of relevant deferred income, the book value of the relevant deferred income is offset and the excess part is recognized in the current profit or loss; if there is no relevant deferred income, it is recognized directly in the current profit or loss.

3.35 Deferred income tax assets/ deferred income tax liabilities

Deferred income tax assets and deferred income tax liabilities are calculated and recognized based on differences (temporary differences) between tax base and book value of the assets and liabilities. On the balance sheet date, the deferred income tax assets and deferred income tax liabilities shall be measured at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.

3.35.1 Recognition basis of deferred income tax assets

The Company recognizes the deferred income tax assets arising from deductible temporary differences to the extent of the amount of the taxable income which may be obtained and used to deduct the deductible temporary differences, deductible losses and tax credits that can be carried forward to subsequent periods. However, in transactions having the following features at the same time, the deferred income tax assets occurring due to the initial recognition of assets or liabilities shall not be recognized: (1) the transaction is not a business combination; (2) the transaction, when occurring, affects neither accounting profit nor taxable income or deductible loss.

For the deductible temporary differences arising from investments in associates and joint ventures, the deferred income tax assets will be accordingly recognized when meeting the following conditions at the same time: the temporary differences may be reversed in the foreseeable future and they can be used to offset the taxable income of deductible temporary differences in the future.

3.35.2 Recognition basis of deferred income tax liabilities

The Company recognized outstanding taxable temporary differences for current or prior periods as deferred income tax liabilities. They exclude:

- (1) Temporary differences arising from initial recognition of goodwill;
- (2) Transactions or matters arising from non-business combinations, which do not affect either the accounting profit or the taxable or deductible temporary differences formed by the taxable income (or deductible losses).
- (3) For taxable temporary differences related to the investments in subsidiaries and associates, the time of their reversal can be controlled and they are not likely to be reversed in the foreseeable future.

3.36 Leases

On the contract commencement date, the Company evaluates whether the contract is a lease or includes a lease. If any party to a contract has exchanged the right to control the use of one or more identified assets within a certain period for consideration, the contract is concluded for lease or involved with lease.

3.36.1 Splitting of lease contract

If the contract contains multiple individual leases, the Company will split the contract and carry out the accounting treatment for lease individually.

When a contract contains both lease and non-lease components, the Company splits the lease and non-lease components. The lease component should be accounted for in accordance with the lease guidelines, while the non-lease component should be accounted for in accordance with other applicable accounting standards for business enterprises.

3.36.2 Consolidation of lease contract

Two or more contracts containing leases entered into by the Company and the same counterparty or its related parties at the same or similar times are combined into one contract for accounting purposes when one of the following conditions is met:

- (1) The two or more contracts are entered into based on an overall business purpose and constitute a package transaction, the overall business purpose of which cannot be understood if not considered as a whole.
- (2) The amount of consideration for one of the two or more contracts depends on the pricing or performance of the other contracts.
- (3) The rights to use the assets transferred by the two or more contracts, taken together, constitute a separate lease.

3.36.3 Accounting treatment of the Company as the lessee

On the commencement date of the lease term, the Company recognizes leases other than short-term lease and low-value asset lease applied under the simplified treatment as the right-of-use assets and lease liabilities.

- (1) **Short-term lease and lease of low-value assets**
Short-term lease refers to leases that do not exceed 12 months and exclude any purchase option. Low-value asset lease refers to the lease of a single lease asset with lower value when it is brand new.
- (2) For the accounting policies of right-of-use assets and lease liabilities, please see Note 3.25 and Note 3.32.

3.36.4 Accounting treatment of the Company as the lessor

- (1) **Classification of lease**
Leases of the Company are classified as finance lease and operating lease on the lease commencement date. Lease under which all the risks and rewards related to the ownership of assets are materially transferred is recognized as finance lease, the ownership of such lease may be transferred finally or not transferred. Operating lease refers to the leases other than finance lease.

A lease is normally classified as a finance lease when one or more of the following circumstances exist:

- 1) The ownership of the leased asset is transferred to the lessee when the term of lease expires;
- 2) The lessee has the option to purchase the leased asset, and the purchase price agreed is far lower than the leased asset's fair value when it is expected to exercise the option, so it can be reasonably assured that the lessee will exercise the option on the lease commencement data.
- 3) Even if the ownership of the asset is not transferred, the lease term covers the majority of the leased asset's usable life.
- 4) On the lease commencement date, the present value of the lease receipt is almost equal to the fair value of the leased assets.
- 5) The leased asset is of such a special nature that only the lessee can use it without making major modifications.

The Company may classify it as a finance lease when one or more of the following signs exist:

- 1) If the lessee revokes the lease, the loss to the lessor caused by the revocation of lease is borne by the lessee.
- 2) Gains or losses arising from fluctuations in the fair value of the residual value of the asset are attributed to the lessee.
- 3) The lessee has the ability to continue the lease to the next period at a rent much lower than the market level.

(2) Accounting treatment of finance lease

On the lease commencement date, the Company recognizes the finance leases as finance lease receivables and derecognizes assets under the finance lease.

At the initial measurement of the finance lease receivable, the sum of the unguaranteed residual value and the present value of the lease receipts not yet received at the commencement date of the lease, discounted at the interest rate embedded in the lease, is used as the book value of the finance lease receivable. Lease receipts include:

- 1) For fixed payments and substantial fixed payments after deducting the relevant amount of the lease incentive;
- 2) Variable lease payments depending on the index or ratio;
- 3) Where it is reasonably certain that the lessee will exercise the option to purchase, the lease receipts include the exercise price of the option to purchase;
- 4) Where the lease term reflects that the lessee will exercise the option to terminate the lease, the lease receipt includes the amount to be paid by the lessee for exercising the option to terminate the lease;
- 5) The residual value of the guarantee provided to the lessor by the lessee, a party related to the lessee, and an independent third party with the financial ability to meet the guarantee obligation.

The Company calculates and recognizes the interest income for each period of the lease term based on a fixed lease embedded interest rate. Variable lease payments acquired that are not included in the net lease investment measurement are recognized in the current profit or loss when they are actually incurred.

(3) Accounting treatment of operating lease

The Company recognizes lease receipts from operating leases as lease revenue on a straight-line basis or systematic and rational method over the respective periods of the lease term. Initial direct costs relating to operating lease incurred by the Company are capitalized, and shall be included in the current profit or loss on the same basis as the recognition of lease revenue during the lease term. The variable lease payable that is not included in the lease receivable shall be included in the current profit or loss at the time of actual occurrence.

3.36.5 Sale-and-leaseback deals

(1) The Company as the seller and lessee

If the asset transfer in the sale-leaseback transaction belongs to sales, the Company measures the right-of-use asset formed by the sale-leaseback according to the part related to the use-right obtained from the leaseback in the original book value of assets, and only recognizes the relevant gains and losses only for the rights transferred to the lessor; If the fair value of the sales consideration is different from the fair value of the asset, or if the lessor does not collect rent at market price, the Company accounts for the sales consideration below market price as prepaid rent and the amount above market price as additional financing provided by the lessor to the lessee; and adjusts the related gain or loss on sale at fair value.

If the asset transfer in the sale-and-leaseback transaction does not belong to the sale, the Company continues to confirm the transferred assets and recognizes a financial liability equivalent to the transfer income.

(2) The Company as the buyer and lessor

If the transfer of assets in a sale-and-leaseback transaction is a sale, the Company accounts for the transfer accordingly in accordance with the purchase of the asset and accounts for the lease of the asset in accordance with the leasing standards. If the fair value of the sales consideration is different from the fair value of the asset, or if the Company does not collect rentals at market price, the Company accounts for the amount of the sales consideration that is lower than the market price as rentals received in advance and accounts for the amount that is higher than the market price as additional financing provided by the Company to the lessee; and adjusts the rental income at market price.

If the transfer of assets in a sale-and-leaseback transaction is not a sale, the Company recognizes a financial asset equal to the transfer proceeds.

3.37 Discontinued operation

The Company recognizes the component, meeting any of the following conditions that can be separately distinguished and that has been disposed by the Company or classified as held for sale by the Company, as the discontinued operation:

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

The impairment loss from discontinued operation, reversed amount and other profit or loss from operation as well as profit or loss from disposal shall be presented as profit or loss from discontinued operation in the income statement.

3.38 Work safety expenses

The Company withdraws the work safety expenses according to national provisions, include in the cost of related products or the current profit or loss, and included in special reserves at the same time. When withdrawn safe production costs are used belong to expenses, such costs shall be directly deducted from special reserves. Where fixed assets form, incurred expenses are accumulated under the item construction in progress and are recognized as fixed assets when the safe project is completed and reaches the working conditions for its intended; meanwhile, special reserves shall be offset according to the costs of fixed assets and the accumulated depreciation of the same amount shall be recognized. Provision for depreciation of fixed assets will be no longer made in subsequent periods.

3.39 Changes in significant accounting policies and accounting estimates

3.39.1 Adjustments for changes in accounting policies

(1) Implementation of the Interpretation No. 15 of the Accounting Standards for Business Enterprises on the Company

On December 31, 2021, the Ministry of Finance issued the *Interpretation No. 15 of Accounting Standards for Business Enterprises* (CK [2021] No. 35, the "Interpretation No. 15"), wherein the "accounting treatment of the external sales of products or by-products produced by an enterprise before the fixed assets reach their intended serviceable condition or in the research and development process ('trial operation sales') and 'judgment on the loss contract', shall be implemented as of January 1, 2022.

Implementation of the Interpretation No. 15 of the Accounting Standards for Business Enterprises has no impact on the Company.

(2) Implementation of the Interpretation No. 16 of the Accounting Standards for Business Enterprises on the Company

On December 13, 2022, the Ministry of Finance has issued the *Interpretation No. 16 of Accounting Standards for Business Enterprises* (CK [2022] No. 31, the "Interpretation No. 16"). In the three accounting treatments, accounting for deferred income taxes related to assets and liabilities arising from a single transaction for which no exemption from initial recognition applies shall be implemented as of January 1, 2023, which allowed to be implemented in advance by the enterprise since the issue year; the Company has not implemented the relevant accounting in advance in this year; "accounting treatment for the income tax effects of dividends related to financial instruments classified as equity instruments by the issuer and "accounting treatment for modifying cash-settled share-based payment to equity-settled share-based payment" shall be implemented as of the date of promulgation.

Implementation of the Interpretation No. 16 of the Accounting Standards for Business Enterprises has no impact on the Company.

3.39.2 Adjustments for changes in accounting estimates

There were no changes in significant accounting estimates during the reporting period.

4 Taxation

4.1 Major tax types and tax rates applicable to the Company

Tax type	Basis of tax assessment/ Revenue type	Tax rate	Remark
Value added tax (VAT)	Taxable income	13%, 9%, 6%	
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	25% or 15%	

Notes to the income tax rates for different taxpayers:

Name of taxpayer	Income tax rate
Chongqing Jianshe Vehicle System Co., Ltd.	25%
Chongqing Jianshe Automobile A/C Co., Ltd.	15%
Chongqing Pingshan TK Carburetor Co., Ltd.	15%

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4.2 Tax preference policies and their basis

1. Chongqing Jianshe Automobile A/C Co., Ltd., a subsidiary of the Company, was certified as a high-tech enterprise on November 28, 2022 and obtained a high-tech enterprise qualification certificate with certificate No. GR202251102508, which is valid for three years and is subject to a reduced income tax rate of 15% for the calculation of enterprise income tax from 2022 to 2024.
2. According to the *Circular of the Ministry of Finance, the General Administration of Customs and the State Taxation Administration on Issues concerning Tax Policies for In-depth Implementation of Western Development Strategies* (CS [2011] No.58), from January 1, 2011 to December 31, 2020, the enterprise income tax on enterprises established in western areas and engaging in industries encouraged by the State is levied at a reduced tax rate of 15%; According to the *Announcement on Continuing the Western Development Enterprise Income Tax Policy* (Announcement of the Ministry of Finance, the State Taxation Administration and the National Development and Reform Commission [2020] No.23), from January 1, 2021 to December 31, 2030, the enterprise income tax on encouraged enterprises in western areas shall be levied at 15%. The enterprise income tax of the Company's subsidiary Chongqing Pingshan TK Carburetor Co., Ltd. was 15% in 2022.
3. The Company's export tax refund applies to the policy for tax exemption, offset and refund at tax refund rate of 13%.

4.3 Other notes

None.

5. Notes to the main items of the consolidated financial statements

(The following amounts are expressed in RMB unless otherwise stated, and the term "end of the period" refers to the date of December 31, 2022, the term "beginning of the period" refers to the date of January 1, 2022, the term "end of the previous period" refers to December 31, 2021.)

5.1 Monetary funds

Item	Balance as at December 31, 2022	Balance as at January 1, 2022
Cash on hand		
Bank deposits	169,994,534.05	23,738,523.19
Other monetary funds	9,959,988.94	67,940,000.00
Total	179,954,522.99	91,678,523.19
Including: total deposits with finance company	166,896,601.57	67,084,183.76

Remark: The Company participated in the centralized fund management plan of China South Industries Group Corporation. As of December 31, 2022, total deposits with finance company reached RMB166,896,601.57.

As of December 31, 2022, details of restricted monetary funds of the Company are as follows:

Item	Balance as at December 31, 2022	Balance as at January 1, 2022
Bank acceptance bill deposit	9,959,988.94	27,940,000.00
Time deposits or call deposits used for guarantee	-	40,000,000.00
Total	9,959,988.94	67,940,000.00

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5.2 Notes receivable

5.2.1 Presentation of notes receivable by category

Item	Balance as at December 31, 2022	Balance as at January 1, 2022
Bank acceptance bills	-	2,220,000.00
Commercial acceptance bills	-	
Total	-	2,220,000.00

5.3 Accounts receivable

5.3.1 Disclosure of accounts receivables by aging

Aging	Balance as at December 31, 2022	Balance as at January 1, 2022
1 - 6 months (inclusive)	112,999,606.01	140,550,094.23
Within 6 months -1 year	252,801.19	8,612,280.95
1 - 2 years	404,993.90	1,372,687.55
2 - 3 years	299,630.17	1,412,742.18
3 - 4 years	1,412,714.62	10,537,543.42
4 - 5 years	10,530,065.63	8,871,569.58
Over 5 years	22,394,794.03	13,560,196.39
Sub-total	148,294,605.55	184,917,114.30
Less: provision for bad debts	34,584,390.83	35,583,828.66
Total	113,710,214.72	149,333,285.64

5.3.2 Disclosure under the methods of provision for bad debts by category

Category	Balance as at December 31, 2022				
	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)	
Accounts receivable with provision for bad debts accrued on an individual basis	28,054,549.77	18.92	28,054,549.77	100.00	
Accounts receivable with provision for bad debts accrued on a portfolio basis	120,240,055.78	81.08	6,529,841.06	5.43	113,710,214.72
Including: Portfolio 1: Related parties within the scope of consolidation					
Portfolio 2: Aging portfolio	120,240,055.78	81.08	6,529,841.06	5.43	113,710,214.72
Total	148,294,605.55	100.00	34,584,390.83	23.32	113,710,214.72

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Category	Balance as at January 1, 2022				
	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)	
Accounts receivable with provision for bad debts accrued on an individual basis	28,666,222.39	15.50	28,666,222.39	100.00	-
Accounts receivable with provision for bad debts accrued on a portfolio basis	156,250,891.91	84.50	6,917,606.27	4.43	149,333,285.64
Including: Portfolio 1: Related parties within the scope of consolidation					
Portfolio 2: Aging portfolio	156,250,891.91	84.50	6,917,606.27	4.43	149,333,285.64
Total	184,917,114.30	100.00	35,583,828.66	19.24	149,333,285.64

5.3.3 Accounts receivable with provision for bad debts accrued on an individual basis

Enterprise name	Balance as at December 31, 2022			
	Book balance	Provision for bad debts	Proportion of provision (%)	Reason for provision
Chongqing Hyosow Autopart Co., Ltd.	12,723,992.31	12,723,992.31	100.00	Expected to be irrecoverable
Chongqing Bisu Yunbo Power Technology Co., Ltd.	5,217,475.35	5,217,475.35	100.00	Expected to be irrecoverable
Hafei Motor Co., Ltd.	3,999,944.43	3,999,944.43	100.00	Expected to be irrecoverable
Hangzhou Fuyang Instrument General Factory Co., Ltd.	2,681,594.66	2,681,594.66	100.00	Expected to be irrecoverable

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Enterprise name	Balance as at December 31, 2022			
	Book balance	Provision for bad debts	Proportion of provision (%)	Reason for provision
Chongqing Kaite Engine Technology Co., Ltd.	1,481,654.59	1,481,654.59	100.00	Expected to be irrecoverable
Hubei Meiyang Automobile Industry Co., Ltd.	1,408,811.40	1,408,811.40	100.00	Expected to be irrecoverable
Dfsk Motor Co., Ltd. Chongqing Branch	102,720.66	102,720.66	100.00	Expected to be irrecoverable
Jiangxi Zhicheng Automobile Co., Ltd. Jingdezhen Company	182,777.11	182,777.11	100.00	Expected to be irrecoverable
GAC GONOW Automobile Co., Ltd. Luqiao Company	75,821.20	75,821.20	100.00	Expected to be irrecoverable
GAC GONOW Automobile Co., Ltd.	67,998.51	67,998.51	100.00	Expected to be irrecoverable
BAIC Heibao (Weihai) Automobile Co., Ltd.	51,021.77	51,021.77	100.00	Expected to be irrecoverable
Dongying Ji 'ao Automobile Co., Ltd.	48,579.85	48,579.85	100.00	Expected to be irrecoverable
Sichuan Yema Automobile Co., Ltd.	12,157.93	12,157.93	100.00	Expected to be irrecoverable
Total	28,054,549.77	28,054,549.77	100.00	

5.3.4 Accounts receivable with provision for bad debts accrued on a portfolio basis

(1) Portfolio 1 Aging portfolio

Aging	Balance as at December 31, 2022		
	Book balance	Provision for bad debts	Proportion of provision (%)
1 - 6 months (inclusive)	112,999,606.01	-	-
Within 6 months -1 year	252,801.19	12,640.05	5.00
1 - 2 years	404,993.90	40,499.40	10.00
2 - 3 years	104,647.32	31,394.20	30.00
3 - 4 years	61,962.82	30,981.41	50.00
4 - 5 years	8,592.69	6,874.15	80.00
Over 5 years	6,407,451.85	6,407,451.85	100.00
Total	120,240,055.78	6,529,841.06	5.43

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5.3.5 Provision, reversal or recovery of provision for bad debts in 2022

Category	Balance as at January 1, 2022	Changes in 2022				Balance as at December 31, 2022
		Provision	Recovery or reversal	Charge-off	Other changes	
Accounts receivable with provision for bad debts accrued on an individual basis						
Accounts receivable with provision for bad debts accrued on a portfolio basis	35,583,828.66	-	999,437.83	-	-	34,584,390.83
Including: Portfolio 1 Consolidated related parties						-
Portfolio 2: Aging portfolio	35,583,828.66	-	999,437.83	-	-	34,584,390.83
Total	35,583,828.66	-	999,437.83	-	-	34,584,390.83

5.3.6 There were no accounts receivable actually charged off in 2022.

5.3.7 Top 5 of accounts receivable as at December 31, 2022, presented by debtor

Enterprise name	Balance as at December 31, 2022	Proportion in the ending balance of accounts receivable (%)	Accrued provision for bad debts
PSA (Peugeot) Company	58,752,034.55	39.62	-
Chongqing Hyosow Autopart Co., Ltd.	12,723,992.31	8.58	12,723,992.31
Chongqing Changan Automobile Company Limited	7,072,474.53	4.77	-
Chongqing Yongchuan Great Wall Automobile Parts Co., Ltd.	5,354,795.63	3.61	-
Chengdu Henggao Mechanical Electronics Co., Ltd.	5,250,156.85	3.54	-
Total	89,153,453.87	60.12	12,723,992.31

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5.4 Receivables financing

5.4.1 Receivables financing

Item	Balance as at December 31, 2022	Balance as at January 1, 2022
Notes receivable	17,548,591.75	29,250,840.86
Total	17,548,591.75	29,250,840.86

5.4.2 Changes in receivables financing and fair values thereof in 2022

Item	Balance as at January 1, 2022		Increase or decrease in 2022		Balance as at December 31, 2022	
	Costs	Fair value Changes	Cost	Fair value Changes	Cost	Fair value Changes
Notes receivable	29,250,840.86		-11,702,249.11		17,548,591.75	
Total	29,250,840.86		-11,702,249.11		17,548,591.75	

The Company believes that the fair value of the receivables financing measured at fair value through the other comprehensive income is similar to the book value thereof due to the short remaining period.

5.4.3 Provision for bad debts

As of December 31, 2022, the Company believes that its receivables financing has no significant credit risk, and no significant loss will cause due to default.

5.4.4 Notes receivable of the Company as at December 31, 2020 that have been endorsed or discounted but not matured on the balance sheet date

Item	Amount derecognized as at December 31, 2022	Amount not derecognized as at December 31, 2022
Bank acceptance bills	75,751,516.19	
Commercial acceptance bills		
Total	75,751,516.19	

5.5 Advances to suppliers

5.5.1 Presentation of advances to suppliers by aging

Aging	Balance as at December 31, 2022		Balance as at January 1, 2022	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	3,577,455.19	88.89	6,871,577.60	95.06
1 - 2 years	90,007.50	2.24	127,554.40	1.76
2 - 3 years	127,554.40	3.17		
Over 3 years	229,348.93	5.70	229,348.93	3.18
Total	4,024,366.02	100.00	7,228,480.93	100.00

5.5.2 Top 5 of advances to suppliers as at December 31, 2022 presented by supplier

Name of entity	Balance as at December 31, 2022	Proportion in total advances to suppliers (%)
Chongqing Jiantao Aluminum Co., Ltd.	1,647,870.00	40.95
Asahi Trading (Shanghai) Co., Ltd.	353,404.85	8.78
Chongqing Bangzhou Import and Export Trade Co., Ltd.	265,000.00	6.58

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Name of entity	Balance as at December 31, 2022	Proportion in total advances to suppliers (%)
Chongqing Kanghongsheng Industry Co., Ltd.	172,800.00	4.29
Suzhou Bearing Factory Co., Ltd.	169,785.97	4.22
Total	2,608,860.82	64.82

5.6 Other receivables

5.6.1 Disclosure by aging

Aging	Balance as at December 31, 2022	Balance as at January 1, 2022
1 - 6 months (inclusive)	1,530,044.17	1,431,664.33
Within 6 months - 1 year	200,000.00	-
1 - 2 years	-	1,223,146.45
2 - 3 years	1,223,146.45	255,723.62
3 - 4 years	255,723.62	-
4 - 5 years	-	-
Over 5 years	4,774,182.33	4,774,182.33
Sub-total	7,983,096.57	7,684,716.73
Less: provision for bad debts	6,263,052.40	6,253,052.40
Total	1,720,044.17	1,431,664.33

5.6.2 Classification of other receivables by the nature of payment

Nature of payment	Balance as at December 31, 2022	Balance as at January 1, 2022
Reserves, security deposits, advance payment for social insurance premiums for employees, etc.	284,542.01	1,431,664.33
Current accounts	7,698,554.56	6,253,052.40
Total	7,983,096.57	7,684,716.73

5.6.3 Disclosure of impairment of financial assets by three stages

Item	Balance as at December 31, 2022			Balance as at January 1, 2022		
	Book balance	Provision for bad debts	Book value	Book balance	Provision for bad debts	Book value
Stage I	5,451,917.33	3,731,873.16	1,720,044.17	5,319,771.74	3,888,107.41	1,431,664.33
Stage II	-	-	-	-	-	-
Stage III	2,531,179.24	2,531,179.24	-	2,364,944.99	2,364,944.99	-
Total	7,983,096.57	6,263,052.40	1,720,044.17	7,684,716.73	6,253,052.40	1,431,664.33

5.6.4 Disclosure under the methods of provision for bad debts by category

Category	Balance as at December 31, 2022				
	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)	
Other receivables with provision for bad debts accrued on an individual basis	2,531,179.24	31.71	2,531,179.24	100.00	-

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Category	Balance as at December 31, 2022				
	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)	
Other receivables with provision for bad debts accrued on a portfolio basis	5,451,917.33	68.29	3,731,873.16	68.45	1,720,044.17
Including:					
Portfolio 1 Consolidated related parties					
Portfolio 2: Aging portfolio	5,451,917.33	68.29	3,731,873.16	68.45	1,720,044.17
Total	7,983,096.57	100.00	6,263,052.40	78.45	1,720,044.17

(Continued)

Category	Balance as at January 1, 2022				
	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)	
Other receivables with provision for bad debts accrued on an individual basis	2,364,944.99	30.77	2,364,944.99	37.82	-
Other receivables with provision for bad debts accrued on a portfolio basis	5,319,771.74	69.23	3,888,107.41	73.09	1,431,664.33
Including:					
Portfolio 1 Consolidated related parties					
Portfolio 2: Aging portfolio	5,319,771.74	69.23	3,888,107.41	73.09	1,431,664.33
Total	7,684,716.73	100.00	6,253,052.40	81.37	1,431,664.33

5.6.5 Other receivables with provision for bad debts accrued on an individual basis

Enterprise name	Balance as at December 31, 2022			
	Book balance	Provision for bad debts	Proportion of provision (%)	Reason for provision
Chongqing Jianshe Lijue Industrial Co., Ltd.	1,478,870.07	1,478,870.07	100.00	Expected to be irrecoverable
Temporary supplier	390,655.08	390,655.08	100.00	Expected to be irrecoverable
Ningbo Jianshe Motorcycle Co., Ltd	329,628.73	329,628.73	100.00	Expected to be irrecoverable
Chongqing Yiqun Industry and Trade Co., Ltd.	91,900.00	91,900.00	100.00	Expected to be irrecoverable

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Enterprise name	Balance as at December 31, 2022			
	Book balance	Provision for bad debts	Proportion of provision (%)	Reason for provision
Wage security deposit for migrant workers in Chongqing Huachuang Science and Technology Complex Project	88,000.00	88,000.00	100.00	Expected to be irrecoverable
Chongqing Customs	78,825.36	78,825.36	100.00	Expected to be irrecoverable
Yangzhou Qionghua Coating Engineering Equipment Co., Ltd.	56,500.00	56,500.00	100.00	Expected to be irrecoverable
Chongqing Jinxiang Lifting Equipment Manufacturing Co., Ltd.	16,800.00	16,800.00	100.00	Expected to be irrecoverable
Total	2,531,179.24	2,531,179.24	100.00	

5.5.6 Other receivables with provision for bad debts made by portfolio

(1) Portfolio 2 Aging portfolio

Aging	Balance as at December 31, 2022		
	Book balance	Provision for bad debts	Proportion of provision (%)
1 - 6 months (inclusive)	1,530,044.17	-	-
Within 6 months - 1 year	200,000.00	10,000.00	5.00
1 - 2 years			
2 - 3 years			
3 - 4 years			
4 - 5 years			
Over 5 years	3,721,873.16	3,721,873.16	100.00
Total	5,451,917.33	3,731,873.16	68.45

5.6.7 Provision for bad debts of other receivables

Provision for bad debts	Stage I	Stage II	Stage III	Total
	Expected credit loss in future 12 months	Lifetime expected credit loss (without credit impairment)	Lifetime expected credit loss (with credit impairment)	
Balance as at January 1, 2022	3,888,107.41	-	2,364,944.99	6,253,052.40
In 2022, balance as at January 1, 2022	—	—	—	—
— Transferred in Stage II				
— Transferred in Stage III				

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Provision for bad debts	Stage I Expected credit loss in future 12 months	Stage II Lifetime expected credit loss (without credit impairment)	Stage III Lifetime expected credit loss (with credit impairment)	Total
— Reversal from Stage II				
— Reversal from Stage I				
Provision in the current period			166,234.25	166,234.25
Reversal in the current period	156,234.25			156,234.25
Write-off in the current period	-	-	-	-
Charge-off in the current period	-	-	-	-
Other changes	-	-	-	-
Balance as at December 31, 2022	3,731,873.16	-	2,531,179.24	6,263,052.40

5.6.8 There was no actual charge-off of other receivables in 2022

5.6.9 Top 5 of other receivables as at December 31, 2022 presented by debtor

Name of entity	Nature of payment	Balance as at December 31, 2022	Aging	Proportion in the ending balance of other receivables (%)	Provision for bad debts Balance as at December 31, 2022
Shenzhen Jianshe Motorcycle Co., Ltd.	Current accounts	3,013,664.00	Over 5 years	37.75	3,013,664.00
Chongqing Jianshe Lijue Industrial Co., Ltd.	Current accounts	1,478,870.07	Over 5 years	18.53	1,478,870.07
Chongqing Jianshe Industry (Group) Co., Ltd.	Current accounts	1,294,150.66	1 - 6 months (inclusive)	16.21	-
Ningbo Jianshe Chongqing Office	Current accounts	692,035.31	Over 5 years	8.67	692,035.31
Temporary supplier	Current accounts	390,655.08	Over 5 years	4.89	390,655.08
Total	/	6,869,375.12	/	86.05	5,575,224.46

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5.7 Inventories

5.7.1 Classification of inventories

Item	Balance as at December 31, 2022			Balance as at January 1, 2022		
	Book balance	Provision for inventory depreciation	Book value	Book balance	Provision for inventory depreciation	Book value
Raw materials	23,279,997.14	-	23,279,997.14	24,131,134.23		24,131,134.23
Goods in progress	9,357,445.63	42,930.77	9,314,514.86	8,477,431.32	42,930.77	8,434,500.55
Stock commodities	98,610,353.14	2,170,864.12	96,439,489.02	173,420,234.47	2,170,864.12	171,249,370.35
Revolving materials	4,120,591.96	1,294,020.05	2,826,571.91	4,198,620.71	1,294,020.05	2,904,600.66
Total	135,368,387.87	3,507,814.94	131,860,572.93	210,227,420.73	3,507,814.94	206,719,605.79

5.7.2 Provision for inventory depreciation

Item	Balance as at January 1, 2022	Increase in 2022		Decrease in 2022			Balance as at December 31, 2022
		Provision	Others	Reversal	Write-off	Others	
Goods in progress	42,930.77	-	-	-	-		42,930.77
Stock commodities	2,170,864.12	-	-	-	-		2,170,864.12
Revolving materials	1,294,020.05	-	-	-	-		1,294,020.05
Total	3,507,814.94	-	-	-	-		3,507,814.94

5.8 Assets held for sale

Item	Balance as at December 31, 2022			Balance as at January 1, 2022		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Fixed assets				91,236,342.06		91,236,342.06
Land use right				13,746,654.05		13,746,654.05
Total				104,982,996.11		104,982,996.11

5.9 Other current assets

5.9.1 Presentation of other current assets by item

Item	Balance as at December 31, 2022	Balance as at January 1, 2022
Input VAT to be deducted	1,468,399.16	4,585,170.16
Total	1,468,399.16	4,585,170.16

5.10 Long-term equity investments

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5.11 Other non-current financial assets

Item	Balance as at December 31, 2022	Balance as at January 1, 2022
Financial assets measured at fair value through the current profit or loss		
Including: investment in Ningbo Jianshe Investment Company	1,140,915.04	1,140,915.04
Provision for impairment	1,140,915.04	1,140,915.04
Total	-	-

5.12 Fixed assets

5.12.1 Breakdown of fixed assets

Item	Buildings and constructions	Machinery equipment	Transportation facilities	Other equipment	Total
I. Original book value					
1. Balance as at January 1, 2022	102,695,978.18	627,433,921.06	6,068,851.89	19,676,929.41	755,875,680.54
2. Increase in 2022	1,148,095.62	13,461,783.87	61,746.04	776,810.03	15,448,435.56
- Purchase	1,148,095.62	13,461,783.87	61,746.04	776,810.03	15,448,435.56
3. Decrease in 2022	-	15,760,464.59	232,502.90	-	15,992,967.49
- Disposal or scrapping	-	15,760,464.59	232,502.90	-	15,992,967.49
4. Balance as at December 31, 2022	103,844,073.80	625,135,240.34	5,898,095.03	20,453,739.44	755,331,148.61
II. Accumulated depreciation					
1. Balance as at January 1, 2022	54,137,550.62	449,376,981.60	5,235,853.68	17,955,642.53	526,706,028.43
2. Increase in 2022	3,173,808.99	22,204,440.53	137,189.59	705,529.70	26,220,968.81
Provision in 2022	3,173,808.99	22,204,440.53	137,189.59	705,529.70	26,220,968.81
3. Decrease in 2022		9,455,541.13	225,013.41	-	9,680,554.54
- Disposal or scrapping		9,455,541.13	225,013.41	-	9,680,554.54
4. Balance as at December 31, 2022	57,311,359.61	462,125,881.00	5,148,029.86	18,661,172.24	543,246,442.71
III. Provision for impairment					
1. Balance as at January 1, 2022	-	12,628,170.13	-	-	12,628,170.13
2. Increase in 2022					
3. Decrease in 2022		2,582,608.02			2,582,608.02

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Item	Buildings and constructions	Machinery equipment	Transportation facilities	Other equipment	Total
- Disposal or scrapping		2,582,608.02			2,582,608.02
4. Balance as at December 31, 2022		10,045,562.11			10,045,562.11
IV. Book value					
1. Book value as at December 31, 2022	46,532,714.19	152,963,797.23	750,065.17	1,792,567.21	202,039,143.80
2. Book value as at January 1, 2022	48,558,427.56	165,428,769.33	832,998.21	1,721,286.88	216,541,481.98

5.13 Construction in progress

5.13.1 Breakdown of construction in progress

Item	Balance as at December 31, 2022			Balance as at January 1, 2022		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Science and Technology Complex Project	-	-	-	615,980.77		615,980.77
Production line project	524,783.95	-	524,783.95	645,678.17		645,678.17
Mold to be fixed	395,619.46	-	395,619.46	371,283.18		371,283.18
PDM system upgrading project	-	-	-	53,935.55		53,935.55
Comprehensive performance test-bed	69,026.55	-	69,026.55	69,026.55		69,026.55
Workstation project	-	-	-	55,221.24		55,221.24
Total	989,429.96	-	989,429.96	1,811,125.46	-	1,811,125.46

5.14 Intangible assets

5.14.1 Intangible assets

Item	Land use right	Patent right	Software	Total
I. Original book value				
1. Balance as at January 1, 2022	21,224,143.33	2,691,549.96	3,933,749.40	27,849,442.69
2. Increase in 2022				
3. Decrease in 2022				
4. Balance as at December 31, 2022	21,224,143.33	2,691,549.96	3,933,749.40	27,849,442.69
II. Accumulated amortization				
1. Balance as at January 1, 2022	12,162,117.02	633,305.88	1,473,380.75	14,268,803.65

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Item	Land use right	Patent right	Software	Total
2. Increase in 2022	701,418.80	474,979.41	602,735.88	1,779,134.09
Provision in 2022	701,418.80	474,979.41	602,735.88	1,779,134.09
3. Decrease in 2022				
4. Balance as at December 31, 2022	12,863,535.82	1,108,285.29	2,076,116.63	16,047,937.74
III. Provision for impairment				
1. Balance as at January 1, 2022				
2. Increase in 2022				
3. Decrease in 2022				
4. Balance as at December 31, 2022				
IV. Book value				
1. Book value as at December 31, 2022	8,360,607.51	1,583,264.67	1,857,632.77	11,801,504.95
2. Book value as at January 1, 2022	9,062,026.31	2,058,244.08	2,460,368.65	13,580,639.04

5.15 Long-term deferred expenses

Item	Balance as at January 1, 2022	Increase in 2022	Amortization in 2022	Other decreases	Balance as at December 31, 2022
SlidDworks2018 three-year service charges	116,978.77	-	46,698.12	-	70,280.65
Total	116,978.77	-	46,698.12	-	70,280.65

5.16 Deferred income tax assets and deferred income tax liabilities

5.16.1 Deferred income tax assets before offset

Item	Balance as at December 31, 2022		Balance as at January 1, 2022	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Losses from credit impairment	33,873,448.97	5,073,630.93	34,862,886.80	5,229,979.37
Losses from asset impairment	4,522,840.65	678,426.10	4,522,840.65	830,638.62
Total	38,396,289.62	5,752,057.03	39,385,727.45	6,060,617.99

5.16.2 Deferred income tax liabilities before offsetting

Item	Balance as at December 31, 2022		Balance as at January 1, 2022	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Asset evaluation increment from business combination not under common control	3,281,012.83	820,253.21	4,682,036.67	1,170,509.17

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Item	Balance as at December 31, 2022		Balance as at January 1, 2022	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
One-time before-tax deduction of the depreciation of fixed assets	1,276,898.41	191,534.76	1,411,238.58	352,809.65
Total	4,557,911.24	1,011,787.97	6,093,275.25	1,523,318.82

5.17 Other non-current assets

Item	Balance as at December 31, 2022	Balance as at January 1, 2022
Payment in advance for purchase of long-term assets	15,860,120.00	3,810,800.00
Total	15,860,120.00	3,810,800.00

5.18 Short-term borrowings

5.18.1 Classification of short-term borrowings

Item	Balance as at December 31, 2022	Balance as at January 1, 2022
Credit borrowings	411,500,000.00	273,250,000.00
Guaranteed borrowings	135,103,500.00	220,210,000.00
Total	546,603,500.00	493,460,000.00

5.19 Notes payable

Category	Balance as at December 31, 2022	Balance as at January 1, 2022
Bank acceptance bill	30,379,988.94	160,670,000.00
Commercial acceptance bills		
Total	30,379,988.94	160,670,000.00

5.20 Accounts payable

Item	Balance as at December 31, 2022	Balance as at January 1, 2022
Within 1 year	167,925,916.80	186,738,613.09
1 - 2 years	1,002,926.50	1,219,209.52
2 - 3 years	936,903.59	530,450.87
Over 3 years	1,324,729.21	1,804,170.65
Total	171,190,476.10	190,292,444.13

5.21 Contract liabilities

5.21.1 Breakdown of contract liabilities

Item	Balance as at December 31, 2022	Balance as at January 1, 2022
Goods payment	3,441,205.38	2,868,604.98
Total	3,441,205.38	2,868,604.98

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5.22 Employee compensation payable

5.22.1 Presentation of employee compensation payable

Item	Balance as at January 1, 2022	Increase in 2022	Decrease in 2022	Balance as at December 31, 2022
Short-term compensation	5,807,614.49	97,053,901.76	97,418,113.84	5,443,402.41
Post-employment benefits - defined contribution plans	3,019,024.94	10,746,282.54	10,679,317.11	3,085,990.37
Dismissal benefits	12,117,883.46	-12,117,883.46	-	-
Total	20,944,522.89	95,682,300.84	108,097,430.95	8,529,392.78

5.22.2 Presentation of short-term compensation

Item	Balance as at January 1, 2022	Increase in 2022	Decrease in 2022	Balance as at December 31, 2022
Wages, bonuses, allowances and subsidies	2,953,489.88	72,968,782.48	73,657,754.48	2,264,517.88
Employee welfare expenses	-	4,751,825.24	4,751,825.24	-
Social insurance premiums	1,249,255.33	9,879,846.72	9,895,326.25	1,233,775.80
Including: medical insurance premiums	1,197,807.52	9,155,040.77	9,187,935.98	1,164,912.31
Work-related injury insurance premiums	51,447.81	724,805.95	707,390.27	68,863.49
Maternity insurance premiums				
Housing provident funds	350,718.46	7,725,545.00	7,599,126.00	477,137.46
Labor union expenditures and employee education funds	1,059,150.82	1,727,902.32	1,319,081.87	1,467,971.27
Accumulated short-term compensated absences				
Short-term profit (bonus) sharing plan				
Cash-settled share-based payment				
Other short-term compensation	195,000.00	-	195,000.00	-
Total	5,807,614.49	97,053,901.76	97,418,113.84	5,443,402.41

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5.22.3 Presentation of defined contribution plan

Item	Balance as at January 1, 2022	Increase in 2022	Decrease in 2022	Balance as at December 31, 2022
Basic endowment insurance	2,844,522.14	10,252,024.90	10,358,227.30	2,738,319.74
Unemployment insurance premium	174,502.80	494,257.64	321,089.81	347,670.63
Enterprise annuity payment				
Total	3,019,024.94	10,746,282.54	10,679,317.11	3,085,990.37

5.23 Taxes and surcharges payable

Taxes and surcharges	Balance as at December 31, 2022	Balance as at January 1, 2022
Value-added tax	896,389.23	
Individual income tax	969,485.81	455,942.81
Urban maintenance and construction tax	3,182,393.81	3,120,764.65
House property tax	3,727,900.64	3,727,900.64
Land use tax	1,808,215.20	1,808,215.20
Educational surtax	2,035,831.03	1,991,810.18
Others	4,029,488.35	4,029,488.35
Total	16,649,704.07	15,134,121.83

5.24 Other payables

Nature	Balance as at December 31, 2022	Balance as at January 1, 2022
Deposit and security deposit	863,901.85	883,595.14
Employee-related expenses	3,806,031.38	182,224.40
Other current accounts	2,896,939.39	5,701,135.29
Total	7,566,872.62	6,766,954.83

5.25 Other current liabilities

Item	Balance as at December 31, 2022	Balance as at January 1, 2022
Output tax to be carried forward	447,356.63	372,918.65
Total	447,356.63	372,918.65

5.26 Share capital

Item	Balance as at January 1, 2022	Changes in 2022 ("+" for increase and "-" for decrease)					Balance as at December 31, 2022
		New shares issued	Share donation	Conversion of capital reserves into share capital	Others	Sub-total	
Total shares	119,375,000.00						119,375,000.00

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5.27 Capital reserves

Item	Balance as at January 1, 2022	Increase in 2022	Decrease in 2022	Balance as at December 31, 2022
Capital premium (share premium)	702,032,741.07			702,032,741.07
Other capital reserves	256,532,553.22			256,532,553.22
Total	958,565,294.29	-	-	958,565,294.29

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5.28 Other comprehensive income

Item	Balance as at January 1, 2022	Year 2022											Less: amount previously included in other comprehensive income and currently transferred to the retained earnings	Balance as at December 31, 2022
		Amount before income tax in 2022	Less: amount previously included in other comprehensive income and currently transferred to the profit or loss	Less: financial assets included in other comprehensive income in prior period and re-measured at the current period	Less: hedging reserves transferred to related assets or liabilities	Less: income tax expenses	Amount after tax attributable to the parent company	Amount after tax attributable to minority shareholders	Less: carry-forward of changes in re-measurement of the defined benefit plan					
I. Other comprehensive income that cannot be reclassified into profit or loss	9,800.00												9,800.00	
I. Other comprehensive income that cannot be transferred to profit or loss under the equity method	9,800.00												9,800.00	
II. Other comprehensive income that will be reclassified into profit or loss														
Total of other comprehensive income	9,800.00												9,800.00	

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5.29 Special reserves

Item	Balance as at January 1, 2022	Increase in 2022	Decrease in 2022	Balance as at December 31, 2022
Work safety expenses	1,713,882.50	2,673,873.52	1,153,086.99	3,234,669.03
Total	1,713,882.50	2,673,873.52	1,153,086.99	3,234,669.03

5.30 Surplus reserves

Item	Balance as at January 1, 2022	Increase in 2022	Decrease in 2022	Balance as at December 31, 2022
Statutory surplus reserves	56,724,000.00			56,724,000.00
Discretionary surplus reserves	68,962,000.00			68,962,000.00
Total	125,686,000.00	-	-	125,686,000.00

5.31 Undistributed profits

Item	Year 2022	Year 2021
Undistributed profits at the end of prior period before adjustment	-1,056,046,383.95	-1,030,047,421.23
Total adjustment to undistributed profits at the beginning of the period ("+" for increase and "-" for decrease)		
Undistributed profits at the beginning of the period after adjustment	-1,056,046,383.95	-1,030,047,421.23
Plus: net profit attributable to owners of the parent company in the current period	-39,733,094.69	-25,998,962.72
Less: withdrawal of statutory surplus reserves		
Withdrawal of discretionary surplus reserves		
Withdrawal of general risk reserves		
Common stock dividends payable		
Common stock dividends transferred to share capital		
Plus: Surplus reserves offsetting losses		
Carry-forward of changes in the defined benefit plan for retained earnings		
Carry-forward of other comprehensive income for retained earnings		
Internal carry-forward of owners' equity		
Undistributed profits at the end of the period	-1,095,779,478.64	-1,056,046,383.95

5.32 Operating revenue and operating cost

5.32.1 Operating revenue and operating cost

Item	Year 2022		Year 2021	
	Revenue	Cost	Revenue	Cost
Primary business	470,261,936.64	448,590,807.18	663,904,859.33	573,770,883.14
Other business	3,852,161.44	1,804,628.12	16,214,107.75	13,130,939.66
Total	474,114,098.08	450,395,435.30	680,118,967.08	586,901,822.80

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5.32.2 Revenue from contracts

Item	Year 2022	Year 2021
Domestic income	282,202,231.11	430,287,161.74
Overseas income	188,059,705.53	233,617,697.59
Total	470,261,936.64	663,904,859.33

5.33 Taxes and surcharges

Item	Year 2022	Year 2021
Urban maintenance and construction tax	533,840.42	1,412,323.01
Educational surcharge	381,314.61	1,008,802.12
House property tax	860,544.46	1,982,928.97
Land use right	1,076,365.20	1,832,315.20
Stamp duty	323,275.85	453,795.40
Others	579,484.03	17,210.55
Total	3,754,824.57	6,707,375.25

5.34 Selling and distribution expenses

Item	Year 2022	Year 2021
Employee compensation	6,827,653.20	7,229,332.62
Depreciation expenses	31,742.65	60,736.39
Office expenses	66,973.88	230,302.33
Advertising expenses	-	184,158.41
Expenses for business trips	566,078.58	722,762.61
Handling charges for agency sale	199,885.56	177,584.81
Sales and service fees	157,067.52	555,856.21
Repair charge	5,629,736.77	5,439,785.83
Warehousing and custodian fees	1,000,193.68	1,546,418.12
Other fees	759,983.28	648,840.87
Total	15,239,315.12	16,795,778.20

5.35 General and administrative expenses

Item	Year 2022	Year 2021
Employee compensation	26,516,905.13	31,007,429.20
Depreciation and amortization	5,117,551.67	10,036,582.19
Repair charge	4,416,563.67	9,505,068.66
Office expenses	714,345.12	811,164.13
Agency fee	912,850.26	865,439.58
Expenses for business trips	300,230.25	411,827.43
Membership fees of board of directors	392,640.06	427,465.56
Entertainment expenses	400,888.58	396,970.60
Insurance premiums and others	8,949,135.93	8,585,681.82
Total	47,721,110.67	62,047,629.17

5.36 Research and development expenses

Item	Year 2022	Year 2021
Employee compensation	23,830,773.15	22,932,480.67
Materials expenses	760,693.67	1,650,738.65
Expenses for business trips	241,075.43	383,873.74
Depreciation expenses	2,143,128.61	2,278,310.53
Amortization of intangible assets	268,527.48	226,138.10
Others	3,354,670.35	2,289,231.77
Total	30,598,868.69	29,760,773.46

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5.37 Financial expenses

Item	Year 2022	Year 2021
Interest expenses	20,216,911.43	24,231,685.81
Less: interest income	1,640,888.48	1,562,787.46
Gains or losses on foreign exchange	139,891.22	-21,267.77
Cash discount	-1,314,322.50	-61,693.29
Bank charges and others	70,654.21	428,908.36
Total	17,472,245.88	23,014,845.65

5.38 Other income

5.38.1 Breakdown of investment income

Source of other income	Year 2022	Year 2021
Government grants	205,826.00	1,583,305.16
Reduction or exemption of value-added tax, residual insurance fund, etc.	999,863.22	
Total	1,205,689.22	1,583,305.16

5.38.2 Government grants included in other income

Item	Year 2022	Year 2021	Asset-related/ Income-related
Subsidy for technological innovation and industrial application projects in 2021	80,000.00		Income-related
District-level portion of major new product research and development costs in 2020	24,100.00		Income-related
Research and development investment subsidy in 2020	50,400.00		Income-related
Subsidy for employment and talent center in Banan District	51,326.00		Income-related
Subsidy for emergency supply		50,000.00	Income-related
Funds granted for patents		58,200.00	Income-related
Recruitment subsidy		8,400.00	Income-related
Subsidy for Qianghua scientific and technological projects		75,000.00	Income-related
Special project funds for technological innovation and application development		200,000.00	Income-related
"Three Agency" handling charges		20,680.11	Income-related
Subsidy for "Creating Innovation Platform" in Banan District		300,000.00	Income-related
Enterprise Subsidy Fund of Banan District Commercial Committee		40,000.00	Income-related
Bonus of the Group's award-winning projects		50,000.00	Income-related
Tax deduction and exemption		21,425.05	Income-related
Subsidy for ecological environment		124,700.00	Income-related

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Item	Year 2022	Year 2021	Asset-related/ Income-related
Subsidy for research and development		234,900.00	Income-related
Incentives for steady growth of industrial enterprises		100,000.00	Income-related
Special fund for industrialization and informatization		300,000.00	Income-related
Total	205,826.00	1,583,305.16	

5.39 Investment income

5.39.1 Breakdown of investment income

Item	Year 2022	Year 2021
Long-term equity investment income under the equity method	8,128,052.32	15,770,549.70
Total	8,128,052.32	15,770,549.70

5.40 Losses from credit impairment

Item	Year 2022	Year 2021
Losses from bad debts	989,437.83	-318,331.09
Total	989,437.83	-318,331.09

5.41 Losses from asset impairment

Item	Year 2022	Year 2021
Losses from inventory depreciation	-	17,064.89
Total	-	17,064.89

5.42 Gains from disposal of assets

Item	Year 2022	Year 2021
Gains or losses from disposal of non-current assets	40,420,431.93	1,566,473.14
Total	40,420,431.93	1,566,473.14

5.43 Non-operating revenue

Item	Year 2022	Year 2021	Amount included in non-recurring profit or loss in the current period
Others	170,256.15	319,658.55	170,256.15
Total	170,256.15	319,658.55	170,256.15

5.44 Non-operating expenses

Item	Year 2022	Year 2021	Amount included in non-recurring profit or loss in the current period
Others	3,112.43	198.18	3,112.43
Total	3,112.43	198.18	3,112.43

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5.45 Income tax expenses

5.45.1 Table of income tax expenses

Item	Year 2022	Year 2021
Current income tax expenses	-220,882.55	
Deferred income tax expenses	-202,969.89	-171,772.56
Total	-423,852.44	-171,772.56

5.45.2 Adjustment process of accounting profit and income tax expenses

Item	Year 2022
Total profits	-40,156,947.13
Income tax expenses calculated at the statutory [or applicable] tax rate	-10,039,236.78
Effect of different tax rates applicable to subsidiaries	5,736,627.39
Effect of adjustments to the income tax for the prior years	-220,882.55
Effect of non-taxable income	-2,032,013.08
Effect of non-deductible costs, expenses and losses	35,607.77
Effect of deductible losses from using the deferred income tax assets unrecognized in prior periods	-3,285,732.64
Effect of deductible temporary differences or losses from deferred income tax assets unrecognized in the current period	12,807,589.43
Others	-3,425,811.98
Income tax expenses	-423,852.44

5.46 Notes to the statement of cash flows

5.46.1 Cash received from other operating activities

Item	Year 2022	Year 2021
Interest income	1,640,888.48	1,113,277.82
Government grants	205,826.00	1,583,305.16
Margin and deposit etc.	10,527,527.06	7,145,658.84
Total	12,374,241.54	9,842,241.82

5.46.2 Cash paid for other operating activities

Item	Year 2022	Year 2021
Expenses from cash payment in the period	10,673,279.12	23,270,903.78
Margin and deposit etc.	11,305,170.76	1,255,698.63
Total	21,978,449.88	24,526,602.41

5.46.3 Cash received from other financing activities

Item	Year 2022	Year 2021
Bills, deposits and other related funds received	81,688,328.08	43,814,318.47
Total	81,688,328.08	43,814,318.47

5.46.4 Cash paid for other investing activities

Item	Year 2022	Year 2021
Bills, deposits and other related funds paid	108,137,271.47	25,795,639.32
Total	108,137,271.47	25,795,639.32

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5.47 Supplementary information to the statement of cash flows

5.47.1 Supplementary information to the statement of cash flows

Item	Year 2022	Year 2021
1. Net profit adjusted to cash flows from operating activities		
Net profit	-39,733,094.69	-25,998,962.72
Plus: losses from credit impairment	-989,437.83	318,331.09
Provision for asset impairment	-	-17,064.89
Depreciation of fixed assets, oil and gas assets and productive biological assets	26,220,968.81	33,781,956.81
Depreciation of right-of-use assets		
Amortization of intangible assets	1,779,134.09	2,109,555.59
Amortization of long-term deferred expenses	46,698.12	47,865.57
Losses from disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	-40,420,431.93	-1,566,473.14
Losses from write-off of fixed assets ("-" for gains)		169.23
Losses from changes in fair value ("-" for gains)		
Financial expenses ("-" for gains)	20,216,911.43	24,231,685.81
Investment loss ("-" for income)	-8,128,052.32	-15,770,549.70
Decreases in deferred income tax assets ("-" for increases)	308,560.96	213,460.13
Increases in deferred income tax liabilities ("-" for decreases)	-511,530.85	-385,232.69
Decreases in inventories ("-" for increases)	74,859,032.86	-37,573,619.01
Decreases in operating receivables ("-" for increases)	48,007,274.99	2,091,660.99
Increases in operating payables ("-" for decreases)	-69,246,434.55	39,949,584.40
Others		
Net cash flows from operating activities	12,409,599.09	21,432,367.47
2. Significant investing and financing activities not involving cash receipts and payments		
Conversion of debt into capital		
Convertible corporate bonds maturing within one year		
New right-of-use assets		
3. Net changes in cash and cash equivalents		
Ending balance of cash	169,994,534.05	23,738,523.19
Less: beginning balance of cash	23,738,523.19	79,310,253.55
Plus: ending balance of cash equivalents	-	
Less: beginning balance of cash equivalents	-	
Net increase in cash and cash equivalents	146,256,010.86	-55,571,730.36

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5.47.2 Breakdown of cash and cash equivalents

Item	Balance as at December 31, 2022	Balance as at January 1, 2022
I. Cash	169,994,534.05	23,738,523.19
Including: cash on hand	-	
Unrestricted bank deposit	169,994,534.05	23,738,523.19
Other unrestricted monetary funds		
II. Cash equivalents		
Including: bond investments maturing within three months		
III. Ending balance of cash and cash equivalents	169,994,534.05	23,738,523.19
Including: cash and cash equivalents restricted for use by the parent company or subsidiaries of the group		

5.48 Assets with restrictions on the ownership or use right

Item	Balance	Reason for restriction
Monetary funds	9,959,988.94	Margin of bank acceptance bills
Receivables financing	7,820,000.00	Pledge
Total	17,779,988.94	

5.49 Government grants

1. Basic information on government grants

Category of government grants	Year 2022	Amount included in the current profit or loss	Remark
Government grants included in other income	205,826.00	205,826.00	See the Note 5.38 for details
Total	205,826.00	205,826.00	

6 Changes in the consolidation scope

There was no change in the consolidation scope of the Company during the reporting period.

7 Rights and interests in other entities

7.1 Equity in the subsidiaries

7.1.1 Structure of the enterprise group

Name of subsidiaries	Principal place of business	Registered place	Business nature	Shareholding ratio (%)		Acquisition method
				Direct	Indirect	
Chongqing Jianshe Automobile A/C Co., Ltd.	Chongqing	Chongqing	Production and sales of automobile air conditioners	100.00		Establishment by investment
Chongqing Pingshan TK Carburetor Co., Ltd.	Chongqing	Chongqing	Production and sales of motorcycle accessories	100.00		Combination not under common control

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7.2 Equity in joint venture arrangements or associates

7.2.1 Significant joint ventures or associates

Name of joint venture or associate	Principal place of business	Registered place	Business nature	Shareholding ratio (%)		Method for accounting treatment
				Direct	Indirect	
Chongqing Hanon Jianshe Thermal Systems Co., Ltd.	Chongqing	Chongqing	Assembly of variable displacement compressor and production of core components	50.00		Equity method

7.2.2 Major financial information on significant joint ventures

Item	Chongqing Hanon Jianshe Thermal Systems Co., Ltd.	
	Balance as at December 31, 2022 / Year 2022	Balance as at January 1, 2022/ Year 2021
Current assets	166,787,138.08	172,069,804.29
Including: cash and cash equivalents	55,135,317.36	52,373,714.91
Non-current assets	355,276,389.82	380,490,597.33
Total assets	522,063,527.90	552,560,401.62
Current liabilities	95,641,912.16	90,246,513.99
Non-current liabilities	9,313,692.45	61,462,068.98
Total liabilities	104,955,604.61	151,708,582.97
Minority equity		
Equity attributable to the shareholders of parent company	417,107,923.29	400,851,818.65
Share of net assets calculated at the shareholding ratio	208,553,961.65	200,425,909.33
Adjusted items		
- Goodwill		
- Unrealized profits of internal transactions		
- Others		
Book value of the equity investment in joint ventures	210,112,321.04	201,984,268.72
Fair value of equity investment with public offer		
Operating revenue	254,562,100.17	306,636,095.98
Financial expenses	4,586,867.43	8,227,807.42
Income tax expenses	1,799,442.01	
Net profit	16,256,104.64	31,541,099.39
Net profit of discontinued operation		
Other comprehensive income		
Total comprehensive income	16,256,104.64	31,541,099.39
Dividends received from joint ventures in current period		

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8 Related parties and related transactions

8.1 Parent company of the Company

Parent company	Registered place	Business nature	Registered capital (RMB 0'000)	Shareholding ratio in the Company (%)	Voting ratio in the Company (%)
China South Industries Group Corporation	Beijing	State-owned assets investment	3,530,000.00	71.13	71.13

8.2 See the Note 7.1 "Equity in subsidiaries" for details about the Company's subsidiaries

8.3 Joint ventures and associates of the Company

See the Note 7.2 "Equity in joint venture arrangement or associates" for details about major joint ventures and associates of the Company.

8.4 Other related parties

Other related party	Relationship with the Company
Chongqing Jianshe Mechanical & Electrical Equipment Co., Ltd.	Controlled by the same party
Chongqing Jianshe Industry (Group) Co., Ltd.	Controlled by the same party
China South Industries Group Finance Co., Ltd.	Controlled by the same party
Chongqing Changan Automobile Co., Ltd.	Controlled by the same party
Beijing Changan Automobile Company under Chongqing Changan Automobile Co., Ltd.	Controlled by the same party
Chongqing Lingyao Automobile Co., Ltd.	Joint venture of subsidiaries of CSGC
Hebei Changan Automobile Co., Ltd.	Controlled by the same party
Nanjing Changan Automobile Co., Ltd.	Controlled by the same party
Baoding Changan Bus Manufacturing Co., Ltd.	Controlled by the same party
Hefei Changan Automobile Co., Ltd.	Controlled by the same party
Chongqing Changan Automobile Customer Service Co., Ltd.	Controlled by the same party
Chongqing North Jianshe IMP. & EXP. Trade Co., Ltd.	Controlled by the same party
Hafei Motor Co., Ltd.	Controlled by the same party
South Air International Conditioning Co., Ltd.	Controlled by the same party
Southwest Ordnance Chongqing Environmental Protection Research Institute Co., Ltd.	Controlled by the same party
China Ordnance Equipment Group Commercial Factoring Co., Ltd.	Controlled by the same party
Chongqing Jianshe Yamaha Motorcycle Co., Ltd.	Joint venture of subsidiaries of CSGC
Changan Minsheng APLL Logistics Co., Ltd.	Joint venture of subsidiaries of CSGC
Chongqing Jianshe Lijue Industrial Co., Ltd.	Associates of subsidiaries of CSGC
Changan Minsheng APLL Logistics Co., Ltd. and its affiliates	Controlled by the same party
Chongqing Changan Automobile Co., Ltd. and its affiliates	Controlled by the same party
Luoyang North Enterprises Group Co., Ltd.	Controlled by the same party
Norendar International Co., Ltd.	Controlled by the same party
Zhuzhou Jianshe Yamaha Motorcycle Co., Ltd.	Associates of subsidiaries of CSGC
Yan Xuechuan	Chairman
Fan Aijun	Director and General Manager

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Other related party	Relationship with the Company
Xu Wanming	Secretary of the Discipline Inspection Commission
Dong Qihong	Director
Shi Qinggong	Director
Zhou Yongqiang	Deputy General Manager
Hao Ling	Director
Li Jiaming	Independent Director
Xie Fei	Independent Director
Song Weiwei	Independent Director
Liu Wei	Independent Director
Lu Xianyun	Chairman of the Board of Supervisors
Zhang Lungang	Supervisor
Qiao Guoan	Supervisor
Liao Jian	Employee Supervisors
Su Qiang	Employee Supervisors
Yu Wenbiao	Deputy General Manager (resigned on 23 May 2022)
Tan Mingxian	Chief Accountant
Li Yongjiang	Deputy General Manager
Zhang Hushan	Secretary of the Board of Directors

8.5 Related transactions

8.5.1 For the subsidiaries under the control of the Company and included in the scope of consolidated financial statements, their mutual transactions and the parent-subsidiary corporation transactions have already been offset.

8.5.2 Related transactions on purchase of goods and receiving of services

Related-party	Contents of related transaction	Year 2022	Year 2021
Chongqing Jianshe Industry (Group) Co., Ltd.	Inspection of parts and accessories	441,640.30	699,441.80
Changan Minsheng APLL Logistics Co., Ltd. and its affiliated enterprises	Warehousing services	448,659.50	3,735,472.46
Southwest Ordnance Chongqing Environmental Protection Research Institute Co., Ltd.	Inspection of parts and accessories	1,512,267.38	1,736,605.88
Chongqing Jianshe Industry (Group) Co., Ltd.	Materials	837,856.39	1,567,203.06
Chongqing Changan Automobile Co., Ltd. and its affiliated enterprises	Maintenance	841,944.49	1,163,939.02
Total		4,082,368.06	8,902,662.22

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8.5.3 Related transactions on sale of goods and rendering of services

Related party	Contents of related transaction	Year 2022	Year 2021
Chongqing Changan Automobile Co., Ltd.	Auto and parts and accessories	43,720,572.99	131,973,718.97
Chongqing Lingyao Automobile Co., Ltd.	Auto and parts and accessories	4,636,556.72	5,615,743.47
Hefei Changan Automobile Co., Ltd.	Auto and parts and accessories	11,134,628.84	16,194,939.56
Nanjing Changan Automobile Co., Ltd.	Auto and parts and accessories	2,161,621.42	1,820,143.06
Baoding Changan Bus Manufacturing Co., Ltd.	Auto and parts and accessories	150,622.08	1,324,434.08
Hebei Changan Automobile Co., Ltd.	Auto and parts and accessories	121,469.92	
Chongqing Changan Automobile Customer Service Co., Ltd.	Auto and parts and accessories		6,851.20
South Air International Co., Ltd.	Auto and parts and accessories		144,000.00
Chongqing Jianshe Yamaha Motorcycle Co., Ltd.	Motorcycle parts	12,974,854.46	11,944,592.17
Chongqing Jianshe Industry (Group) Co., Ltd.	Materials	21,617.53	427,878.59
Chongqing Jianshe Mechanical & Electrical Equipment Co., Ltd.	Materials	88,671.74	207,747.94
Chongqing Hanon Jianshe Thermal Systems Co., Ltd.	Materials	15,848.42	4,829,474.48
Chongqing Hanon Jianshe Thermal Systems Co., Ltd.	Auto parts and accessories	1,780,532.11	9,339,577.80
Total		76,806,996.23	183,829,101.32

8.5.4 Remuneration of key senior officers

Item	Year 2022	Year 2021
Remuneration of key senior officers	3,780,412.68	3,574,756.20

8.5.5 Other related-party transactions

(1) Related-party deposits

Name of related parties	Balance as at January 1, 2022	Increase in 2022	Decrease in 2022	Balance as at December 31, 2022
China South Industries Group Finance Co., Ltd	67,084,183.76	1,668,030,973.74	1,568,218,555.93	166,896,601.57

Remark: the interest of related-party deposits received in 2022 totaled RMB 1,129,480.52.

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(2) Related-party loans

Name of related parties	Start date	Ending date	Annual interest rate	Guarantor	Balance as at December 31, 2022
China South Industries Group Finance Co., Ltd	2022/1/13	2023/1/13	4.35%	None	17,500,000.00
China South Industries Group Finance Co., Ltd	2022/1/13	2023/1/13	4.35%	None	17,710,000.00
China South Industries Group Finance Co., Ltd	2022/6/21	2023/6/21	3.92%	None	20,000,000.00
China South Industries Group Finance Co., Ltd	2022/7/12	2023/7/12	4.35%	None	30,000,000.00
China South Industries Group Finance Co., Ltd	2022/7/18	2023/7/18	4.35%	None	10,000,000.00
China South Industries Group Finance Co., Ltd	2022/9/6	2023/9/6	4.35%	None	15,000,000.00
China South Industries Group Finance Co., Ltd	2022/9/8	2023/9/8	4.35%	None	15,000,000.00
China South Industries Group Finance Co., Ltd	2022/9/13	2023/9/13	4.35%	None	20,000,000.00
China South Industries Group Finance Co., Ltd	2022/10/24	2023/10/24	4.35%	None	10,000,000.00
China South Industries Group Finance Co., Ltd	2022/10/26	2023/10/26	4.35%	None	58,000,000.00
China South Industries Group Finance Co., Ltd	2022/10/26	2023/10/26	4.35%	None	30,000,000.00
China South Industries Group Finance Co., Ltd	2022/10/28	2023/10/28	4.35%	None	60,000,000.00
China South Industries Group Finance Co., Ltd	2022/10/28	2023/10/28	4.35%	None	19,290,000.00
China South Industries Group Finance Co., Ltd	2022/12/26	2023/12/26	3.92%	None	18,000,000.00
China South Industries Group Finance Co., Ltd	2022/12/27	2023/12/27	3.92%	None	32,000,000.00
China South Industries Group Finance Co., Ltd	2022/12/28	2023/3/28	4.35%	None	39,000,000.00

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8.6 Receivables from and payables to related parties

(1) Receivables from related parties

Item name	Related party	Balance as at December 31, 2022		Balance as at January 1, 2022	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Accounts receivable					
	Chongqing Changan Automobile Co., Ltd.	7,072,474.53	-	15,225,677.65	-
	Hafei Motor Co., Ltd.	3,999,944.43	3,999,944.43	3,999,944.43	3,999,944.43
	Hefei Changan Automobile Co., Ltd.	2,846,630.18	-	4,584,439.91	-
	Chongqing Hanon Jianshe Thermal Systems Co., Ltd.	2,290,479.22	-	2,062,836.40	-
	Chongqing Jianshe Yamaha Motorcycle Co., Ltd.	769,838.66	-	978,730.60	-
	Hebei Changan Automobile Co., Ltd.	189,172.54	22,436.51	51,911.53	-
	Nanjing Changan Automobile Co., Ltd.	132,101.39	-	779,950.94	-
	Chongqing Lingyao Automobile Co., Ltd.			413,084.63	-
	Baoding Changan Bus Manufacturing Co., Ltd.			178,907.37	-
	Chongqing Changan Automobile Customer Service Co., Ltd.			3,870.93	-
Notes receivable					
	Chongqing Changan Automobile Co., Ltd.			5,340,000.00	

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Item name	Related party	Balance as at December 31, 2022		Balance as at January 1, 2022	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
	Hefei Changan Automobile Co., Ltd.			1,781,515.49	
	Nanjing Changan Automobile Co., Ltd.			200,000.00	
Receivables financing					
	Chongqing Changan Automobile Co., Ltd.	12,320,000.00			
	Chongqing Jianshe Yamaha Motorcycle Co., Ltd.	267,000.00			
Other receivables					
	Chongqing Jianshe Lijue Industrial Co., Ltd.	1,478,870.07	1,478,870.07	1,478,870.07	1,478,870.07
	Chongqing Jianshe Industry (Group) Co., Ltd.	1,294,150.66	-		

(2) Payables to related parties

Item name	Related party	Balance as at December 31, 2022	Balance as at January 1, 2022
Accounts payable			
	China Ordnance Equipment Group Commercial Factoring Co., Ltd.	18,250,000.00	23,610,000.00
	Chongqing Hanon Jianshe Thermal Systems Co., Ltd.	526,575.70	497,923.20
	Chongqing Jianshe Yamaha Motorcycle Co., Ltd.	23,210.00	23210
	Changan Minsheng APLL Logistics Co., Ltd.	20,895.96	
Notes payable			
	China South Industries Group Finance Co., Ltd	14,000,000.00	75,800,000.00

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Item name	Related party	Balance as at December 31, 2022	Balance as at January 1, 2022
Other payables			
	Chongqing Jianshe Industry (Group) Co., Ltd.	341,525.92	233,241.12
	Luoyang North Enterprises Group Co., Ltd.	142,730.00	
	Southwest Ordnance Chongqing Environmental Protection Research Institute Co., Ltd.	100,000.00	
	Chongqing Jianshe Lijue Industrial Co., Ltd.	57,200.00	
	Norendar International Co., Ltd.	25,000.00	
	Chongqing Hanon Jianshe Thermal Systems Co., Ltd.	20,470.00	
Contract liabilities			
	Chongqing Lingyao Automobile Co., Ltd.	223,940.62	
	Chongqing Hanon Jianshe Thermal Systems Co., Ltd.	14,617.55	
	Chongqing Changan Automobile Co., Ltd., Changan Automobile (Beijing) Company	2,799.75	
	Chongqing North Jianshe IMP. & EXP. Trade Co., Ltd.	698.20	788.97
	Zhuzhou Jianshe Yamaha Motorcycle Co., Ltd.	553.11	625.01

9 Commitments and contingencies

9.1 Significant commitments

The Company has no significant commitments to be disclosed.

9.2 Significant contingencies existing on balance sheet date

The Company has no significant contingencies required to be disclosed.

10 Post balance sheet events

As at the reporting date of financial report, the Company has no major post balance sheet events required to be disclosed.

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11 Other significant events

11.1 Segment information

The Company has a single business, mainly the manufacture and sale of automotive air conditioners and their parts and carburetors, and the repair of automotive air conditioners and their parts. The management manages this business as a whole and evaluates the operating results, therefore, no segment information is presented in the financial statements.

12 Notes to main items of financial statements of the parent company

12.1 Accounts receivable

12.1.1 Accounts receivable disclosed by aging

Aging	Balance as at December 31, 2022	Balance as at January 1, 2022
1 - 6 months (inclusive)	3,266,890.00	3,152,475.45
6 months - 1 year	-	-
1 - 3 years	-	-
2 - 3 years	-	-
3 - 4 years	-	-
4 - 5 years	-	-
Over 5 years	1,291,496.94	1,291,496.94
Sub-total	4,558,386.94	4,443,972.39
Less: provision for bad debts	1,291,496.94	1,291,496.94
Total	3,266,890.00	3,152,475.45

12.1.2 Disclosure under the methods of provision for bad debts by category

Category	Balance as at December 31, 2022				
	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)	
Accounts receivable with provision for bad debts accrued on an individual basis					
Accounts receivable with provision for bad debts accrued on a portfolio basis	4,558,386.94	100.00	1,291,496.94	28.33	3,266,890.00
Including:					
Portfolio 1					
Consolidated related parties					
Portfolio 2					
Aging portfolio	4,558,386.94	100.00	1,291,496.94	28.33	3,266,890.00
Total	4,558,386.94	100.00	1,291,496.94	28.33	3,266,890.00

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Continued:

Category	Balance as at January 1, 2022				
	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)	
Accounts receivable with provision for bad debts accrued on an individual basis					
Accounts receivable with provision for bad debts accrued on a portfolio basis	4,443,972.39	100.00	1,291,496.94	29.06	3,152,475.45
Including:					
Portfolio 1					
Consolidated related parties					
Portfolio 2					
Aging portfolio	4,443,972.39	100.00	1,291,496.94	29.06	3,152,475.45
Total	4,443,972.39	100.00	1,291,496.94	29.06	3,152,475.45

12.1.3 Accounts receivable with provision for bad debts accrued on a portfolio basis

(1) Portfolio 2 Aging portfolio

Aging	Balance as at December 31, 2022		
	Book balance	Provision for bad debts	Proportion of provision (%)
1 - 6 months (inclusive)	3,266,890.00	-	-
6 months - 1 year			
1 - 2 years			
2 - 3 years			
3 - 4 years			
4 - 5 years			
Over 5 years	1,291,496.94	1,291,496.94	100.00
Total	4,558,386.94	1,291,496.94	28.33

12.1.4 Provision, reversal or recovery of provision for bad debts in 2022

Category	Balance as at January 1, 2022	Changes in 2022				Balance as at December 31, 2022
		Provision	Recovery or reversal	Charge-off	Other changes	
Accounts receivable with provision for bad debts accrued on an individual basis						

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Category	Balance as at January 1, 2022	Changes in 2022				Balance as at December 31, 2022
		Provision	Recovery or reversal	Charge-off	Other changes	
Accounts receivable with provision for bad debts accrued on a portfolio basis	1,291,496.94	-	-			1,291,496.94
Including:						
Portfolio 1						
Consolidated related parties						
Portfolio 2						
Aging portfolio	1,291,496.94	-	-			1,291,496.94
Total	1,291,496.94	-	-			1,291,496.94

12.1.5 No actual charge-off of accounts receivable in 2022

6. Top 5 of accounts receivable as at December 31, 2022, presented by debtor

Enterprise name	Balance as at December 31, 2022	Proportion in the ending balance of accounts receivable (%)	Provision for bad debts
Chongqing Hanon Jianshe Thermal Systems Co., Ltd.	2,290,479.22	50.25	-
Chongqing Jianshe Yamaha Motorcycle Co., Ltd.	769,838.66	16.89	-
Wuhan Longchang Company Wujiao Marketing Department	473,539.96	10.39	473,539.96
Changzheng Machinery Factory of China Aerospace Science and Technology Corporation	395,296.04	8.67	395,296.04
Chongqing Chihai Machinery Manufacturing Co., Ltd.	145,999.35	3.20	145,999.35
Total	4,075,153.23	89.40	1,014,835.35

12.2 Other receivables

12.2.1 Disclosure of other receivables by aging

Aging	Balance as at December 31, 2022	Balance as at January 1, 2022
1 - 6 months (inclusive)	1,345,740.08	1,153,592.45
6 months - 1 year	-	
1 - 2 years	-	1,223,146.45
2 - 3 years	1,223,146.45	255,723.62
3 - 4 years	255,723.62	
4 - 5 years	-	
Over 5 years	4,203,627.25	4,203,627.25
Sub-total	7,028,237.40	6,836,089.77
Less: provision for bad debts	5,682,497.32	5,682,497.32
Total	1,345,740.08	1,153,592.45

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12.2.2 Classification by nature

Nature	Book balance as at December 31, 2022	Book balance as at January 1, 2022
Petty cash, security deposit and advances of employee social insurance premium	51,589.42	
Current accounts	6,976,647.98	6,836,089.77
Total	7,028,237.40	6,836,089.77

12.2.3 Disclosure of three-stage by impairment of financial assets

Item	Balance as at December 31, 2022			Balance as at January 1, 2022		
	Book balance	Provision for bad debts	Book value	Book balance	Provision for bad debts	Book value
Stage I	5,067,613.24	3,721,873.16	1,345,740.08	5,041,699.86	3,888,107.41	1,153,592.45
Stage II	-	-	-	-	-	-
Stage III	1,960,624.16	1,960,624.16	-	1,794,389.91	1,794,389.91	-
Total	7,028,237.40	5,682,497.32	1,345,740.08	6,836,089.77	5,682,497.32	1,153,592.45

12.2.4 Disclosure under the methods of provision for bad debts by category

Category	Balance as at December 31, 2022				
	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)	
Other receivables with provision for bad debts accrued on an individual basis	1,960,624.16	27.90	1,960,624.16	100.00	-
Other receivables with provision for bad debts accrued on a portfolio basis	5,067,613.24	72.10	3,721,873.16	73.44	1,345,740.08
Including: Portfolio 1 Consolidated related parties					
Portfolio 2 Aging portfolio	5,067,613.24	72.10	3,721,873.16	73.44	1,345,740.08
Total	7,028,237.40	100.00	5,682,497.32	80.85	1,345,740.08

Continued:

Category	Balance as at January 1, 2022				
	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)	
Other receivables with provision for bad debts accrued on an individual basis	1,794,389.91	26.25	1,794,389.91	100.00	-
Other receivables with provision for bad debts made by portfolio	5,041,699.86	73.75	3,888,107.41	77.12	1,153,592.45

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Category	Balance as at January 1, 2022				
	Book balance		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Proportion of provision (%)	
Including: Portfolio 1 Consolidated related parties					
Portfolio 2 Aging portfolio	5,041,699.86	73.75	3,888,107.41	77.12	1,153,592.45
Total	6,836,089.77	100.00	5,682,497.32	83.13	1,153,592.45

12.2.5 Other receivables with provision for bad debts accrued on an individual basis

Enterprise name	Balance as at December 31, 2022			
	Book balance	Provision for bad debts	Proportion of provision (%)	Reason for provision
Chongqing Jianshe Lijue Industrial Co., Ltd.	1,478,870.07	1,478,870.07	100.00	Expected to be irrecoverable
Ningbo Jianshe Motorcycle Co. Ltd.	329,628.73	329,628.73	100.00	Expected to be irrecoverable
Chongqing Jinxiang Lifting Equipment Manufacturing Co., Ltd.	16,800.00	16,800.00	100.00	Expected to be irrecoverable
Yangzhou Qionghua Coating Engineering Equipment Co., Ltd.	56,500.00	56,500.00	100.00	Expected to be irrecoverable
Chongqing Customs	78,825.36	78,825.36	100.00	Expected to be irrecoverable
Total	1,960,624.16	1,960,624.16		

12.2.6 Other receivables with provision for bad debts accrued on a portfolio basis

(1) Portfolio 2 Aging portfolio

Aging	Balance as at December 31, 2022		
	Book balance	Provision for bad debts	Proportion of provision (%)
1 - 6 months (inclusive)	1,345,740.08	-	-
6 months - 1 year			
1 - 2 years			
2 - 3 years			
3 - 4 years			
4 - 5 years			
Over 5 years	3,721,873.16	3,721,873.16	100.00
Total	5,067,613.24	3,721,873.16	73.44

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12.2.7 Provision for bad debts of other receivables

Provision for bad debts	Stage I	Stage II	Stage III	Total
	12-month expected credit loss	Expected credit loss in the whole duration (without credit impairment)	Expected credit loss in the whole duration (with credit impairment)	
Balance as at January 1, 2022	3,888,107.41	-	1,794,389.91	5,682,497.32
In 2022, balance as at January 1, 2022				-
-Transfer to Stage II				-
-Transfer to Stage III				-
-Reversal from Stage II				-
-Reversal from Stage I				-
Provision in 2022	-		166,234.25	166,234.25
Reversal in 2022	166,234.25		-	166,234.25
Write-off in 2022	-			-
Charge-off in 2022				-
Other changes				-
Balance as at December 31, 2022	3,721,873.16	-	1,960,624.16	5,682,497.32

12.2.8 No actual charge-off of other receivables in 2022

12.2.9 Top 5 of other receivables as at December 31, 2022, presented by debtor

Name of entity	Nature of payment	Balance as at December 31, 2022	Aging	Proportion in the ending balance of other receivables (%)	Provision for bad debts Balance as at December 31, 2022
Shenzhen Jianshe Motorcycle Co., Ltd.	Current accounts	3,013,664.00	Over 5 years	42.88	3,013,664.00
Chongqing Jianshe Lijue Industrial Co., Ltd.	Current accounts	1,478,870.07	2 - 4 years	21.04	1,478,870.07
Chongqing Jianshe Industry (Group) Co., Ltd.	Current accounts	1,294,150.66	1 - 6 months (inclusive)	18.41	-
Ningbo Jianshe Chongqing Office	Current accounts	692,035.31	Over 5 years	9.85	692,035.31
Ningbo Jianshe Motorcycle Co., Ltd.	Current accounts	329,628.73	Over 5 years	4.69	329,628.73
Total		6,808,348.77		96.87	5,514,198.11

CHONGQING JIANSHE VEHICLE SYSTEM CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

12.3 Long-term equity investments

Nature	Balance as at December 31, 2022			Balance as at January 1, 2022		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investment in subsidiaries	199,045,443.95	-	199,045,443.95	199,045,443.95		199,045,443.95
Investments in associates and joint ventures	210,112,321.04	-	210,112,321.04	201,984,268.72		201,984,268.72
Total	409,157,764.99	-	409,157,764.99	401,029,712.67	-	401,029,712.67

12.3.1 Investments in subsidiaries

Investee	Initial Investment cost	Balance as at January 1, 2022	Increase in 2022	Decrease in 2022	Balance as at December 31, 2022	Provision for impairment in 2022	Balance of provision for impairment as at December 31, 2022
Chongqing Jianshe Automobile A/C Co., Ltd.	160,000,000.00	160,000,000.00			160,000,000.00		
Chongqing Pingshan TK Carburetor Co., Ltd.	39,045,443.95	39,045,443.95			39,045,443.95		
Total	199,045,443.95	199,045,443.95			199,045,443.95		

12.3.2 Investments in associates and joint ventures

Investee	Balance as at January 1, 2022	Increase or decrease in 2022				Adjustment to other comprehensive income
		Additional investment	Reduced investment	Profit or loss on investments recognized by the equity method		
I. Joint venture						
Chongqing Hanon Jianshe Thermal Systems Co., Ltd.	201,984,268.72			8,128,052.32		
Total	201,984,268.72			8,128,052.32		

Continued:

Investee	Increase/decrease in 2022				Balance as at December 31, 2022	Balance of provision for impairment as at December 31, 2022
	Other changes in equities	Cash dividends or profits declared to be distributed	Provision for impairment	Others		
I. Joint venture						
Chongqing Hanon Jianshe Thermal Systems Co., Ltd.					210,112,321.04	
Total					210,112,321.04	

12.4 Operating revenue and operating costs

12.4.1 Operating revenue and operating costs

Item	Year 2022		Year 2021	
	Revenue	Costs	Revenue	Costs
Primary business	255,276,559.90	259,099,923.72	493,566,986.58	499,200,539.40
Other business	474,716.54	12,774.84	11,820,268.31	10,319,273.71
Total	255,751,276.44	259,112,698.56	505,387,254.89	509,519,813.11

12.4.2 Revenue generated from contracts

Item	Year 2022	Year 2021
Domestic revenue	255,276,559.90	493,566,986.58
Overseas revenue		
Total	255,276,559.90	493,566,986.58

12.5 Investment income

Item	Year 2022	Year 2021
Income from long-term equity investments calculated under the equity method	8,128,052.32	15,770,549.70
Total	8,128,052.32	15,770,549.70

13 Supplementary information

13.1 Breakdown of non-recurring profit or loss in 2022

Item	Amount	Remark
Profit or loss from disposal of non-current assets	40,420,431.93	
Tax return or relief under unauthorized approval or without official approval document		
Government grants included in current profits or losses (except for government grants closely related to the enterprise business, obtained by quota or quantity at unified state standards)	205,826.00	
Expenses for using funds charged from non-financial enterprises and included in the current profit or loss	-	
Gains from the difference between the investment costs of acquisition of subsidiaries, associates and joint ventures and share in the net fair value of the identifiable assets of the investee when investing	-	
Profit or loss from exchange of non-monetary assets	-	
Profit or loss from entrusting others to invest in or manage assets	-	
Provisions for impairment of various assets due to any force majeure, such as the natural disaster	-	
Profits or losses from debt restructuring	-	
Enterprise restructuring expenses, such as employee accommodation costs and integration expenses	-	
Profit or loss from the part generating in the transaction where the transaction price is not fair and exceeding the fair value	-	

CHONGQING JIANSHE VEHICLE SYSTEM CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

Item	Amount	Remark
Net profit or loss of the subsidiary from the business combination under common control for the period from the beginning of the period to the combination date	-	
Profit or loss from contingencies irrelevant to the company's normal business	-	
Profit or loss on changes in fair values of financial assets held for trading and financial liabilities held for trading and investment income obtained from disposal of financial assets held for trading, financial liabilities held for trading, creditor's right investment and other creditor's rights investment, except for effective hedging operations associated with the company's normal operations	-	
Reversal of provision for impairment of receivables under single impairment test	714,393.28	
Profit or loss from outward entrusted loans	-	
Profit or loss from changes in fair value of investment property-subsequently measured by adopting the fair value model	-	
Impact on the current profit or loss of the one-time adjustment to the current profit or loss made as required by the laws and regulations on tax and accounting	-	
Revenue from trustee fee from the entrusted management	-	
Non-operating revenue and expenses other than the above-mentioned items	167,143.72	
Other items of profit or loss subject to the definition of non-recurring profit or loss	999,863.22	
Sub-total	42,507,658.15	
Less: affected amount of income tax	-	
Affected minority equity (after tax)	-	
Total	42,507,658.15	

13.2 Rate of return on net assets and earnings per share

Profit in the reporting period	Weighted average Net return on assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	-30.88	-0.33	-0.33
Net profit attributable to common shareholders of the Company after deducting the non-recurring profit or loss	-63.91	-0.69	-0.69

Chongqing Jianshe Vehicle System Co., Ltd.

(Official seal)

April 27, 2023



统一社会信用代码
91110108590676050Q

营业执照

(副本) (7-1)



名称 大华会计师事务所(特殊普通合伙)
类型 特殊普通合伙企业
经营范围 审计、验资、清算、评估、税务咨询、(依法须经批准的项目，经相关部门批准后方可开展经营活动)

出资额 2880万元
成立日期 2012年02月09日
主要经营场所 北京市海淀区西四环中路16号院7号楼1101

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国家市场监督管理总局监制



会计师事务所
执业证书

名称：大华会计师事务所(特殊普通合伙)

首席合伙人：陈武

主任会计师：

经营场所：北京市海淀区西四环中路16号院7号楼12层

组织形式：特殊普通合伙

执业证书编号：11010148

批准执业文号：京财会许可[2011]0101号

批准执业日期：2011年11月03日

证书序号 0000093

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发证机关：北京市财政局

二〇一七年十月七日

中华人民共和国财政部制



姓名 徐士尧
Full name
性别 男
Sex
出生日期 1979-10-23
Date of birth
工作单位 中和正信会计师事务所有限公司
Working unit
身份证号码 372425197910234372
Identity card No.



徐士尧的年检二维码.png

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for another year after



2009 年 3 月 20 日

110001580146

证书编号: 110001580146
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批准注册协会: 北京注册会计师协会
Authorized Institute of CPAs
发证日期: 2008 年 11 月 13 日
Date of Issuance



姓名: 徐士尧
证书编号: 110001580146

2012 年 2 月 4 日

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Sex 男
出生日期
Date of birth 1990-12-03
工作单位
Working unit 立信会计师事务所(特殊普通合伙)北京分所
身份证号码
Identity card No. 352401199012030518



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姓名: 谢俊
证书编号: 310000061449

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No. of Certificate 310000061449

批准注册协会: 北京注册会计师协会
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